

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25 per cent tariffs on Canadian exports to the United States finally landed.¹ While sweeping tariffs were quickly rescinded, it may prove to be only the beginning of a wider retaliatory tariff agenda.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.

By

[Owen Clarke](#)

Expertise

[Tax, Commodity Tax, Tax Disputes & Litigation](#)

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BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

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