

## Canada Emergency Wage Subsidy for Business (CEWS)

Details as of April 8, 2020

### Summary:

- On Monday March 30, Prime Minister Trudeau announced that all small and medium-sized businesses whose revenue has decreased by 30% or more due to COVID-19 will be eligible for the 75% wage subsidy
- On Wednesday April 1, the Minister of Finance released a few additional details of the Canada Emergency Wage Subsidy for Business (CEWS) Program, but left many questions unanswered
- Since then, various business groups have criticized the proposal for being too narrow in scope and too late in providing cash for struggling businesses
- On April 8<sup>th</sup> Prime Minister Trudeau and Finance Minister Morneau released [additional details](#) which appear to increase the criteria for eligibility for the program
- The Liberals and opposition parties are continuing to negotiate the details of a new bill which is required to implement CEWS and it requires amendments to the *Income Tax Act*; and the House could be recalled to pass the legislation during the upcoming Easter long weekend or next week. A draft version of the bill was sent to opposition parties on Monday, and details have been selectively leaked to media and business groups
- This note serves as the baseline document on known details of the Program and will be updates as more information is available. Specific details will only be known once the draft legislation is tabled by the government
- **Newly released details are outlined in RED.**

### Program Details to Date:

#### [What is the Amount of the Subsidy:](#)

- The subsidy amount for a given employee on eligible remuneration paid between March 15 and June 6, 2020 would be the greater of:
  - 75% of the amount of remuneration paid, up to a maximum benefit of \$847 per week; and
  - the amount of remuneration paid, up to a maximum benefit of \$847 per week or 75% of the employee's pre-crisis weekly remuneration, whichever is less.
- In effect, employers may be eligible for a subsidy of up to 100% of the first 75% of pre-crisis wages or salaries of existing employees. These employers would be expected where possible to maintain existing employees' pre-crisis employment earnings
- Eligible remuneration may include salary, wages, and other remuneration. These are amounts for which employers would generally be required to withhold or deduct amounts to remit to the Receiver General on account of the employee's income tax obligation. **The pre-crisis remuneration for a given employee would be based on the average weekly remuneration paid between January 1 and March 15 inclusively**
- Employers will also be eligible for a subsidy of up to 75% of salaries and wages paid to new employees.

## Refund for Certain Payroll Contributions:

- Today, the Government is proposing to expand the CEWS by introducing a new 100% refund for certain employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan. This refund would cover 100% of employer-paid contributions for eligible employees for each week throughout which those employees are on leave with pay and for which the employer is eligible to claim for the CEWS for those employees. This refund would not be subject to the weekly maximum benefit per employee of \$847 that an eligible employer may claim in respect of the CEWS. There would be no overall limit on the refund amount that an eligible employer may claim. For greater certainty, employers would be required to continue to collect and remit employer and employee contributions to each program as usual. Eligible employers would apply for a refund, as described above, at the same time that they apply for the CEWS.

## What Corporations are Eligible:

- Eligible employers would include individuals, taxable corporations, and partnerships consisting of eligible employers as well as non-profit organizations and registered charities.

## What is the Qualification Threshold:

- The subsidy would be available to eligible employers that see a drop of at least 30% cent of their revenue. **NEW:** This subsidy would be available to eligible employers that see a drop of at least 15% of their revenue in March 2020 and 30% for the following months (in recognition of the fact that many businesses did not begin to be affected by the crisis until partway through March). Today, the government is announcing that all employers would be allowed to calculate their change in revenue using an alternative benchmark to determine their eligibility. Under this alternative approach, employers would be allowed to compare their revenue using an average of their revenue earned in January and February 2020. Employers would select the general year-over-year approach or this alternative approach when first applying for the CEWS and would be required to use the same approach for the entire duration of the program
- An employer's revenue for this purpose would be its revenue from its business carried on in Canada earned from arm's-length sources. Revenue would be calculated using the employer's normal accounting method, and would exclude revenues from extraordinary items and amounts on account of capital
- The amount of wage subsidy received by the employer in a given month would be ignored for the purpose of measuring year-over-year changes in monthly revenues.
- In recognition that the time between when revenue is earned and when it is paid could be highly variable in certain sectors of the economy, it is proposed that employers be allowed to measure revenues either on the basis of accrual accounting (as they are earned) or cash accounting (as they are received). The government is clarifying that employers would be allowed to calculate their revenues under the accrual method or the cash method, but not a combination of both. Employers would select an accounting method when first applying for the CEWS and would be required to use that method for the entire duration of the program.

## Not-for-Profit Qualification Threshold:

- For non-profits and charities, the government will continue to work with the sector to ensure the definition of revenue is appropriate to their specific circumstances
- Registered charities and non-profit organizations would also be able to benefit from the additional flexibilities being provided to employers with respect to the revenue loss calculation. In addition, to recognize that different types of organizations are experiencing different types of funding pressures, it is proposed that charities and non-profit

organizations be allowed to choose to include or exclude government funding in their revenues for the purpose of applying the revenue reduction test. Once chosen, the same approach would have to apply throughout the program period

- The government has said it will continue to work with affected non-profit organizations and registered charities to ensure the definition of revenue is appropriate to their circumstances.

### Application Process:

- Eligible employers would be able to apply for the CEWS through the Canada Revenue Agency's [My Business Account](#) portal as well as a web-based application
- In applying for the subsidy, employers would be required to attest to the decline in revenue
- **Employers must apply for the benefit before October 2020**
- **Employers will have to re-apply each month as follows:**

### Eligible Periods

	Claiming period	Required reduction in revenue	Reference period for eligibility
<b>Period 1</b>	March 15 to April 11	15%	March 2020 over: <ul style="list-style-type: none"> <li>• March 2019 or</li> <li>• Average of January and February 2020</li> </ul>
<b>Period 2</b>	April 12 to May 9	30%	April 2020 over: <ul style="list-style-type: none"> <li>• April 2019 or</li> <li>• Average of January and February 2020</li> </ul>
<b>Period 3</b>	May 10 to June 6	30%	May 2020 over: <ul style="list-style-type: none"> <li>• May 2019 or</li> <li>• Average of January and February 2020</li> </ul>

### How Are Payments Made:

- Employers must first pay their employees' wages and, after proving these payments, they will be reimbursed with the subsidy by direct deposit. Note: All employers will be expected to make their best efforts to top up salaries to 100% of the maximum wages covered (i.e., to pay the remaining 25% of their employees' wages). There will be flexibility based on an understanding that some applicants may be unable to do so. An eligible employer's entitlement to this wage subsidy will be based entirely on the salary or wages actually paid to employees.

### How Long to Get the Money?

- Finance Minister Morneau said the money will start to flow to businesses within the next three to six weeks, depending on how quickly the government can make the necessary technical and bureaucratic adjustments to get the money out the door. A senior government official, speaking to reporters at a technical briefing on a not-for-attribution basis, said six weeks is the "worst case scenario."

### Employers are not Eligible to Claim CEWS for Employees that receive the Canadian Emergency Response Benefit:

- An employer would not be eligible to claim CEWS for remuneration paid to an employee in a week that falls within a 4-week period for which the employee is eligible for the Canadian Emergency Response Benefit. Employers who are not eligible for the CEWS would still be able to furlough employees who will receive up to \$2,000 a month.
- **To ensure that the Canada Emergency Response Benefit (CERB) applies as intended, the Government will consider implementing an approach to limit duplication. This could include a process to allow individuals rehired by their employer during the same eligibility period to cancel their CERB claim and repay that amount.**

- Eligibility for the CEWS of an employee's remuneration, will be limited to employees that have not been without remuneration for more than 14 consecutive days in the eligibility period, i.e., from March 15 to April 11, from April 12 to May 9, and from May 10 to June 6. This rule replaces the previously announced restriction that an employer would not be eligible to claim the CEWS for remuneration paid to an employee in a week that falls within a 4-week period for which the employee is eligible for the Canadian Emergency Response Benefit.

#### Interaction with 10% Wage Subsidy:

- On March 18, 2020, the Prime Minister announced a temporary 10% wage subsidy. Certain small employers continue to qualify for the Temporary Wage Subsidy for Employers, a previously-announced wage subsidy equal to 10% of remuneration paid from March 18, 2020 to June 19, 2020, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer
- For employers that are eligible for both the Canada Emergency Wage Subsidy and the 10% wage subsidy for a period, any benefit from the 10% wage subsidy for remuneration paid in a specific period would generally reduce the amount available to be claimed under the CEWS in that same period.

#### How Long will the Canada Emergency Wage Subsidy Remain in Place?

- Currently, the program will be available for 12 weeks from March 15 to June 6, 2020.

#### Tax Treatment for Subsidy Amounts Received:

- The usual treatment of tax credits and other benefits provided by the government would apply. As a consequence, the wage subsidy received by an employer would be considered government assistance and be included in the employer's taxable income.

#### Compliance Measures:

- In order to maintain the integrity of the program and to ensure that it helps Canadians keep their jobs, the employer would be required to repay amounts paid under CEWS if they do not meet the eligibility requirements and pay their employees accordingly. Penalties may apply in cases of fraudulent claims. In addition, anti-abuse rules will be proposed to ensure that the subsidy is not inappropriately obtained and to ensure that employees are paid the amounts they are owed. The government is considering proposing to create new offences that will apply to individuals, employers or business administrators who provide false or misleading information to obtain access to this benefit or who misuse any funds obtained under the program. The penalties may include fines or even imprisonment
- Employers that engage in artificial transactions to reduce revenue for the purpose of claiming the CEWS would be subject to a penalty equal to 25% of the value of the subsidy claimed, in addition to the requirement to repay in full the subsidy that was improperly claimed.

#### **Political Issues:**

##### Legislative Requirement:

- Last week, the government passed a \$107 billion aid package, Bill C-13, through both chambers of Parliament. However, it must again ask MPs and senators to vote on a new piece of legislation authorizing CEWS. It is not yet clear when Parliament will be recalled for such a vote.

##### Political Responses to the Program:

- Bloc Québécois Leader Yves-François Blanchet said in a statement that his party is calling for adjustments to the 30-per-cent rule and for Ottawa to cover some of businesses' operational costs

- Conservative finance critic Pierre Poilievre said Tuesday that while he would not comment on the contents of the bill, his party is continuing to urge the government to allow companies to keep the federal sales tax revenue they have collected in recent months. He adds that his party remains concerned that it will take too long for businesses to be able to access the wage subsidy
- NDP finance critic Peter Julian said his party is reviewing the bill and is encouraging the government to support his party's policy proposals. "We understand that we need to move quickly," he said. "I think there will be intense, but short, negotiations."

#### Comments from the Business Sector:

- Goldy Hyder, president of the Business Council of Canada, which represents the country's largest corporations, expressed frustration that the federal government chose to offer a complicated wage-subsidy program. "We need to act with some urgency, and we need to keep it simple and not complicate it in a crisis," he said
- The Canadian Federation of Independent Business is asking Ottawa to eliminate the requirement for proof of a 30% drop in revenue for all firms with fewer than 500 workers, and for those ordered to fully or partially shut down by provincial public health authorities
- John Ruffolo, vice-chair of the Canadian Council of Innovators and former CEO of OMERS Ventures, said the finance department has miscalculated by having the Canada Revenue Agency manage the program, "It is going to be doomed to fail, they are going to try to build this on the fly. It's likely there will be massive gridlock on people submitting applications, and they are not designed to understand the needs of different businesses."

#### Other Notes:

- At this time, no details have been provided about whether foreign ownership of a corporation will effect eligibility for the wage subsidy
- All businesses should register for direct deposit to ensure money can be sent electronically to avoid further delay
- Further details of the CEWS are expected once a bill is tabled in Parliament. Given the significant cost of the program, it is likely that there will be considerable debate and changes before it is implemented. As a result, employers who are pressed to make time-sensitive decisions may need to move ahead regardless of the subsidy, but should be mindful to keep accurate records in case they later become eligible.

#### **Launch the new Canada Emergency Business Account:**

- Government officials are also working with banks to finalize details on an interest-free loan program for small businesses
- This program will provide \$25 billion in total funding consisting of interest-free, partially forgivable loans of up to \$40,000 to small businesses and not-for-profits in all sectors and regions
- Canada's largest banks and credit unions are aiming to open the loan program to applications on Thursday
- Small businesses that had payrolls of \$50,000 to \$1 million in 2019 will be able to apply for loans of up to \$40,000 and pay no interest until the end of 2022.

#### **Links:**

- The April 8<sup>th</sup> Department of Finance press release is [here](#). The CRA has published information on the Deferral of GST/HST Remittances [here](#).