Insight

Barriers to Entry: A Canadian Streaming Case Study

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Executive Summary

- Canada recently implemented a 5-percent tax on non-domestic digital media companies' online streaming revenue, which mainly targets U.S. technology firms such as Netflix, Google, and Amazon.
- While this tax could directly cost firms up to $750 million if Canada decides to apply the fee broadly, Canadian law also allows regulators to impose a variety of additional restrictions on U.S. companies including mandating they produce or acquire Canadian content, limiting platform flexibility, increasing compliance costs, and harming user choice.
- As the Trump Administration continues trade negotiations, it should continue to prioritize the elimination of digital taxes and regulations that target American firms in favor of domestic rivals.

Introduction

In April 2023, the Canadian government passed the Online Streaming Act which allows the Canadian Radio-television and Telecommunications Commission (CRTC) to regulate international streaming platforms. In implementing the law, the CRTC in August 2024 imposed a requirement that online streaming services that make $25 million or more in Canadian revenue and are not affiliated with a Canadian broadcaster to pay a 5-percent tax on their in-country revenues. While the CRTC estimated this would amount to around $200 million per year in new funding, the actual figure has been closer to $287 million. Moreover, both the 5-percent fee and the amount of revenue eligible to be taxed may increase over time, further driving up costs on U.S. businesses. If more countries adopt taxes similar to Canada's streaming tax, U.S. media companies will continue to face increased costs with limited returns, especially as the taxes go to directly subsidize their competitors.

Direct costs are just a portion of the barriers to trade the Online Streaming Act imposes on American firms, however. In addition to the direct tax, the law also allows the CRTC to dictate to tech companies the types of content that platforms must host. Specifically, the Online Streaming Act requires U.S. firms to "ensure the discoverability of Canadian programming services and original Canadian programs, including French-language programs, in equitable proportion." The law's broad requirements for generating and recommending Canadian content give firms little certainty about how to comply with the act, adding additional compliance costs and limiting platforms' flexibility to deliver the content their consumers want.

The Trump Administration has taken a broad approach to negotiating new trade agreements with international partners, largely looking at non-tariff barriers to trade. DSTs are currently one of the largest non-tariff barriers to trade, transferring wealth from U.S. firms to international markets. As such, the Trump Administration and Congress should make the elimination of these streaming taxes a key priority as existing deals are reviewed and renegotiated.

Background

The Canadian government passed the Online Streaming Act in 2023, amending existing broadcasting law to regulate digital streaming services such as video and music streaming platforms. The businesses capture by this are almost all American and the 5% since imposed tax is designed to induce the growth of domestic, Canadian media system at the expense of international rivals.

The CRTC issued a decision last summer to begin the law's implementation, which required online streaming services that make $25 million or more in annual revenues within Canada to contribute 5 percent of that revenue to a variety of domestic funds. These funds include the Canada Media Fund and FACTOR, both of which fund the creation of original Canadian content, an Independent Local News Fund, and a variety of different funds. While Canadian broadcasters can access some of these funds, American companies cannot.

Notably, there are two circumstances under which a foreign providers' streaming revenue generated in Canada is not assessed. One, the first $25 million in revenue is not assessed, so those firms making less than $25 million in Canada are exempt from the tax. Second, if a firm is associated with a Canadian broadcaster, its revenue from its streaming offerings are not assessed. In practice, this means that only a portion of revenue will be assessed, but under the actual statute law the CRTC can go much further than it did.

Canada also had a DST specifically targeting platform intermediation revenues such as online advertising and marketplace commissions. While the DST was halted in 2025 during ongoing trade negotiations, it would have allowed Canada to essentially double-tax U.S. tech firms. As enforcement could be reinstituted in the future, this further threatens to drive up taxes on U.S. firms.

Costs of Digital Service Taxes and Global Trends

The Canadian tax of online streaming is the latest in so-called digital service taxes. Traditionally, taxes are levied based off transactions that occur within a country, but digital services often result in the transaction occurring in a provider company's country of origin, regardless of whether the customer is located. As a result, many countries have begun to find ways to tax revenues originating from their country. These taxes, however, add significant extra costs on digital companies, often paying taxes twice for the same transaction.

Canada's streaming tax currently costs U.S. firms upward of $287 million a year. The full amount has not yet been realized and many advocates in Canada of increased fees on international media companies have called for modifications to the existing regime to increase investment in Canadian media. If the CRTC modifies the current 25- percent threshold, increases the 5-percent tax, or otherwise assesses additional streaming revenue, that cost could reach upward of $750 million a year with existing revenues.

But these direct costs are only a portion of DSTs paid by American tech firms. Globally, 30 countries have implemented a variety of DSTs, primarily targeting digital sales and digital advertising revenue. If more countries adopt regulations like the Online Streaming Act, the cost on American firms will drastically increase. And the limited application of Canada's tax may not be incorporated in other jurisdictions, meaning a large base of revenue could be taxable.

Content Regulation and Compliance Costs

The Online Streaming Act's direct costs are only part of its burden on American platforms. The law also requires firms to use produce or acquire certified "Canadian" content and "ensure the discoverability of Canadian programming services and original Canadian programs, including original French language programs, in an equitable proportion." While the CTRC has mainly focused on the tax to date, these next provisions will add significant compliance costs on U.S. firms and disrupt the functionality of their service.

For example, a streaming platform may want primarily to recommend American content to its audience because it best suits their interests. Yet the law requires platforms to equitably promote Canadian content, even if that isn't what their users want to see. In fear of liability, a platform may recommend a variety of Canadian shows and movies instead. If users dislike the shows, they may associate the quality of the recommendations with the quality of content on the platform overall, and cancel their subscriptions or otherwise move on.

American Approach to Trade

The Online Streaming Act's sole purpose is to subsidize Canadian media production at the expense of international media, which the United States has long dominated.

The Trump Administration has made non-tariff barriers to trade a key component of its ongoing negotiations of existing trade deals. As such, any trade negotiations should focus on requiring Canada to remove these fees or repealing the Online Streaming Act to allow U.S. media companies to compete on equal terms with their Canadian counterparts.

The Online Streaming Act is just one DST, however, and while Canada has repealed its DST on online marketplaces and advertising, many countries have not. DSTs and other restrictions like Canadian content rules are some of the most direct non-tariff barriers to trade imposed on U.S. businesses, and they have quickly spread across the globe. As such, the Trump Administration should continue to make their elimination a key global priority.