



# Wage subsidy programs for employers: Canada's COVID-19 response plan

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Some businesses in Canada may be particularly hard-hit by the financial fallout of COVID-19. The Government of Canada has introduced a variety of measures to help individual Canadians and businesses facing hardship as a result of the COVID-19 outbreak. These measures include two separate wage subsidy programs for employers.

The newly-announced Canada Emergency Wage Subsidy (CEWS) provides both large and small employers with a subsidy that may be up to 75% of employee wages, to help employers to keep their workers when they have had a significant decline in revenues. The second program, the Temporary Wage Subsidy (TWS), was passed into law on March 25, 2020<sup>1</sup> and is aimed at assisting small- and medium-sized employers with their payrolls.

This report outlines what we know about these two subsidy programs so far.

## Canada Emergency Wage Subsidy (75%)

The CEWS will provide a subsidy to “enable employers to re-hire workers previously laid off, and to keep those who are already on payroll.” The benefit is equal to 75% of “eligible remuneration” paid by “eligible employers” for up to three months, retroactive to March 15, 2020.

### Eligible employers

Eligible employers include individuals, taxable corporations, partnerships whose partners are eligible employers, non-profit organizations, and registered charities. Employers would have to attest that their monthly revenues have dropped by at least 30% in the month(s) of March, April or May 2020, compared to the same month(s) in 2019. Public bodies, such as municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals, do not qualify.

The table below outlines the three eligible periods. Revenues must have decreased by 30% or more during the relative reference period to qualify for the CEWS.

Eligible period	Claiming period	Reference period for eligibility
Period 1	March 15 – April 11	March 2020 over March 2019
Period 2	April 12 – May 9	April 2020 over April 2019
Period 3	May 10 – June 6	May 2020 over May 2019

<sup>1</sup> Bill C13 received Royal Assent on March 25, 2020 and can be found at: [parl.ca/DocumentViewer/en/43-1/bill/C-13/royal-assent](http://parl.ca/DocumentViewer/en/43-1/bill/C-13/royal-assent)

When determining if there has been a decrease of 30% or more, revenue includes amounts from business carried on in Canada that is earned from arm's-length sources; however, extraordinary items and amounts on account of capital are excluded. Revenue would be calculated using the employer's normal accounting method.

For non-profits and charities, the government will consult with the sector to ensure the definition of revenue is appropriate to their specific circumstances.

## Amount of the subsidy

The CEWS is equal to 75% of "eligible remuneration" paid between March 15 and June 6, 2020. Eligible remuneration may include salary, wages, and other remuneration but does not include items such as severance pay, employee stock option benefits or the personal use of the employer's vehicle.

The subsidy amount for a given employee on eligible remuneration paid between March 15 and June 6, 2020 is the greater of:

- 75% of the amount of remuneration paid, up to a maximum benefit of \$847 per week<sup>2</sup>; 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.<sup>3</sup>

In other words, employers may be eligible for a subsidy of up to 75% of pre-crisis wages of existing employees, to a maximum of \$847 per week for each employee. These employers are expected, "where possible," to maintain their existing employees' pre-crisis employment earnings.

Employers may also claim the CEWS for salaries and wages paid to new employees.

## Example

Suppose all the CEWS requirements are met and Lee had wages of \$52,000 (\$1,000 weekly) in 2019. Due to a decline in work, Lee's wages are only \$700 for the first week in April 2020. Lee's employer would receive a CEWS subsidy of \$700, calculated as the greater of:

- \$525, which is 75% of the \$700 wages paid; and
- \$700, which is the lesser of the \$700 wages paid and 75% of the \$1,000 pre-crisis wages (\$750).

Lee's employer, if possible, is expected to pay Lee an additional \$300 (\$1,000 pre-crisis wages minus \$700 wages paid), to top up Lee's weekly wages to the pre-crisis level.

## Tax consequences

The CEWS is considered government assistance and will be included in the employer's income and taxed in the year it's received.

## How to apply

Eligible employers will be able to apply for the CEWS through the [CRA's My Business Account portal](#)<sup>4</sup> as well as a web-based application. Employers must keep records demonstrating their reduction in revenues and remuneration paid to employees.

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<sup>2</sup> Calculated as the Yearly Maximum Pensionable Earnings (YMPE) of \$58,700, divided by 52 weeks multiplied by 75%.

<sup>3</sup> Where the employee does not deal at arm's length with the employer, such as an employee who is also the sole shareholder of an incorporated business, the CEWS will be limited to the eligible remuneration paid in any pay period between March 15 and June 6, 2020, up to a maximum benefit of \$847 per week or 75% of the employee's pre-crisis weekly remuneration, whichever is less.

<sup>4</sup> The CRA's My Business Account portal is available online at [canada.ca/en/revenue-agency/services/e-services/e-services-businesses/business-account.html](https://canada.ca/en/revenue-agency/services/e-services/e-services-businesses/business-account.html).

## Interaction with the Canadian Emergency Response Benefit (CERB)

The CERB is a benefit that will be paid to employees in blocks of four weeks. An employer cannot claim the CEWS for remuneration paid to an employee in a week that falls within a four-week block while the employee is eligible for the CERB. The CERB is discussed in detail in our report titled "[Personal tax measures: Canada's COVID-19 response plan](#)."<sup>5</sup>

## Penalties

The government warned employers that if they don't meet the eligibility requirements of the CEWS or fail to pay their employees accordingly, the employer would be required to repay amounts received under the CEWS. In addition, penalties may apply in cases of fraudulent claims and anti-abuse rules will be introduced to ensure that the CEWS is not inappropriately obtained. The penalties would 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 could include fines or possibly imprisonment.

## Temporary Wage Subsidy (10%)

Under the TWS program, an "eligible employer" can claim an amount equal to 10% of the remuneration paid between March 18, 2020 and June 19, 2020. If no remuneration was paid to employees during this period, then no subsidy is available. The maximum amount of the subsidy is \$1,375 per employee and \$25,000 per employer. Employers who are considered to be associated<sup>6</sup> for tax purposes will *not* be required to share the subsidy.

## Eligible employers

Employers that qualify for the TWS include individuals (sole-proprietors), certain partnerships, non-profit organizations, charities and certain Canadian-controlled private corporations (CCPCs). A CCPC is essentially a private corporation whose shares are not listed on a stock exchange, and that is owned and controlled by Canadian residents. Large CCPCs which have taxable capital of more than \$15 million among their associated corporations in the previous year won't qualify for the TWS.

Employers are only eligible if they had a payroll program account with the CRA on March 18, 2020.

## How does it work?

Employers are required to make source deductions before paying wages (and most other forms of remuneration) to employees. An employer generally must deduct and withhold amounts for income taxes, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums, and pay these withholdings (along with employer CPP/QPP contributions and EI premiums<sup>7</sup>) to the Canada Revenue Agency (CRA) (and Revenu Quebec) by the due date. If payments are made quarterly or monthly, the payments are due by the 15th of the following month. Some employers who must make accelerated remittances have to remit earlier.<sup>8</sup>

The TWS is calculated manually and the employer can choose to reduce its payroll income tax remittances to the CRA by the amount of the TWS. The reduction of tax remittances can begin on the employer's next remittance date (April 15th if the employer is a quarterly or monthly filer.)

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<sup>5</sup> The report titled "Personal tax measures: Canada's COVID-19 response plan" is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/covid-tax-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf).

<sup>6</sup> The term "associated" is defined in the tax rules. Corporations are associated for tax purposes when they have common control. For instance, if two corporations are owned by the same person, they will be associated for tax purposes. Further, in many circumstances, corporations with related shareholders are associated.

<sup>7</sup> Employers may also need to remit other amounts, such as premiums for the Ontario Employer Health Tax or the Quebec Parental Insurance Plan.

<sup>8</sup> For federal remittance due dates, see [canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/remitting-source-deductions/how-when-remit-due-dates.html](https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/remitting-source-deductions/how-when-remit-due-dates.html).

Although the TWS is based on remuneration paid to employees between March 18 and June 19, there is no deadline for claiming the TWS (through reduced income tax remittances.) In other words, if the amount of the TWS exceeds the income tax that the employer would normally have to remit up to June 19, 2020, the employer can continue to reduce subsequent income tax remittances to claim remaining TWS after this date.

Employers must continue to deduct all source deductions, including income taxes, CPP/QPP contributions and EI premiums from employees' pay. *The employer can only reduce remittances of federal, provincial (other than Quebec) or territorial income taxes and cannot reduce any remittances of CPP/QPP contributions or EI premiums.* Remittances to Revenu Quebec may not be reduced.

While the CRA is currently working on the reporting requirements for the TWS program, the employer should keep all information necessary to support its manual calculation of the TWS. This will include records of all remuneration for the relevant period, as well as tax deductions and the number of employees.

Employers who choose not to reduce current payroll remittances can transfer the TWS to a future 2020 remittance or can request to have it paid at the end of 2020.

### Example

Samuel owns a restaurant that has five employees and has temporarily been converted to a take-out only establishment. Total payroll for the restaurant between March 18 and June 19, 2020 will be \$75,000. Even though 10% of the payroll during this time is \$7,500, the maximum available 10% wage subsidy is limited to \$6,875 because the maximum total TWS per employee is \$1,375 and the restaurant has five employees.

Samuel makes monthly tax remittances on behalf of his restaurant business. He can claim the first TWS by reducing the restaurant's remittance for March 2020, which is due on April 15, 2020. The TWS would be calculated as 10% of wages paid from March 18th. Assuming the eligible wages are \$25,000, Samuel will be permitted to reduce the federal and provincial tax portions of the April 15th remittance to the CRA by \$2,500. He can continue to reduce future remittances of income tax until the restaurant reaches the maximum TWS.

### Tax consequences

The TWS amount will be included in the employer's income and taxed in the year it is received.

### Interaction of the 75% CEWS and 10% TWS

Some employers will be eligible for both the 75% CEWS and the 10% TWS. The government has stated that any benefit from the TWS paid in a specific period will reduce the amount available to be claimed under the 75% CEWS for that same period.<sup>9</sup>

### Additional tax relief

Finally, a reminder that the CRA has made a variety of other tax relief measures available to business owners and individuals.

The Canada Emergency Business Account, which will be implemented by financial institutions in cooperation with Export Development Canada, will provide interest-free loans of up to \$40,000 to small businesses and not-for-profits, to help cover their operating costs while revenues have been temporarily reduced, due to the economic impacts of the COVID-19 virus. To qualify, these organizations will need to demonstrate they paid between \$50,000 to \$1 million in total payroll in 2019. Repaying the balance of the loan on or before Dec. 31, 2022 will result in loan forgiveness of 25% (up to \$10,000).

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<sup>9</sup> See Department of Finance Backgrounder at: [canada.ca/en/department-finance/news/2020/04/the-canada-emergency-wage-subsidy.html](https://canada.ca/en/department-finance/news/2020/04/the-canada-emergency-wage-subsidy.html)

In addition, the CRA will allow all businesses to defer, until September 1, the payment of any income tax amounts that become owing on or after March 18, 2020 and before September 2020. This relief applies to tax balances due, as well as corporate income tax instalments. The government made it clear that no arrears interest or penalties will accumulate on these amounts during this period. The CRA has also pushed back the remittance deadline for GST/HST remittances until June 30, 2020.

For more information, please see our report, "[Relief measures for businesses: Canada's COVID-19 response plan](#)."<sup>10</sup>

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<sup>10</sup> The report titled, "Relief measures for businesses: Canada's COVID-19 response plan," is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/covid-business-tax-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-business-tax-en.pdf).

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