



Canadian tax alert

COVID-19 – Details on the Canada Emergency Wage Subsidy released

April 1, 2020

Today, the Minister of Finance provided additional information regarding the previously announced Canada Emergency Wage Subsidy (CEWS), which is designed to help employers with up to 75% of salaries, subject to certain conditions and limitations. In this Canadian tax alert, we review the details of the CEWS.

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CEWS - overview

The CEWS was originally announced on March 18, 2020 as a 10% wage subsidy for eligible small businesses, charities and non-profit organizations (NPOs). The subsidy has evolved in short order, and is now available to charities, NPOs and all sized businesses. The subsidy has been increased to 75% where the entity has lost 30% of revenue. Where the 30% revenue loss threshold has not been met, the 10% subsidy may remain applicable (for instance, for certain small businesses).

According to Deloitte's Future of Canada Centre, today's announcement compares favourably with the legislative actions of other major economies. Denmark was the first to introduce a wage subsidy at 75% on March 14, 2020. Australia has since taken the approach of providing a fixed subsidy of AUD1,500 per employee every two weeks, which the Australian Tax Office will pay directly to businesses that have suffered. In order to be eligible, businesses must suffer a drop in revenue of at least 30%, or 50% in the case of larger companies. The United Kingdom introduced the most generous subsidy, at 80% for staff who are kept on by their employer, up to GBP 2,500 a month. These payments will be backdated to the start of March and will last for three months.

CEWS – the details

The 75% CEWS

- The 75% CEWS has been clarified to be a separate measure from the 10% temporary wage subsidy.
- As previously announced, the CEWS will support up to 75% of an employee's salary or wages on the employee's first \$58,700 of annual wages or salary. This will translate up to \$847 per week. The CEWS will be retroactive to March 15, 2020 and will run until June 6, 2020.
- **Eligible employers**
 - Qualifying employers include for-profit businesses, non-profit organizations (NPOs) and registered charities. Public sector entities are not eligible.
 - Eligibility is not influenced by the size or the organization.
 - All sectors of the economy will be eligible, with the above-noted exception of public sector entities.
 - Eligibility is not influenced by the nature of the business entity (e.g., private corporations, partnerships or publicly listed companies may be eligible).
 - Eligible employers that experience a drop in gross revenue of at least 30% in March, April or May, when compared to the same month in 2019, would be able to access the subsidy for that given month.
 - An employer's revenue for this purpose would be its revenue from its business carried on in Canada earned from arm's length sources. Revenue would be calculated using the employer's normal accounting method, and would exclude revenues from extraordinary items and amounts on account of capital.
 - Further guidance is expected for employers who are unable to show reductions in revenue in the same month in 2019 due to a lack of available data (e.g., not in operation, or pre-revenue). Senior

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Department of Finance officials indicated that in these circumstances, they expect that there will be flexibility in the program, and a reasonable point of comparison may be allowable (e.g., compare March 2020 to February 2020).

- For NPOs and registered charities that are similarly affected by revenue loss, the government will work with the sector to provide a revenue definition more appropriate to their circumstances. Additional support for NPOs and registered charities is also being considered, in particular for those involved in the front line response to COVID-19. More details will follow in the near term.

- **Amount of subsidy**

- The subsidy for an employee on eligible remuneration paid between March 15, 2020 and June 6, 2020 would be the greater of:
 - 75% of the amount of remuneration paid, up to a maximum of \$847 per week; and
 - The amount of remuneration paid, up to a maximum of \$847 per week or 75% of the employee's pre-crisis weekly remuneration, whichever is less.
- Further guidance on the determination of pre-crisis weekly remuneration will be released in the coming days.
- In effect, employers may be eligible for a subsidy of up to the first 75% of pre-crisis weekly remuneration of existing employees. The employers would be expected, where possible, to maintain existing employees' pre-crisis employment earnings. Employers will also be eligible for a subsidy of up to 75% of salaries and wages paid to new employees.
- Eligible remuneration includes salary, wages and other remuneration. These are amounts that would generally be subject to withholding and remittance to the Receiver General on account of the employee's income tax obligation. However, severance pay is not included, nor are stock option benefits or the benefit from the personal use of a corporate vehicle.
- A special rule will apply to employees who do not deal at arm's length with the employer. The subsidy amount for such employees 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.

- **Process for claiming the CEWS**

- The CEWS will be accessible to eligible employers via an application process through the CRA's online portal. Employers will be required to reapply for the CEWS each month. The portal is expected to be functional within the next three weeks, and funds are expected to begin to be paid out in approximately six weeks.
- The government has indicated that there will be post-payment enforcement, and that employers that act in bad faith, or attempt to abuse the system, would be subject to severe penalties. However, details of these measures are yet to be announced.

- **Interaction with the 10% wage subsidy**

- The temporary 10% wage subsidy previously announced on March 18, 2020, will remain in effect along with its own definition of what qualifies as an eligible employer. Those employers that do not qualify for the CEWS may qualify for the temporary wage subsidy of 10% of

remuneration paid from March 18, 2020 to before June 20, 2020, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer. For employers that are eligible for both the CEWS and the 10% per cent wage subsidy for a period, any benefit from the 10% wage subsidy would generally reduce the amount available to be claimed under the CEWS.

- **Government assistance**

- The CEWS will be taxable income to the employer. Moreover, amounts received under either wage subsidy would reduce the amount of remuneration expenses eligible for other federal tax credits calculated on the same remuneration.

- **Doubling up not permitted**

- The federal government has also clarified that an individual can only be covered by the benefit of the Canada Emergency Relief Benefit or one of the above wage subsidies, but not both.

For more information on COVID-19, see our [Canadian COVID-19 information hub](#) and our [global COVID-19 information hub](#)

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