



FAIR TAX TREATMENT FOR **DATA CENTRES THAT SUPPLY COMPUTING SERVICES** **FOR DIGITAL (CRYPTO) ASSET MINING**

A Coalition to oppose changes to Canadian GST that threaten independent high-performance computing data centres in Canada

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On February 2, 2022, without advance notice to industry, the Department of Finance (Finance) proposed an amendment to the *Excise Tax Act* – GST/HST (and QST in Quebec) legislation -- that declares that digital (crypto) asset mining is not a “commercial activity” in Canada.

Under the proposal, companies engaged in digital asset mining activities, including Canadian data centres that supply high performance computing services to those engaged in digital asset mining, are no longer eligible to receive Input Tax Credits (ITCs) for the value added taxes (GST, HST, QST) paid on business inputs (i.e. computer and IT technology, energy costs, professional, consulting fees, etc.).

The explanation provided by Finance for the proposed amendment exposes the department’s lack of understanding of how this commercial sector operates in Canada, and in particular a lack of understanding of the contractual relationships between the non-resident companies that mine for cryptoassets and their Canadian suppliers of high-performance computing services.

Built on a faulty understanding of the industry, this GST proposal from Finance is arbitrary and harmful to Canadian companies that supply high performance computing services to the growing blockchain ecosystem and, if passed into law, will undermine the financial sustainability of this newly emerging and rapidly growing industry in Canada.

Canadian Digital Asset Mining today

In the early days, mining activities were informal, undertaken mostly by enthusiast working on unspecialized consumer hardware and excited by the potential of this innovative technology. In recent years, the shape and size of the global digital asset mining industry has been transformed.

Today, the backbone of this industry in Canada has evolved and is now dominated by independent high-performance computing data centres, known in the industry as *digital asset mining facilities*, owned by publicly listed companies such as Argo Blockchain PLC; Bitfarms Ltd.; DMG Blockchain Solutions Inc.; HIVE Blockchain Technologies Ltd.; Hut 8 Mining Corp. and Iris Energy Ltd.

These companies supply high performance computing services to other companies in the blockchain ecosystem known in the industry as digital asset mining pools. Digital asset mining pools conduct the transaction verification (or ‘mining’) activities on the blockchains that generate cryptoassets such as Bitcoin.

On the Bitcoin blockchain for example, mining pool operators buy computing ‘hashrate’ from Canadian data centres for agreed fees based on the amount of hashrate supplied. The more hashrate the greater the fees for the hashrate computing services.

In fundamental respects, Canadian high performance computing data centres that supply hashrate to digital asset mining pools are supplying computing services that are no different than computing services that support other sectors of the economy. The only distinguishing feature is that they are selling their services and expertise to support the blockchain ecosystem.

Canadian high performance computing data centre companies participating in blockchain represent more than \$2 billion market capitalization and growing. These companies have invested more than \$1 billion in Canada in the past three years and are set to invest another \$1 billion in Canada by 2025 on new jobs, state-of-the-art technology, and the purchase of clean Canadian energy. These companies pay millions of dollars each year in corporate and payroll taxes and invest directly to support the communities in which they operate.

What the tax proposal does

The “clarifying” amendments proposed by Finance declare that Canadian high performance computing data centres that supply computing services that support blockchain mining activities are not engaged in a “commercial activity.”

Proposed new subsections of the *Excise Tax Act*, 188.2(2) and (3), generally preclude a person from claiming ITCs on any property or service acquired for consumption, use or supply in the course of, or in connection with, the digital asset mining activities.

Proposed new subsection 188.2(4) deems that any person providing property or services as a fee, reward, or payment (the mining payment) to another person for digital asset mining services, those services are provided to the other person “otherwise than in the course of commercial activity” and, consequently ineligible for ITCs.

This means that high performance computing data centres in Canada that enable digital asset mining activities are not eligible to receive credits for the taxes paid on the same business inputs that other data centres in Canada can claim. Today, high performance computing data centres are owed more than \$150 million in outstanding ITCs from the Canadian government. If the proposed amendments are passed into law, these outstanding credits will be lost, and any new credits will be denied to the industry as of February 2022.

What’s the better solution

The Coalition was formed to engage with the federal government to find alternatives to the proposed amendments to the *Excise Tax Act* that would deny digital asset mining data centres access to ITCs. We believe that this is a policy that misunderstands the business and has the potential to cause significant harm to Canada as a jurisdiction that is already benefiting from the growth of blockchain-related technologies.

Restricting access to ITCs makes the business of supplying high-performance computing services to support blockchain technologies in Canada simply uncompetitive. Many other jurisdictions, including in

the United States, are instead offering incentives to blockchain data centres and are now experiencing a booming industry and rapid tech job creation as a result.

The Federal Government should continue to treat independent, high-performance computing data centres that enable blockchain technologies, for tax purposes, just like other non-exempt commercial activities (such as conventional data centres and other high-performance computing services) that rely on significant capital investments in infrastructure, equipment, technology, innovation, skilled workers and access to clean energy, while the federal government takes additional time and devotes the necessary resources to more fully understand and assess the positive potential of this new industry for all Canadians.

The Coalition for Fair Tax Treatment of Data Centres that Supply Computing Services for Digital Asset Mining

The **Coalition for Fair Tax Treatment of Data Centres that Supply Computing Services for Digital Asset Mining** (*Responsible Digital Asset Mining Coalition*) is an informal coalition of companies working in and supporting Canada's nascent digital asset mining industry. The Coalition was created in the Spring of 2022 to oppose a legislative proposal by Finance to declare that Canadian data centres supporting digital asset mining activities are not engaged in **commercial activities** and that, as a result, these high-performance computing data centre companies are not eligible to claim credits for taxes paid on any inputs required by the businesses.

Participants of the *Responsible Digital Asset Mining Coalition* include both public and private companies with an operational focus on high-performance computing for the digital asset ecosystem. Together, they maintain diverse and rapidly growing commercial operations across all major provinces in Canada. In addition to companies that supply the computing power for digital asset mining, the *Responsible Digital Asset Mining Coalition* is also supported by the municipalities where they are located and organizations that supply equipment, expertise, and services to support high-performance computing data centres and the broader digital asset ecosystem.

The Coalition's 23 participants include: Argo Blockchain PLC; AJX Group Inc. DBA Asic Jungle; Bitvo Inc.; Bitfarms Ltd.; Blockchain Labrador Corp.; Coinsquare; DMG Blockchain Solutions Inc.; Foundry; HIVE Blockchain Technologies Ltd.; Hut 8 Mining Corp.; Iris Energy Ltd.; Luxor Technology Corp.; Megawatt Mining; MMH Blockchain Group; Northern Data AG; Orion Power Solutions; Pow.re Corp.; Red Jar Investments; SATO Technologies Corp.; TAAL Distributed Information Technologies Inc.; Watermint Corp and Wild Rose Mining Corp. The Coalition is also supported by the *Canadian Blockchain Consortium* www.canadablockchain.ca and its member companies.

The Coalition welcomes the opportunity to work with Finance Canada to coordinate with key industry stakeholders to ensure that a consultation is constructive and positive, and in the best interest of both our industry and all Canadians.

For more information regarding foregoing

Please contact:

Dan Brock, Partner, Fasken

dbrock@fasken.com

416-317-5641