

U.S. Pressure Forces Canada to Scrap Digital Tax and Reopen Trade Talks

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Canada has decided to repeal its controversial digital services tax (DST) in an effort to restart stalled trade negotiations with the United States. The announcement came late Sunday after President Donald Trump cut off talks last week, calling the tax “egregious and discriminatory.”

The DST would have applied a 3% tax on revenues from digital services in Canada earned by large tech companies such as Amazon, Google parent Alphabet, Meta, Uber, and Airbnb.

The tax was retroactive to 2022, and the first payments expected to exceed US\$2 billion were due on June 30.

“Prime Minister Carney and President Trump have agreed that parties will resume negotiations with a view toward reaching a deal by July 21, 2025,” the Canadian government said in a statement.

Just a few weeks ago, at the G7 summit in Alberta, Prime Minister Mark Carney and President Trump had agreed to work toward a broad economic and security agreement within 30 days. However, relations quickly soured when President Trump appeared on Fox News on Friday and criticized Canada’s trade policies, especially the DST and the supply-management system that protects Canada’s dairy and poultry sectors.

Business groups in Canada and the U.S. had warned that the tax would damage the economic relationship between the two countries. While over a dozen countries including France, India, and Britain have implemented similar taxes on digital services, Canada’s plan to apply the levy retroactively drew sharp criticism in Washington.

The Parliamentary Budget Officer estimated the DST would bring in around \$1.2 billion per year. The government’s budget forecast predicted even higher revenues about \$2.3 billion over the first three years.

By repealing the tax, Canada hopes to avoid further trade conflicts and return to the negotiating table. Talks are expected to cover not only digital taxation but also tariffs and other trade barriers imposed in the past year.

It is still unclear whether removing the DST will be enough to secure a lasting agreement. For now, the move has at least opened the door for new discussions and eased tensions that threatened to escalate into a deeper trade dispute.