

# Wage Subsidies Part III

What has changed and how does it effect you?



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# Things are changing rapidly...

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# Agenda

The history of the wage subsidies

Changes to the Canada Emergency Wage Subsidy  
“CEWS”

CEWS application and planning

# History of the Wage Subsidies

**January 2020** – we first start hearing of COVID

March 25– Royal assent to spending bill, introduction of CERB

May 27– Prime Minister urges businesses to re-hire, uptake of CEWS lower than expected

February 27– Chief Public Health Officer says we need to prepare to manage the spread

March 25– Temporary Wage Subsidy approved (10% program)

**July 17**– CEWS is expanded to December, new rules

March 4– Federal COVID committee announced

**April 14**– First announcement of CEWS, \$73 billion program

March 11– Federal government announces \$1 billion response fund

**April 27**– Applications start for CEWS

**March 18**– Federal government announces another **\$82 billion** in relief, includes **\$27 billion** for workers and businesses

May 15– Amendments to CEWS made, more eligible

# Temporary Wage Subsidy (“TWS”)

## An Eligible Employer qualifies provided they:

- Employ one or more individuals in Canada
- Have an existing business number and payroll program account with the CRA on March 18, 2020
- Pay salary, wages, bonuses, or other remuneration to an eligible employee
- For the period of March 18, 2020 and June 19, 2020
- Some limitations on who is eligible
- Maximum Subsidy = \$1,375 per employee - \$25,000 for the employer
- No application form but **Form PD27 to send to CRA** to reconcile payroll account
- No apparent deadline but must be completed at year end when T4s are filed
  - Can request a refund of the 10% subsidy or reduction to 2021 payroll remittances

# What was the original Canada Emergency Wage Subsidy (“CEWS”)?

- A 75 percent wage subsidy provided by the Government of Canada for qualifying businesses, retroactive to March 15, 2020
- Applies at a rate of 75 percent on the first \$58,700 normally earned by employees – representing a maximum benefit of \$847 per week.
- The program is in place for a 12-week period – March 15 to June 6, 2020
  - **Extended to August 29<sup>th</sup>**
    - **Extended to December 31<sup>st</sup>**

# Canada Emergency Wage Subsidy (“CEWS”)?

- Key criteria to be met:
  - Eligible employee
  - Eligible entity
  - Qualifying revenue
  - Qualifying period
  - Eligible remuneration
- Legislation and qualifications are very complex
- Changed some criteria on May 15<sup>th</sup>, increased who was eligible





# Original Revenue Tests

- **Revenue**
  - March 2020 vs reference period = 85% or less
  - April 2020 vs reference period = 70% or less
  - May 2020 vs reference period = 70% or less
  
  - Cannot round up: 84.9% does not equal 85%
  - No phasing - "all or nothing" test



- **Calculation determined on employee by employee basis:**

$$A - B - C + D$$

A = Amount of subsidy (as calculated)

B = 10% temporary wage subsidy

C = All amounts received by eligible employee for EACH week in the qualifying period as work-sharing benefit under EI

D = Employer CPP and Employer EI of employees on leave with pay

# Example of Wage Subsidy Calculation

## Assumptions to determine A in formula:

**Baseline remuneration**                      **\$2,000 per week**

**Current remuneration**                      **\$750 per week**

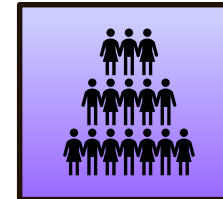
GREATER OF:	Arm's Length	NAL
<b>Least of</b>		
- 75% of remuneration paid	562.50	562.50
- \$847 per week	847.00	847.00
- NIL if NAL employee	N/A	-
<b>Least of</b>		
- Eligible remuneration paid	750.00	750.00
- 75% of baseline remuneration	1,500.00	1,500.00
- Max Benefit	847.00	847.00
<b>Maximum Subsidy</b>	<b>750.00</b>	<b>750.00</b>



# CEWS Comparison Version 1.0 to 2.0

# Highlights

- Any eligible entity with revenue decline now eligible for period 5 onward
- Two components of revenue
  - Base subsidy (based on one month)
  - Top up subsidy if >50% revenue decline (3 month average reduction)
- Revenue reductions determine percentage of subsidy
  - Different rules if > 50% revenue decline
  - Sliding scale if <50% revenue decline
- Periods 5 and 6 can choose to be in old rules or new rules if > 30% revenue reduction
- Period 5 onward:
  - Baseline remuneration only relevant for non-arm's length employees
  - Eligible employees can be without remuneration for 14 or more days
  - Deeming rules are different – look back instead of look forward
- Furloughed employees have different rules for periods 5 and 6 vs. 7 onward



# Qualifying Periods

	Version 1.0	Version 2.0	Revenue
1 March 15, 2020 to April 10, 2010	✓	✓	Mar-20
2 April 11, 2020 to May 9, 2020	✓	✓	Apr-20
3 May 10, 2020 to June 6, 2020	✓	✓	May-20
Extension to September 30, 2020	✓		
4 June 7, 2020 to July 4, 2020		✓	Jun-20
5 July 6, 2020 to August 1, 2020		✓	Jul-20
6 August 2, 2020 to August 29, 2020		✓	Aug-20
7 August 30, 2020 to September 26, 2020		✓	Sep-20
8 September 27, 2020 to October 24, 2020		✓	Oct-20
9 October 25, 2020 to November 21, 2020		✓	Nov-20
Extension to December 31, 2020		✓	

# Prior Reference Periods

- Same month of 2019 (ie – April 2020 compares to April 2019)
- Average of January / February 2020 IF:
  - Periods 1 through 4: not carrying on business at March 1, 2019;
  - OR
  - Periods 1 through 4: Files an election for periods 1 through 4
  - OR
  - Periods 5 onward: Files an election for periods 5 onward



Periods 1 through 4 can be elected differently than periods 5 onward

# Baseline Remuneration

	Version 1.0	Version 2.0
Average weekly remuneration	✓	✓
Paid <u>by</u> eligible entity	✓	✓
Paid <u>to</u> eligible employee	✓	✓
Between		
January 1, 2020 to March 15, 2020	✓	✓
<b>OR</b>		
Special elections	✗	✓
• Periods 1 – 3: March 1, 2019 to May 31, 2019		
• Period 4: March 1, 2019 to June 30, 2019; or March 1, 2019 to May 31, 2019		
• Periods 5 onward: July 1, 2019 to December 31, 2019		



# Baseline Remuneration

## Periods 1 - 4

- Is a limiting factor for maximum CEWS claims for all employees, unless the current period remuneration has increased

## Periods 5 onward

- Is a limiting factor for maximum CEWS claim for non-arm's length employees

# Eligible Employee



	Version 1.0	Version 2.0
Individual employed in Canada	✓	✓
In respect of a week	✓	✓
Employed by the eligible entity	✓	✓
In the qualifying period	✓	✓
Was not without remuneration for 14 or more days		
Periods 1 through 4	✓	✓
Periods 5 onward		N/A

# Eligible Entity

	Version 1.0	Prescribed Previously	Version 2.0
Corporation (other than corporation exempt from tax or public institution)	✓		✓
An Individual	✓		✓
A registered charity (other than public institution)	✓		✓
A person exempt from tax under S.149(1)(e), (j), (k) or (l)	✓		✓
A trust	✓		✓
A partnership where all members are checked above	✓		✓
Certain first nation entities / owned entities		✓	✓
Certain partnerships with <50% ownership of non-eligible entities		✓	✓
Registered Canadian amateur athletic organizations		✓	✓
Registered journalism organizations		✓	✓
A private school or college		✓	✓

# Cost Share Arrangements

## Qualifying Entity

- Has a payroll account on March 15, 2020

## ORIGINAL Problem for Cost Shares

- Cannot meet definition of qualifying entity because there was no payroll account under business' name

## The Fix: Minister is satisfied that

- ✓ On March 15, 2020
- ✓ Entity employed one or more individuals in Canada
- ✓ Payroll was administered by a service provider who
  - had a payroll number on March 15, 2020
  - remitted payroll under its own number in respect of entity's employees

# Revenue Reduction

## Version 1.0

- Hard and fast rule:
  - Period 1: 15% revenue decline
  - Period 2-3: 30% revenue decline



## Version 2.0

- Continuum of Revenue Declines:
  - Period 1: 15% revenue decline
  - Period 2-4: 30% revenue decline
  - Period 5 onward:
    - If >50% decline, greater subsidy
    - If <50% decline, tied to percentage decline

**Thus, every entity with revenue decline will be eligible**

# Revenue Reduction Percentage

- Determines the CEWS subsidy percentage for periods 5 onward
- Revenue Reduction Percentage
  - determines the base percentage of current period CEWS claim
  - If >50%, at max
  - Between 0% and 50% need exact % reduction
- Top up Reduction Percentage
  - Determines top up percentage of current period CEWS claim

# Revenue Top Up:

## Previous 3 Month Average Calculation

### Compare:

- Average monthly qualifying revenue for the last three calendar months that ended prior to current reference period (ie – April, May and June for revenue calculations in July)
  - We are referring to this as *Prior 3 Month Average Revenue Decline*
- To the prior reference period elected
  - Average of January and February 2020
  - or
  - Average of the same three calendar months of 2019

# Revenue Top Up Subsidy

- If reduction is >50% on the Prior 3 Month Average Revenue Decline average:
  - Lesser of:
    - 25% top up subsidy (25% x 1,129)
    - 1.25 x (Prior 3 Month Average Revenue Decline – 50%)
- Maximum percentage achieved at 70% revenue reduction
  - $\$1,129 \times 25\% = \$282.25$
- Revenue reduction matters between 50% and 70%
  - Below 50% no top up
  - Above 70% reached max top up



# Revenue Reduction

Qualifying Period	Revenue Decline > 30%	Revenue Decline > 50%	Revenue Decline < 50%	Max Top Up Percentage
March 15, 2020 to April 10, 2010	75%	N/A	N/A	
April 11, 2020 to May 9, 2020	75%	N/A	N/A	
May 10, 2020 to June 6, 2020	75%	N/A	N/A	
June 7, 2020 to July 4, 2020	75%	N/A	N/A	
July 6, 2020 to August 1, 2020	75% (Note 1)	60%	1.2 x revenue percentage decline	25%
August 2, 2020 to August 29, 2020	75% (Note 1)	60%	1.2 x revenue percentage decline	25%
August 30, 2020 to September 26, 2020		50%	1.0 x revenue percentage decline	25%
September 27, 2020 to October 24, 2020		40%	0.8 x revenue percentage decline	25%
October 25, 2020 to November 21, 2020		20%	0.4 x revenue percentage decline	25%

*Note 1: For non-furloughed employees, it will be > the test under a 30% revenue decline test (old rules) or the new rules tied to the 50% decline.*



# Furloughed Employees

Who are they?

- Employees who are often ordered not to work and may or may not be paid.
- Generally are not laid off and may still retain benefits.
- Occurs more frequently in a government or military setting



# Furloughed Employees

Different formulas for each period

- Periods 1 – 4: No change – EI and CPP are refunded
- Periods 5 – 6: special rule
  - Must have a revenue decline in current period or in Prior 3 Month Average Revenue, then subsidy is 75% of wages paid
- Period 7 – 9: special rule
  - Least of:
    - Eligible remuneration paid for the week
    - Determined by regulation (not yet released)
    - **NIL if non-arm's length with no baseline remuneration**
    - NIL if no revenue reduction in current period or >50% decline in Prior 3 Month Average Revenue Decline period



# Maximum Subsidy

Qualifying Period	Revenue Decline > 30%	Revenue Decline > 50%	Revenue Decline < 50%	If Max Top Up Percentage
March 15, 2020 to April 10, 2020	\$847	N/A	N/A	
April 11, 2020 to May 9, 2020	\$847	N/A	N/A	
May 10, 2020 to June 6, 2020	\$847	N/A	N/A	
June 7, 2020 to July 4, 2020	\$847	N/A	N/A	
July 6, 2020 to August 1, 2020	\$847	\$677	1.2 x revenue decline %	\$960
August 2, 2020 to August 29, 2020	\$847	\$677	1.2 x revenue decline %	\$960
August 30, 2020 to September 26, 2020		\$565	1.0 x revenue decline %	\$847
September 27, 2020 to October 24, 2020		\$452	0.8 x revenue decline %	\$734
October 25, 2020 to November 21, 2020		\$226	0.4 x revenue decline %	\$508



# Maximum Subsidy

	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
1 March 15, 2020 to April 10, 2020		75%	75%	75%	75%	75%	75%	75%	75%	75%
2 April 11, 2020 to May 9, 2020			75%	75%	75%	75%	75%	75%	75%	75%
3 May 10, 2020 to June 6, 2020			75%	75%	75%	75%	75%	75%	75%	75%
4 June 7, 2020 to July 4, 2020			75%	75%	75%	75%	75%	75%	75%	75%
5 July 6, 2020 to August 1, 2020	12%	24%	75%	75%	75%	75%	85%	85%	85%	85%
6 August 2, 2020 to August 29, 2020	12%	24%	75%	75%	75%	75%	85%	85%	85%	85%
7 August 30, 2020 to September 26, 2020	10%	20%	30%	40%	50%	62.50%	75%	75%	75%	75%
8 September 27, 2020 to October 24, 2020	8%	16%	24%	32%	40%	52.50%	65%	65%	65%	65%
9 October 25, 2020 to November 21, 2020	4%	8%	12%	16%	20%	32.50%	45%	45%	45%	45%

Assumed met top up revenue decline



# Maximum Subsidy <50% Revenue Decline

Qualifying Period	Revenue Decline <50%			
	40%	30%	20%	10%
July 6, 2020 to August 1, 2020	\$542	\$406	\$271	\$135
August 2, 2020 to August 29, 2020	\$542	\$406	\$271	\$135
August 30, 2020 to September 26, 2020	\$452	\$339	\$226	\$113
September 27, 2020 to October 24, 2020	\$361	\$271	\$181	\$90
October 25, 2020 to November 21, 2020	\$181	\$135	\$90	\$45

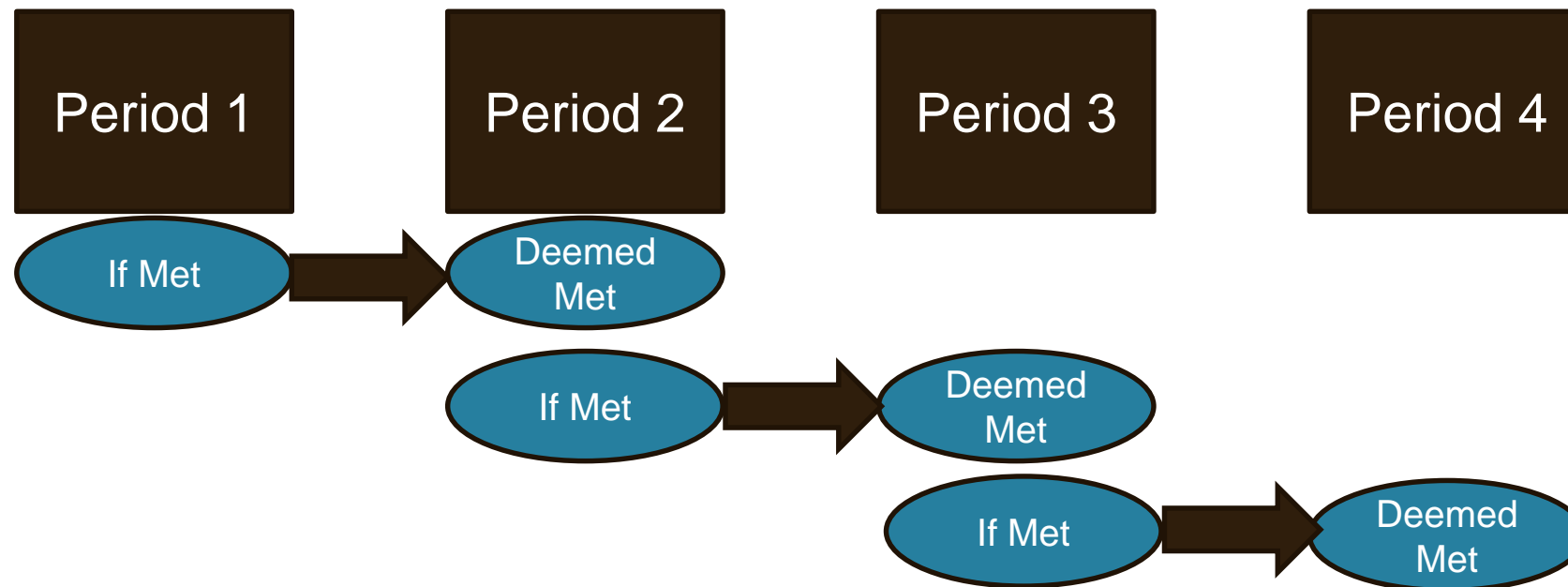


# Deeming Rules



- **Periods 1 through 3:**

- If eligible for CEWS claim in one period
- Deemed to qualify for next subsequent period (2 through 4)





# Deeming Rules

- **Periods 5 onward:**

- Where revenue % reduction in current period is less than immediately prior period, use immediately prior period revenue % reduction (beneficial)
- Don't automatically meet top up with deeming rule → must qualify for top up each and every period
- Not required to use prior month % reduction if current month % reduction is higher
- Example:
  - August revenue decline is 27%
  - July revenue decline was 33%
  - As August revenue decline is less than immediately prior period, can use July revenue reduction for our CEWS calculations
  - Helpful as there is a graduated scale of CEWS based on revenue reduction



## Other Items of Note

### Revenue:

- Cash vs accrual – election for all 9 periods
- Accrual in accordance with *generally accepted accounting principles*
- Asset sales
  - If sold all or substantially all the assets of a business
  - Add prior reference revenue to purchaser; remove from vendor
  - If vendor exists, requires a joint election
  - If vendor does not exist, election by purchaser only
  - Election must be filed with minister in prescribed form
- Amalgamations – same corporation for prior reference period

## Other Items of Note

### Timing:

- Application must be made by February 2021

### Objections:

- Notice of determination – taxpayer can formally object within 90 days of receipt and also appeal to the Tax Court of Canada



# What Do These Changes Mean for Your Business?

- **Review eligibility in light of enhanced rules**
  - Virtually all businesses will now qualify
- **New rules are complex and hard to navigate**
- **More businesses are eligible**

# Maintaining Records



Employers are required to maintain records demonstrating their reduction in revenues and remuneration paid to employees

Calculation of TWS  
Calculation of decline in revenue  
Baseline remuneration calculation  
Payroll calculations



Auditors have been redeployed to work on CEWS applications

Could receive calls from the auditors to ask questions on claim

# MNP Recommended Changes to Finance

- ✓ Phase out of program over time
  - ✓ Eliminate the “all or nothing” revenue decline requirement
  - ✓ Allow for cost sharing
  - ✓ Allow for asset sales
  - ✓ Higher subsidy for most impacted entities
- 
- Thank you for your input 😊

## For More Information

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# QUESTIONS



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