Navigating the tax implications of new trade measures: U.S. tariffs and goods and services tax

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On March 4, 2025, the Trump Administration's looming threat to impose 25 per cent tariffs on Canadian exports to the United States finally landed.[1] While sweeping tariffs were quickly rescinded, it may prove to be only the beginning of a wider retaliatory tariff agenda.

What you need to know

On Feb. 13, 2025, President Trump signed a Presidential Memorandum initiating the administrative process for the U.S. Trade Representative, the Treasury, and the Department of Finance to evaluate and develop additional tariffs to target perceived non-tariff trade barriers, including domestic value-added tax (VAT) regimes in the European Union and Canada.

Reciprocal tariffs on imports from several countries, including Canada, are scheduled to take effect on April 2, 2025.

Background

Canada's federal VAT, the goods and services tax/harmonized sales tax (GST/HST) applies to all taxable supplies made in Canada. In this regard, it applies to domestic and foreign products and services alike.

Additionally, GST/HST registrants are entitled to claim input tax credits to recover GST/HST paid or payable on goods and services that are acquired or imported for consumption, use or supply in the course of commercial activities.

This means that despite the multi-staged nature of GST/HST, the tax cost is ultimately borne by end consumers regardless of whether the supplier is a domestic or foreign entity.

Takeaways

The Trump Administration's expansive view of what may constitute an obstacle to trade may impact businesses in unexpected ways. Businesses should continue to monitor this situation and evaluate possible strategies to mitigate the impact of VAT related U.S. tariffs.

Footnote

[1] Tariffs on Canadian energy imports were limited to 10 per cent.

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