Levelling the Digital Playing Field: Protecting Canadian services, Canadian jobs, and Canadian Industries

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A joint statement by:

The Canadian Union of Postal Workers

The National Union of Public and General Employees

Unite Here Canada

The Writers Guild of Canada

Introduction

Canadians are spending more of their time and money online – and many of the e-commerce companies benefiting from this trend – companies like Google, Netflix, Airbnb, Uber, among others – are multinational giants that pay little or no taxes – creating not just a revenue gap for the government, but creating an unfair playing field for Canadian digital firms that are forced to charge higher effective prices.

Canada's media companies are particularly vulnerable. Foreign e-commerce companies are capturing an increasing share of the advertising dollar, squeezing out Canadian daily newspapers, television broadcasters and radio stations. Canadian over-the-top online content providers are also unfairly under-cut by Netflix and other foreign based giants.

Not only do the foreign multinationals not have to pay value added or corporate income taxes, but they are also exempted from Canadian content regulations. This has a major negative impact on Canadian jobs in the cultural sector.

Likewise, entrants in the misleadingly-named "sharing economy", like Airbnb and Uber, are posing big risks to national treasuries as they can funnel their profits out of the countries they operate in, undermine local laws, and threaten jobs in the service sector.

We need this government to take bold, forward-thinking action today to ensure that companies are paying the taxes they should, and also to ensure a level playing field for Canadian companies in the journalism, television and radio broadcasting cultural sectors, as well as the many quality jobs they provide.

Digital companies must pay their fair share of income tax

As more of Canada, and the world, goes digital, Canada's tax laws are falling behind. The foreign-owned e-commerce sector now represents over $30 billion in revenue every year, a trend that's likely to only increase.

Google and Facebook alone represent around 64% of all online advertising money that is spent in Canada – representing over $2.4 billion. they are exempted from paying Canadian corporate income taxes or value added taxes (such as the HST) because they don't have a physical presence in Canada. This makes it very difficult for Canadian media, hotel and taxi companies to compete, as they have to pay Canadian corporate income tax and Value Added Taxes making their effective price higher than their foreign competitors. By 2020, it's estimated that 45% of all ad spending will be online.

But many of the e-commerce giants manage to pay little or no taxes anywhere because of the flagrant use of offshore tax havens and other aggressive forms of tax avoidance.

In the UK alone, Google generated over $40 billion in sales in 10 years. After much effort, the government forced them to pay less than $400 million in tax on their profits, making for an effective tax rate of 2-3%, compared to the 20% other firms would pay. In 2014, Facebook only paid $8,000 in income taxes. For comparison, Rogers recently paid $1.4 billion in HST/GST alone across all of its media sales.

Additionally, there are a number of these multinational firms that do have a physical presence in Canada, and make use of these same tax loopholes. It's estimated that in 2014 alone, $7.8 billion of tax revenue was lost because of tax avoidance of firms across all sectors. This highlights that there are many companies refusing to pay their fair share.

Canada must ensure that all e-commerce companies, whether or not they have a physical presence in Canada, pay income tax on profits they generate from products or services they sell or rent in Canada (above a certain threshold).

Companies must pay their fair share of Value Added Taxes (VATs)

Right now, millions of Canadians are unwittingly breaking tax laws.

Companies that don't have a physical presence in Canada are not required to collect or remit VATs such as HST, GST, or PST. Canadians are supposed to remit the VATs on their electronic purchases themselves. However, most people aren't familiar with this law, and the CRA is effectively unable to enforce it, as it is impractical for them to pursue the millions of consumers who are unknowingly avoiding these taxes.

This means at minimum hundreds of millions of tax dollars that are not being collected and submitted every year.

A number of other countries including the European Union, Switzerland, Norway, Japan, South Korea, Australia, New Zealand and South Africa now require e-commerce companies to pay VATs or are in the process of rolling this out.

Canada is falling behind. The proportion of commerce carried out electronically is only likely to grow, leaving governments high and dry when it comes to future tax revenue unless a solid plan is enacted today.

The failure to collect these taxes also puts Canadian businesses and jobs at a disadvantage. This creates unfair competition, squeezing out local Canadian companies and jobs.

The newspaper, television and radio broadcasting, over the top content providers, taxi and hotel sectors are already feeling the effects of this unfair foreign competition. Any jobs that have emerged to replace the ones lost are often precarious, low-wage, and without benefits or other protections.

Airbnb in particular has grown expansively recently. In addition to paying no VATs, in every jurisdiction except Quebec it is also exempt from paying any hotel tax or being regulated in any other way. Not only does this create an uneven playing field, it undercuts efforts by municipalities to create affordable housing and good jobs.

Canada must catch up to this new reality, and level the playing field for Canadian companies and workers by requiring companies who sell their services in Canada, above a certain threshold, to collect and remit VATs.

Companies must pay their fair share of meaningful contributions to Canada's broadcast system

One of the biggest sectors threatened by rise of the untaxed foreign e-commerce business is Canada's media industries. The film and television sector alone is estimated to contribute $20 billion to Canada's GDP, employing 260,000 jobs directly and indirectly.

Traditionally, broadcasters in Canada have been required to contribute to production funds such as the Canadian Media Fund. However, recent policies of the CRTC have created a digital divide, with online broadcasters being exempt from any such contributions. At the time, the CRTC admitted it was unsure what the economic or employment impacts would be.

Canadian broadcasters and media are put at a further disadvantage because their foreign competitors pay less or no tax and are able to offer cheaper options for consumers, who believe they don't have to pay VATs on those foreign services as compared to Canadian services.

These policies favouring foreign OTT providers and other major broadcast policy reforms could result in the loss of over 15,000 direct and indirect jobs by 2020, as well as $1.4 billion removed from the Canadian economy, according to a recent study.

Canada needs to commit to ensuring that there is a level playing field for Canada's media industry by ensuring the CRTC requires online broadcasters to contribute meaningfully to Canada's domestic broadcast system, using Canadian talent.