

Canada Emergency Wage Subsidy (“CEWS”)

April 14, 2020 – updated

The Government of Canada has introduced a wage subsidy of 75% for qualifying businesses, for up to 3 months, retroactive to March 15, 2020. The purpose of the wage subsidy is to allow employers to re-hire workers that were previously laid off, and to continue to employ those who are already on payroll, so that Canada’s workforce and supply chains are able to return from this crisis in a strong position.

Program length:

The program is to be in place for a 12-week period, from March 15 to June 6, 2020.

Who is eligible?

- Individuals, taxable corporations (Canadian controlled private corporations (“CCPC”), non-CCPCs), partnerships, sole proprietorships, non-profit organizations and registered charities.
- Employers with a registered payroll account with the Canada Revenue Agency (“CRA”) on March 15, 2020.
- Public bodies are not eligible for this subsidy. Public bodies include municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals.
- Must file an application before October 2020. Last day to file is September 30, 2020.
- The individual who has principal responsibility for the financial activities must attest that the application is complete and accurate in all material respects.
- Eligible employers who suffer a drop in gross revenues of at least 15% in March and 30% in April and May, when compared to the same months in 2019, or to an average of their revenue earned in January and February 2020, are expected to be able to access the subsidy.
- The employer may elect to use the average revenues of January and February 2020 in their comparison, however in order to do so, one of the following criteria must be met:
 - on March 1, 2019, the eligible entity was not carrying on a business; or
 - the eligible employer must elect to use the average of January and February 2020 for comparative purposes for all of the qualifying periods (see table below).
- Employers have to reapply for the subsidy in respect of each qualifying period. The subsidy is to be a separate refund to employers and payroll source deductions will continue to be required to be withheld from an employee’s pay and remitted to the CRA.
- If an eligible employer qualifies for the wage subsidy in a particular period, they are deemed to qualify for the subsidy in the immediately subsequent qualifying period (i.e. if the eligible employer qualifies in March 2020, the employer is deemed to qualify for April 2020 as well). Reapplications will still be necessary on a monthly basis.

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

Qualifying revenue:

- Revenue means the inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the eligible entity — generally from the sale of goods, the rendering of services and the use by others of resources of the eligible entity — in Canada in the particular period, and excludes the following (other than for charities and not-for-profits):
 - Extraordinary items.
 - Amounts derived from persons or partnerships not dealing at arm's length.
 - Amounts received from this subsidy.

Example:

- ABC Inc. is a start-up that started its operations last September. It reported revenues of \$100,000 in January and \$140,000 in February, for a monthly average of \$120,000. In March, its revenues dropped to \$90,000. Because revenues in March are 25% lower than \$120,000, ABC Inc. would be eligible for the subsidy for the first and second claiming period (March and April 2020). To be eligible for the third claiming period, ABC Inc. revenues would have to be \$84,000 or less for the month of April or May (that is, 30% lower than \$120,000).

Computation of revenue:

- Qualifying revenue of an eligible entity¹ are to be determined in accordance with its normal accounting practices, except that:
 - If a group of entities normally prepares consolidated financial statements, each member of the group may determine its qualifying revenue separately, provided every member uses the same basis.
 - If an entity is a member of an affiliated group, and all members jointly elect, the qualifying revenue of the group determined on a consolidated basis in accordance with relevant accounting principles is to be used for each member of the group.
 - If 90% or more of an entity's qualifying revenue is from non-arm's length parties and the required revenue decrease (15% or 30% depending on the qualifying period) cannot be demonstrated on the basis above, the following may be applicable:
 - If each non-arm's length person jointly elects, then the non-arm's length entity's arm's length revenue of the prior reference period is compared to the current reference period in determining the required revenue decrease.
 - An entity may make an election to determine its revenue based on the cash method² with any modifications that the circumstances require.
- When calculating the revenue, the employer may choose the accrual method or the cash method, but not a combination of both. Employers would select an accounting method when first applying for the subsidy and would be required to use that method for the entire duration of the program.
- For charities and non-profit organizations there are a different set of rules that are not addressed in this announcement.

How is the Wage Subsidy calculated?

- Employers are eligible for a subsidy on the first 75% of wages or salaries of new and existing employees. The wage subsidy is to apply at a rate of 75% of annualized earnings of up to \$58,700 earned by employees. This represents an annualized subsidy of \$44,025 that would be funded by the government (approximately \$847 maximum per week per employee [\$44,025 / 52 weeks]).
- A special rule applies to employees that do not deal at arm's length with the employer. The subsidy amount for such employees will be limited to the lesser of 75% of the eligible remuneration paid or \$847 paid per week in any pay period between March 15 and June 6, 2020. This requires that the employee had been paid during the period from January 1, 2020 – March 15, 2020 and that their average weekly remuneration paid is calculated excluding any seven-day periods in respect of which the employee did not receive remuneration.
- There is no overall limit on the subsidy amount that an eligible employer may claim.
- There may be adjustments required for the wage subsidy calculation surrounding work-share programs, 10% wage subsidy, and employee leave with pay.
- There are other exclusions surrounding wage increases and the employer eligibility for the subsidy amount should be reviewed on a case-by-case basis.

¹ Other criteria may be applicable for joint ventures.

² Pursuant to subsection 28(1) – cash method used for farming and fishing businesses.

What is considered remuneration?

- Eligible remuneration may include salary, wages, and other remuneration. However, it does not include retiring allowances, stock option benefits or lending arrangements.

The subsidy amount for a given employee on eligible remuneration paid between March 15 and June 6, 2020 should be the greater of:

- 75% of the amount of remuneration paid, up to a maximum benefit of \$847 per week; and
- the amount of remuneration paid, up to a maximum benefit of \$847 per week or 75% of the employee's pre-crisis (January 1 – March 15, 2020) weekly remuneration, whichever is less.

Example:

- A business has four full-time employees, each earning \$800 per week, and 6 part-time employees, each earning \$400 per week, for a total weekly payroll of \$5,600 [$\800×4 employees + $\$400 \times 6$].
- The business is keeping all of their employees on the payroll, paying them their full regular wages, despite their revenues being down by 30% or more.
- The business would be eligible for a weekly wage subsidy of \$4,200 ($\600 [$\$800 \times 75\%$] for each of their full-time employees and $\$300$ [$\$400 \times 75\%$] for each of their part-time employees).

The interaction with the Canadian Emergency Response Benefit (“CERB”).

- Eligibility for the subsidy 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.

Can you still qualify for the 10% wage subsidy if you don't meet the above eligible criteria?

- Those employers that do not qualify for the 75% wage subsidy may continue to qualify for the previously announced wage subsidy of 10% of remuneration paid from March 18 to before June 20, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer.
- For employers that are eligible for both the 75% wage subsidy and the 10% wage subsidy for a period, any benefit received under the 10% wage subsidy for remuneration paid in a specific period is reduced from the amount available to be claimed under the 75% wage subsidy in that same period.

Is the wage subsidy taxable to the employer?

- Yes, the wage subsidy may be taxable. The wage subsidy received is considered government assistance.
- Assistance received under either wage subsidy (75% subsidy or 10% subsidy) is expected to reduce the amount of remuneration expenses used to calculate other federal tax credits calculated on the same remuneration.

How to apply:

- Eligible employers are expected to be able to access the subsidy by applying through a CRA online *My Business Account* portal. More details regarding how to apply for the program are expected to follow in the coming days when made available by the government.
- Eligible employers are expected to (re)apply on a monthly basis.
- It is expected that CRA will deposit the funds within 6 weeks from the date of the application.

Compliance and supporting documentation:

- Employers will be required to keep records demonstrating their reduction in arm's-length revenues and remuneration paid to employees.
- Employers will be required to repay amounts received under the subsidy if they do not meet the eligibility requirements.
- Employers that engage in artificial transactions to reduce revenue for the purpose of claiming the subsidy would be subject to a penalty equal to 25% of the value of the subsidy claimed, in addition to the requirement to repay in full the subsidy that was improperly claimed.
- The CRA may communicate or make available to the public, in any manner, the name of any person or partnership that makes an application for this subsidy.

Refund for certain payroll contributions:

- The subsidy is expanded to introduce a new 100% refund for certain "employer-paid" contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan.
- This refund would cover 100% of employer-paid contributions for eligible employees for each week throughout which those employees are on leave with pay and for which the employer is eligible to claim for the subsidy for those employees.
- An employee will be considered to be on leave with pay throughout a week if that employee is remunerated by the employer for that week but does not perform any work for the employer in that week. This refund would not be available for eligible employees that are on leave with pay for only a portion of a week.
- This refund would not be subject to the weekly maximum benefit per employee of \$847 that an eligible employer may claim in respect of the subsidy. There would be no overall limit on the refund amount that an eligible employer may claim.
- Employers are still required to continue to collect and remit employer and employee contributions to each program as usual. Eligible employers would apply for a refund, as described above, at the same time that they apply for the subsidy.