The SHIELD Score
Digital Services Tax

Sovereignty by Design

Policy Overview

Canada's Digital Services Tax was a 3% levy on large tech companies' Canadian revenue exceeding $20 million. It was rescinded in June 2025 as a concession to restart trade talks with the United States. The tax applied to income derived from online marketplace services, online advertising services, social media services and certain sales of user data and was calculated on an annual basis.

The Digital Services Tax aimed to capture revenue from big tech firms that were not paying taxes on revenue generated in the country. It was presented as a way to level the playing field and ensure that Canada captured some of the value from activity generated by these firms.

The tax retroactively applied to revenue from January 1, 2022 with payments initially due June 30, 2025.

The Digital Services Tax provoked significant trade tension and was an irritant in Prime Minister Mark Carney's initial negotiations with U.S. President Donald Trump. The Canadian government cancelled the tax in anticipation of a mutually beneficial comprehensive trade arrangement with the United States – an arrangement that has not yet materialized.

Six months after the DST was cancelled, it is still debated as a significant concession, and a notable event in the rocky Canada-U.S. relationship. So we decided to assess the tax under The SHIELD Sovereignty Score, to determine whether the DST was actually a worthwhile policy, and whether it meaningfully improved Canadian sovereignty.

The DST, as it was originally designed, gets a 3/10 on the SHIELD Sovereignty Score. There are multiple reasons for this, first and foremost because it is a straight tax that is meant to generate revenue. It is not aiming to generate employment or to stimulate homegrown companies. A tax is not likely to receive a high SHIELD score without a careful and deliberate design. That being said, there are a few tweaks that could have been made to increase the score.

SHIELD Score

1. Sovereignty: This section measures if and how the policy choice increases Canada's sovereignty and strategic autonomy?

Does it use or incentivize the development of Canadian innovation?

No - The tax was simply designed to generate revenue and level the playing field so that large technology firms were paying tax on the services they provide. The tax was lower than the tax many companies based in Canada pay on their net profit.

Does it enhance national economic security and defence and/or promote interoperability or open standards

No - Revenue from the DST could theoretically have been used for defence, but there's no guarantee funds would be used to enhance Canadian security. Rather, the tax had potential to undermine Canada-U.S. relations at a critical time for bilateral security negotiations, with the U.S. viewing it as a threat to American companies, making it a net negative for Canadian defence and security interests.

Does it reduce dependency on foreign firms or supply chains?

No - The companies paying the tax were still able to operate in Canada as they had been before, the only change was paying a 3% tax on revenue to the Canadian government.

Does it avoid entrenching monopolies and/or systems that concentrate power in private hands?

No - The tax did apply to large corporations, but those companies were allowed to continue to operate "as is" with no change to their activity in the marketplace, apart from paying the tax.

Does it increase the ability for Canada to govern technology; for example, through IP ownership and data control by Canadian companies or the government itself?

Yes - The IP, data and accompanying intangible assets created through government supported R&D are left vulnerable to capture by foreign companies who can siphon the data and IP across borders where the ability to govern the technology is taken up by international parties.

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2. Economic Transformation: This section measures if and how the policy delivers value-add to people in Canada, short-term and long-term?

Is the intellectual property, data and profit generated by this decision retained by Canadian firms?

Yes - The revenue generated by this decision would have been collected by the Canadian government and delivered into general revenue. From there, government would decide how the revenue was put to use.

Does it create, sustain or improve jobs in Canada?

No - The tax was not designed to generate employment in the tech industry or in other industries.

Does it increase skill utilization or broaden the skill base of Canadian workers?

No - The tax was designed to generate revenue for the Canadian government. While it may be used to pay for skills development through post-secondary education and other training initiatives, there is no direct link here.

Does it promote systems that share economic benefits broadly?

Yes - Revenue would have been injected into the Canadian government's general revenue to pay for public services of which there is a long list.

Does it enhance affordability, quality, and innovation for consumers, not just returns for incumbents?

No - Early evidence from other jurisdictions that implemented a Digital Services Tax shows that companies tend to pass the cost through to consumers. Amazon, for example, simply increased its commission charge to French vendors by the same amount when the tax was introduced in France.

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About SHIELD

SHIELD is a next-generation policy studio focused on developing Canada's sovereignty and driving economic transformation. We work across infrastructures, industry, and innovation to confront systemic risks, retain economic value, and build the domestic capacity Canada needs to thrive. Our goal is a more prosperous, resilient, and independent future for all Canadians.

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