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)[1] 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)[2], 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 (75%)

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 equal to 75% of "eligible remuneration" paid by "eligible employers" from March 15, 2020 through June 6, 2020.[3]

Eligible employers

Eligible employers include individuals, taxable corporations, partnerships whose partners are eligible employers, non-profit organizations, and registered charities. Public bodies, such as municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals, do not qualify.

Employers will have to attest that their monthly revenues have dropped by at least 15% in the month of March 2020 or 30% in the month(s) April and/or May 2020.[4]

In calculating the revenue drop, employers may choose to compare the revenues for the months of March, April, or May to revenues from either the:

- Same month in 2019 or
- Average of January 2020 and February 2020

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1 The CEWS was contained in Bill C-14, which received Royal Assent on April 11, 2020 and can be found at: parl.ca/DocumentViewer/en/43-1/bill/C-14/royal-assent.

2 The TWS was contained in Bill C-13, which received Royal Assent on March 25, 2020 and can be found at: parl.ca/DocumentViewer/en/43-1/bill/C-13/royal-assent.

3 The legislation, as enacted, provides for flexibility for the government to extend the CEWS until September 30, 2020, if it so chooses.

4 The legislation, as enacted, also provides for flexibility for the government to prescribe the required reduction in revenue if the CEWS is extended beyond June 6, 2020.

Figure 1 summarizes the three eligible periods for remuneration paid and the required reduction in revenue needed to qualify for the CEWS.

Figure 1: CEWS eligible periods for remuneration paid and required reduction in revenue during reference period

Eligible period	Period in which remuneration paid	Required reduction in revenue	Reference period for revenue reduction
Period 1	March 15 to April 11	15%	March 2020 versus: March 2019; or Average of Jan. 2020 & Feb. 2020
Period 2	April 12 to May 9	30%	April 2020 versus: April 2019; or Average of Jan. 2020 & Feb. 2020
Period 3	May 10 to June 6	30%	May 2020 versus: May 2019; or Average of Jan. 2020 & Feb. 2020

For example, to claim the CEWS for wages paid to an employee during Period 1, the employer's revenues in March 2020 must be at least 15% lower than either the employer's revenues in March 2019, or the average monthly revenues for January 2020 and February 2020.

When determining if there has been a decrease of at least 15% for March 2020 and 30% for April 2020 or May 2020, 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, 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. Once an employer qualifies for the CEWS for one period, the employer will automatically qualify for the next period. Special rules were also passed to address complex issues for corporate groups, consolidated entities, non-arm's length entities and joint ventures.

The legislation permits non-profits and charities to choose whether to include or exclude government funding in their revenues for the revenue reduction test.

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. 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 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[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]

[5] Calculated as the Yearly Maximum Pensionable Earnings (YMPE) of $58,700, divided by 52 weeks 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 June 6, 2020, up to a maximum benefit of $847 per week or 75% of the employee's baseline remuneration, whichever is less.

For each employee, the baseline remuneration is the average weekly remuneration paid between January 1 and March 15 inclusively, excluding any seven-day periods for which the employee did not receive remuneration.

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

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 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.

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.[7] Employers will be able to apply for the CEWS starting on April 27, 2020 through the CRA's My Business Account portal[8] 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

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

8 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.

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 can 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[9].

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[10] 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 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[11]) 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.[12]

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.

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9 See available jobs online at: jobbank.gc.ca/home

10 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.

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

12 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.

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 could claim the first TWS by reducing the restaurant's remittance for March 2020, which was due on April 15, 2020. The TWS would be calculated as 10% of wages paid from March 18th. Assuming the eligible wages were $25,000, Samuel could have reduced 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 CEWS and other programs

Some employers will be eligible for both the 75% CEWS and the 10% TWS. 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.

The government is considering measures to limit duplication with the Canada Emergency Response Benefit (CERB.) For instance, it is possible that employees that are rehired will be required to cancel their CERB claim and make a repayment for CERB already received. The CERB is discussed in further detail in our report titled "Personal tax measures: Canada's COVID-19 response plan."[13]

Additional tax relief

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

[13] 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.

The Canada Emergency Business Account, which is implemented by financial institutions in cooperation with Export Development Canada, provides 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 must demonstrate they paid between $20,000 to $1.5 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).

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 deadline for GST/HST remittances that become owing on or after March 27, 2020 and before June 2020 until June 30, 2020.

For more information, please see our report, "Relief measures for businesses: Canada's COVID-19 response plan."[14]

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[14] 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.