

TAXTALK

COVID-19 Tax Measures – April 8, 2020

Canada Emergency Wage Subsidy – (75 percent)

On April 8, 2020, Finance Minister Bill Morneau provided further details on the eligibility criteria for businesses to access the 75 percent Canada Emergency Wage Subsidy (CEWS). The Department of Finance's recent news release provides the following details concerning the newly proposed Canada Emergency Wage Subsidy:

- **The Canada Emergency Wage Subsidy would apply at a rate of 75 percent of the first \$58,700 normally earned by employees – representing a benefit of up to \$847 per week. The program would be in place for a 12-week period, from March 15 to June 6, 2020.**
- **In an effort to encourage employers to rehire people previously laid off, the Government is proposing that employers eligible for the CEWS be entitled to receive a 100 percent refund for employer paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan. This refund would apply to the entire amount of employer paid contributions in respect of remuneration paid to furloughed employees in a period where the employer is eligible for the CEWS, and the employee is considered to be on leave without pay and is not performing any work for the employer in that period.**
- **Previously, the Government announced that eligible employers who suffer a drop in gross revenues of at least 30 percent in March, April or May, when compared to the same month in 2019, would be able to access the subsidy. The Government now proposes the following additional flexibility for eligible employers:**
 - To measure their revenue loss, it is proposed that all employers have the flexibility to compare their revenue of March, April and May 2020 to that of the same month of 2019, or to an average of their revenue earned in January and February 2020.
 - For March, the Government proposes to make the CEWS more accessible than originally announced by reducing the 30-per-cent benchmark to 15 percent, in recognition of the fact that many businesses did not begin to be affected by the crisis until partway through the month.
 - 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). Special rules would also be provided to address issues for corporate groups, non-arm's length entities and joint ventures.
 - 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.
- **Eligible employers would include employers of all sizes and across all sectors of the economy, with the exception of public sector entities.**

Other important details concerning the 75% Wage Subsidy listed on Canada's COVID-19 Economic Response Plan Web Portal are as follows:

Eligible Periods

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

Eligible Employees

An eligible employee is an individual who is employed in Canada.

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.

How to Apply

Eligible employers would be able to access the Canada Emergency Wage Subsidy by applying through a Canada Revenue Agency (CRA) online portal (My Business Account) as well as a web-based application in approximately two weeks. The government has announced that more details regarding how to apply for the program will follow, but has not yet disclosed the date.

Ensuring Compliance

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 the CEWS if they do not meet the eligibility requirements. Penalties may apply in cases of fraudulent claims. The penalties may include fines or even imprisonment. In addition, anti-abuse rules would be put in place to ensure that the subsidy is not inappropriately obtained and to help ensure that employees are paid the amounts they are owed.

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 percent of the value of the subsidy claimed, in addition to the requirement to repay in full the subsidy that was improperly claimed.

Interaction with 10 Percent Wage Subsidy

On March 25, 2020, the *COVID-19 Emergency Response Act*, which included the implementation of a temporary 10 percent Wage Subsidy, received Royal Assent. For employers that are eligible for both the CEWS and the 10 percent Wage Subsidy for a period, any benefit from the 10 percent 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.

Canada's COVID-19 Economic Response Plan Web Portal

The federal government has set-up the following **COVID-19 Economic Response Plan** web portal that summarizes all previously announced measures and future updates to these measures.

<https://www.canada.ca/en/departement-finance/economic-response-plan.html>

You can also read more on our website at www.mgca.com

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