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 Canada Emergency Wage Subsidy (CEWS) provides both large and small employers with a subsidy based on employee wages, to help employers to keep their workers when they have had a decline in revenues. The second program, the Temporary Wage Subsidy (TWS) is aimed at assisting small- and medium-sized employers with their payrolls.

This report outlines the main features of each of these two subsidy programs.

Canada Emergency Wage Subsidy

The CEWS provides a subsidy to "enable employers to re-hire workers previously laid off, and to keep those who are already on payroll." The benefit is a portion of "eligible remuneration" paid by "eligible employers".

As originally announced, the benefit was 75% of the eligible remuneration from March 15, 2020 through June 6, 2020 and was only available to employers who experienced a 30% or more drop in revenue. The program was extended in May, and again in July, and now runs to December 19, 2020.

The government has announced a total of nine four-week periods, as illustrated in Figure 1. For Periods 1 through 4 (which are between March 15 and July 4, 2020), the program ran in its original format with a subsidy equal to 75% of eligible remuneration.

For Periods 5 through 9 (which are between July 5 and November 21, 2020[1]) the CEWS program has been amended and the subsidy will no longer be simply 75% of eligible remuneration. This change to the CEWS was meant to assist those employers with less than a 30% revenue decrease, but who are still negatively affected by COVID-19. The amended program has two components, and the calculation of the amount of the subsidy is quite complex:

- The base subsidy ("Base CEWS") is available to all employers with *any* decline in revenue and will be calculated based on the percentage of revenue decline.
- The top-up subsidy ("Top-up CEWS") is available for employers who are significantly adversely impacted by COVID-19.

[1] Although the program runs until December 19, 2020, details were only released for CEWS until November 21, 2020.

Eligible employers

Eligible employers include individuals, certain partnerships[2], taxable corporations, taxable trusts, non-profit organizations, and registered charities. Public bodies, such as municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals, do not generally qualify.[3]

Revenue decrease

Employers must have a monthly revenue drop in order to qualify. For Period 1 (March 15 to April 11), a minimum 15% revenue drop was required. For Periods 2 through 4 (which are between April 12 to July 4), the revenue drop must have been a minimum of 30% in order to be eligible for CEWS. For Periods 5 through 9, an employer qualifies for at least the Base CEWS for *any* drop in revenue, with the amount of the CEWS dependent on the percentage decrease. The Top-up CEWS comes into play when the revenue decrease exceeds 50%.

When determining if there has been the required decrease in revenues, revenue includes amounts from a business carried on in Canada that is earned from arm's-length sources; however, extraordinary items and amounts on account of capital, such as the proceeds from the sale of capital assets, are excluded. When first applying for the CEWS, employers must choose either the cash or accrual method to calculate revenues and cannot combine the methods or change methods later. Special rules address complex issues for corporate groups, consolidated entities, non-arm's length entities and joint ventures. Non-profits and charities can choose whether to include or exclude government funding in their revenues for the revenue reduction test.

When calculating the revenue decrease for the first four periods, and for the Base CEWS thereafter, employers can choose to compare revenue for the current 2020 month (and for Periods 5 through 9, the prior 2020 month) to revenues from either the:

- Same month in 2019 (the General Approach), or
- Average of January 2020 and February 2020 (the Alternative Approach).

For example, to have qualified for CEWS for wages paid to an employee during Period 1, the employer's revenues in March 2020 are compared to the employer's revenues in March 2019, or the average monthly revenues for January 2020 and February 2020.

For Periods 1 through 4, the employer must consistently use either the General Approach or the Alternative Approach. For Periods 5 through 9, the employer must also consistently use one of these two approaches, although the approach does not need to be the same one chosen for Periods 1 through 4.

Within Periods 1 through 4, once an employer qualifies for the CEWS for one period, the employer will automatically qualify for the next period. In order to continue to provide certainly for Periods 5 through 9, when calculating the revenue decline for the Base CEWS, employers can use the greater of their percentage revenue decline for the particular period, and the percentage revenue decline for the immediately previous period. That is, for Period 6, an employer can calculate Base CEWs using the percentage revenue decline for Period 6 or Period 5.

Figure 1 summarizes the revenue comparisons for Periods 1 through 4, and for the Base CEWS for Periods 5 through 9.

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[2] As long as partners that are not eligible employers, taken together, do not hold a majority of the interests in the partnership, then the partnership will qualify.

[3] Private colleges and private schools, tax-exempt Indigenous government owned corporations, national level Registered Canadian Amateur Athletic Associations, and tax-exempt registered journalism organizations, will also qualify.

Figure 1: CEWS revenue comparisons for Periods 1 through 4, and for Base CEWS for Periods 5 through 9

Claim period	Dates	Revenue comparison: General Approach	Revenue comparison: Alternative Approach
Period 1	March 15 to April 11	March 2020 over March 2019	March 2020 over average of January 2020 & February 2020
Period 2	April 12 to May 9	April 2020 over April 2019	April 2020 over average of January 2020 & February 2020
Period 3	May 10 to June 6	May 2020 over May 2019	May 2020 over average of January 2020 & February 2020
Period 4	June 7 to July 4	June 2020 over June 2019	June 2020 over average of January 2020 & February 2020
Period 5	July 5 to August 1	June 2020 over June 2019[4] **OR** July 2020 over July 2019	June 2020 over average of January 2020 & February 2020 **OR** July 2020 over average of January 2020 & February 2020
Period 6	August 2 to August 29	July 2020 over July 2019 **OR** August 2020 over August 2019	July 2020 over average of January 2020 & February 2020 **OR** August 2020 over average of January 2020 & February 2020
Period 7	August 30 to September 26	August 2020 over August 2019 **OR** September 2020 over September 2019	August 2020 over average of January 2020 & February 2020 **OR** September 2020 over average of January 2020 & February 2020
Period 8	September 27 to October 24	September 2020 over September 2019 **OR** October 2020 over October 2019	September 2020 over average of January 2020 & February 2020 **OR** October 2020 over average of January 2020 & February 2020
Period 9	October 25 to November 21	October 2020 over October 2019 **OR** November 2020 over November 2019	October 2020 over average of January 2020 & February 2020 **OR** November 2020 over average of January 2020 & February 2020

The Top-up CEWS is available to employers who have a revenue decrease of at least 50%, calculated over a three-month period. As with the Base CEWS, when calculating the revenue decrease, the employer may choose either one of two methods:

- General Approach, where revenues for the three months ending in the current month (e.g. April to June 2020) are compared to revenues in the same period in the prior year (e.g. April to June 2019); or
- Alternative Approach, where revenues for the three months ending in the current month (e.g. April to June 2020) are compared to average monthly revenues for January 2020 and February 2020.

[4] Note that this is intentionally the same as Period 4.

Figure 2 summarizes the revenue comparisons for the Top-up CEWS beginning July 5, 2020.

Figure 2: Revenue comparisons for the Top-up CEWS

Claim period	Dates	Revenue comparison: General Approach	Revenue comparison: Alternative Approach
Period 5	July 5 to August 1	April to June 2020 over April to June 2019	April to June 2020 average over January and February 2020 average*
Period 6	August 2 to August 29	May to July 2020 over May to July 2019	May to July 2020 average over January and February 2020 average*
Period 7	August 30 to September 26	June to August 2020 over June to August 2019	June to August 2020 average over January and February 2020 average*
Period 8	September 27 to October 24	July to September 2020 over July to September 2019	July to September 2020 average over January and February 2020 average*
Period 9	October 25 to November 21	August to October 2020 over August to October 2019	August to October 2020 average over January and February 2020 average*

* The calculation would equal the average monthly revenue over the 3 months of the reference period divided by the average revenue for the months of January and February 2020.

Example

If ABC Corp. had $300,000 in revenue between April 1 and June 30, 2019, and $105,000 in revenue between April 1 and June 30, 2020, then there would be an 65% drop in revenue using the General Approach. If ABC Corp. used the Alternative Approach, and its revenue was $300,000 between January 1 and February 29, 2020 (average revenue of $150,000), given that the average revenue for April through June of 2020 would be $35,000 (i.e. 105,000 divided by 3), there would be a 77% ((150,000 minus 35,000) divided by 150,000) drop in revenue.

Amount of the subsidy

CEWS is based on a percentage of "eligible remuneration", and this percentage differs depending on the claim period. 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.

Periods 1 through 4

The CEWS is rather straightforward and is generally equal to 75% of eligible remuneration in Periods 1 through 4. To qualify, employees must not have been without remuneration for more than 14 consecutive days in the eligible period.

The subsidy amount for a given employee is the greater of:

- 75% of the amount of remuneration paid, up to a maximum benefit of $847 per week[5]; and
- The amount of remuneration paid, up to a maximum benefit of $847 per week or 75% of the employee's "baseline remuneration", whichever is less.[6]

For each employee, the baseline remuneration is the average weekly remuneration paid between January 1 and March 15, 2020 inclusively, or alternatively between March 1 to May 31, 2019, excluding any seven-day periods for which the employee did not receive remuneration. Employers can choose which period to use on an employee-by-employee basis. The alternative period was added to take into account seasonal workers, as well as workers who may have been on an unpaid leave, such as parental leave, in early 2020.

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 to "at least make best efforts" to maintain their existing employees' pre-crisis employment earnings.

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

Example

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. If all the CEWS requirements are met, 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).

Since Lee's employer paid wages of $700 to Lee, the $700 CEWS subsidy fully offsets the employer's cost of paying these wages. In addition, Lee's employer is expected to make its "best effort" 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.

Periods 5 through 9

The revised CEWS consists of the Base CEWS plus the potential Top-up CEWS for employers which have experienced revenue drops greater than 50% in Periods 5 through 9.

Base CEWS

The Base CEWS is calculated as a percentage of remuneration per employee of up to $1,129 per week. Unlike Periods 1 through 4, in Periods 5 through 9, there is no restriction for employees who have been without remuneration for 14 consecutive days. The CEWS rate varies depending on the level of revenue decline.[7] Pre-crisis remuneration is not generally relevant for arm's length employees. Separate calculations are required for non-arm's length employees, and for those on paid leave.

The subsidy amount per employee is the applicable CEWS rate multiplied by the lesser of:

- Eligible remuneration paid in the week; and
- $1,129.

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[5] Calculated as the Yearly Maximum Pensionable Earnings (YMPE) of $58,700, divided by 52 weeks (which equals $1,129 per week) multiplied by 75%.

[6] 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 August 29, 2020, up to a maximum benefit of $847 per week or 75% of the employee's baseline remuneration, whichever is less.

[7] For periods 5 and 6, employers with a minimum 30% revenue reduction as calculated under the rules governing periods 1-4 will continue to receive CEWS at a minimum 75% rate.

Figure 3 sets out the rate structure for calculating Base CEWS per eligible period.

Figure 3: Rate structure of the Base CEWS

Claim period	Dates	Maximum weekly benefit per employee	Revenue drop: 50% and over	Revenue drop: 0% to 49%	Examples with a 20% revenue drop
Period 5	July 5 to August 1	Up to $677	60%	1.2 times revenue drop	1.2 times 20% revenue drop = 24% Base CEWS rate
Period 6	August 2 to August 29	Up to $677	60%	1.2 times revenue drop	1.2 times 20% revenue drop = 24% Base CEWS rate
Period 7	August 30 to September 26	Up to $565	50%	1.0 times revenue drop	1.0 times 20% revenue drop = 20% Base CEWS rate
Period 8	September 27 to October 24	Up to $452	40%	0.8 times revenue drop	0.8 times 20% revenue drop = 16% Base CEWS rate
Period 9	October 25 to November 21	Up to $226	20%	0.4 times revenue drop	0.4 times 20% revenue drop = 8% Base CEWS rate

For example, suppose that during the week starting July 5, 2020, an employer paid its 10 employees $1,000 each, for a total of $10,000 and that the company had a 20% revenue decline in June 2020, compared to June 2019. The Base CEWS rate would be calculated as 1.2 times the 20% revenue drop, or 24%, so the employer could get CEWS of $2,400 ($10,000 times 24%). While this may seem quite low compared to the 75% CEWS offered originally, this employer actually wouldn't have been eligible for any CEWS in Periods 1 through 4 with a revenue drop of less than 30%.

Top-up CEWS

The Top-up CEWS only applies where the revenue drop exceeds 50%. It is calculated as 1.25 times the amount that the revenue drop exceeds 50%. The maximum Top-up CEWS is 25%, and the employer will be eligible for this full Top-up CEWS at a 70% revenue drop. Figure 4 shows some example calculations of the Top-up CEWS rates.

Figure 4: Top-up CEWS rates for selected levels of average revenue drop over the preceding three months

3-month average revenue drop	Top-up CEWS rate	Top-up calculation = 1.25 times (3 month revenue drop minus 50%)
70% and over	25.00%	1.25 times (70% minus 50%) = 25%
65%	18.75%	1.25 times (65% minus 50%) = 18.75%
60%	12.50%	1.25 times (60% minus 50%) = 12.5%
55%	6.25%	1.25 times (55% minus 50%) = 6.25%
50% and under	0.00%	1.25 times (50% minus 50%) = 0.0%

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 can calculate the amount that they may receive under the CEWS by inputting information into the CRA's online calculator.[8] Employers are able to apply for the CEWS through the CRA's My Business Account portal[9] as well as a web-based application. Employers must keep records demonstrating their reduction in revenues and remuneration paid to employees.

Penalties

Harsh penalties may apply if the CEWS is claimed in situations where the eligibility requirements are not satisfied. If employers don't meet the eligibility requirements of the CEWS or fail to pay their employees accordingly, not only will they be required to repay amounts received under the CEWS but, in addition, a 50% penalty tax will apply to the amount of the repayment. Further, an employer who artificially reduces revenues to claim the CEWS will face a penalty equal to 25% of the value of the subsidy claimed. In addition, under existing rules, persons making, or participating in making, a false or deceptive statement could be prosecuted with an offence and, if found guilty, could be sentenced to up to 5 years in prison.

The CEWS legislation also gives the government permission to publish the name of any employer that makes an application for the CEWS.

Refund for certain payroll contributions

Employers may be able to claim a 100% refund for employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan.

When an employer can claim the CEWS for an employee who is on leave (does not perform any work) with pay during a week, a refund is available for 100% of the employer portion of contributions to the plans for that employee. The employer cannot claim the refund for employees who are on leave with pay for only a portion of a week. Although there is an $847 weekly limit on CEWS benefits for an employee, there is no limit on refunds of contributions.

Employers are still required to continue to collect and remit both employer and employee contributions to each program as usual. Eligible employers would apply for a refund at the same time that they apply for the CEWS.

Canada Summer Jobs program (100%)

The government has announced that a further wage subsidy will apply for up to 100% (up from 50%) of the provincial or territorial minimum hourly wage for employees under the Canada Summer Jobs program, a wage subsidy program that helps create summer jobs for those ages 15 to 30 years old. Job placements could begin on May 11, 2020 and the program will be extended to placements running until February 28, 2021. This will also apply to staff hired on a part-time basis.

Eligible employees can search for jobs through the Job Bank website[10].

Temporary Wage Subsidy (10%)

Under the TWS program, an "eligible employer" qualifies for a subsidy equal to 10% of 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

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[8] The CRA's online calculator is available at: canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-calculate-subsidy-amount.html.

[9] 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.

[10] See available jobs online at: jobbank.gc.ca/home

employer. Employers who are considered to be associated[11] for tax purposes will *not* be required to share the subsidy.

Eligible employers

Employers that qualify for the TWS include individuals (such as 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 that 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[12]) 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.[13]

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.

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.

Tax consequences

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

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[11] 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.

[12] Employers may also need to remit other amounts, such as premiums for the Ontario Employer Health Tax or the Quebec Parental Insurance Plan.

[13] 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.

Interaction of the CEWS and other programs

Some employers will be eligible for both the CEWS and the 10% TWS. Any benefit from the TWS claimed in a specific period will reduce the amount available to be claimed under the CEWS for that same period.

It is possible that employees that are rehired will be required to cancel their Canada Emergency Response Benefit (CERB) claim and make a repayment for CERB already received, depending on the amount of wages earned. The CERB is discussed in further detail in our report titled "Personal tax measures: Canada's COVID-19 response plan."[14]

Additional tax relief

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

For more information, please see our report,
"Relief measures for businesses: Canada's COVID-19 response plan."[15]

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14 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.

15 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.