Canada Emergency Business Account (CEBA) Loans: Tax Consequences

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Many Canadian businesses have been particularly hard-hit by the financial fallout of COVID-19 and may have experienced a significant drop in revenues. The government has put into place a variety of measures to help Canadian businesses facing hardship as a result of COVID-19, and among the measures introduced is the Canada Emergency Business Account (CEBA) loan program. The Canada Revenue Agency (CRA) recently confirmed the tax treatment associated with the forgivable portion of these loans.

CEBA overview

CEBA provides interest-free loans of up to $60,000 to businesses to help cover their operating costs where their revenues have been temporarily reduced due to the economic impacts of the COVID-19 pandemic. The loan program is instituted by the Canadian government and administered by financial institutions. As of December 3, 2020, 795,104 businesses have been approved for a CEBA loan, and $31.8 billion in total funds have been approved.[1]

The original CEBA loan available was up to $40,000 but, as of December 4, 2020, an additional $20,000 CEBA loan may be available, for a total of up to $60,000. Those who previously received a $40,000 loan may apply for an additional $20,000. New applicants may apply for a $60,000 loan. The application deadline for new or additional CEBA loans is March 31, 2021. Up to $20,000 of a $60,000 loan can be forgiven if the balance is repaid by December 31, 2022. For original loans of $40,000, 25% of the amount (up to $10,000) may be forgiven.

To qualify, borrowers must have a CRA Business Number. They will need to demonstrate they either:

- Paid between $20,000 to $1.5 million in total payroll in 2019 based on their 2019 *T4 SUM Summary of Remuneration Paid,* or
- Have eligible non-deferrable expenses of between $40,000 and $1.5 million and have filed a 2018 or 2019 tax return.

Non-deferrable expenses can include wages to arm's length parties, rent, property taxes, utilities and insurance.[2] To be eligible for the original $40,000 CEBA loan, expenses must have been paid in January or February 2020, or a legal obligation to pay the expense in 2020[3] must have existed as of March 1, 2020.

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1 CEBA summary data at ceba-cuec.ca.

2 Expenses will be subject to verification and audit by the government. Additional information about non-deferrable expenses is available online at ceba-cuec.ca.

3 In order to be eligible, expenses cannot be avoided or deferred beyond 2020 even during a period of shut down and depressed revenues as a result of COVID-19. CEBA is not intended to provide income support, or support for variable operating expenses to businesses.

These expenses will be adjusted for support or subsidies received by a business under another Canadian government COVID-19 response program.[4]

To access the additional $20,000 CEBA loan that became available on December 4, 2020, an eligible business will also be required to attest to losses in revenue due to COVID-19.

Applying at CIBC

Business owners who do day-to-day business banking with CIBC are able to use a fully digital application process to apply for CEBA. To qualify, the business must use a CIBC business operating account for day-to-day payments and cash management activities. This account must be opened before applying for CEBA. If CIBC isn't your primary bank, you should apply through the financial institution that holds your primary business operating account. If you are applying for the additional $20,000 CEBA loan, you must do so at the financial institution where you received your original loan.

To apply, CIBC business clients must have registered for CIBC Online Banking® for Business. Applications are started using this online banking system. Those applications based on the payroll option can complete their application online at CIBC using their CRA Payroll Number. If the application is based on the non-deferrable expenses stream, then applicants will be directed to a government CEBA website to upload evidence of the non-deferrable expenses. Once the loan is processed, funds will be deposited directly to the client's CIBC business operating account. If the loan can't be repaid by December 31, 2022, it will be converted into a 3-year term loan with an interest rate of 5% per year.

To make sure CIBC can manage application volumes and process loans quickly, all applications must be submitted online. If your business isn't yet registered for CIBC Online Banking® for Business, you can register now using your CIBC Business Convenience Card® number.

Taxation

The CRA has indicated that ***the amount that is forgivable is taxable in the year that the loan is received***. For instance, if a business receives a $40,000 CEBA loan in 2020, $10,000 must be included in income in 2020. Alternatively, a business could elect to not include the $10,000 in income, and instead to reduce $10,000 of non-deferable operational expenses in respect of which the CEBA loan was received.

If a CEBA loan balance is not repaid by December 21, 2022 [or is otherwise not eligible for the forgiveness benefit], so that the forgivable portion is not forgiven, an offsetting deduction is available in the taxation year in which the amount is repaid. The CRA has indicated that where the intent of the CEBA borrower and lender is that any partial repayment of the loan principal is to be applied "in priority" to the amount that was originally forgivable, then a deduction may be claimed for the amount repaid up to the amount of the forgivable portion. If this intent is not specified, then the amount of the loan repayment that can be deducted is the ratio of the forgivable amount outstanding to the total loan amount outstanding.

Example

Smart Travel Inc. operates a retail store selling luggage. The corporation has a December 31st year end. As its revenue declined in 2020 due to COVID-19, it received a CEBA loan of $40,000 in May of 2020 to assist it with meeting non-deferrable expenses. Smart Travel Inc. must include the $10,000 forgivable portion of the loan in income for 2020. Alternatively, it can elect to reduce $10,000 of non-deferrable expenses in 2020, in which case there would be no income inclusion for the forgivable amount in 2020. The election to do so must be filed with its income tax return for the 2020 year.

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[4] These other programs include the Canada Emergency Wage Subsidy, the Temporary Wage Subsidy, Canada Emergency Commercial Rent Assistance and the Canada Emergency Rent Subsidy.

If Smart Travel Inc. does not make the election, and does not repay its CEBA loan by December 21, 2022 [or is deemed ineligible for forgiveness], when it does repays the loan, it will be entitled to a deduction for the amount of the forgivable portion that is repaid.

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