Visit our COVID-19 Hub for information and resources

Canada Emergency Wage Subsidy

Created in response to COVID-19, the Canada Emergency Wage Subsidy (CEWS or subsidy) provides savings to employers through a subsidy equal to 75% of employee wages on the first $58,700 per employee, up to a maximum of $847 per week, with no overall maximum for the employer.

Sections at a glance

Who is eligible?

The CEWS will be available to employers that meet the definition of an "eligible entity":

1. An individual (i.e., sole proprietorships)
2. A taxable corporation
3. A registered charity, other than a public institution
4. A non-profit organization, other than a public institution[1]
5. A partnership, all of the members of which are described in 1-4[2], or
6. A prescribed organization.[3]

The term "Public institution" is also defined and would include municipalities, local governments, Crown corporations (both federal and provincial), public universities or colleges, schools, school boards, hospitals and health authorities, among others.

How does an eligible entity qualify?

When the CEWS was first introduced, it required a decrease in monthly revenues of 30% as compared to the same month in the previous year for March, April and May. Since then, the government has made key changes to this requirement. Depending on the choices made by the employer with respect to revenues, it could impact their ability to qualify for the subsidy. Considerations need to be made in the following areas:

- Compare revenues to prior year or Jan and Feb, 2020
- Entity-by-entity basis or consolidated;
- Cash method vs Accrual;
- The effect of revenues from related parties;
- How to determine the amount of revenues earned "in Canada."

Some of these items are discussed in this section, and the rest in the section thereafter.

1 Specifically, the definition includes NPOs that are exempt from income tax due to paragraph 149(1)(e), (j), (k) or (l) of the Income Tax Act. Generally, this would include non-profit organizations, agricultural organizations, labour organizations, as well as others.

2 Members of the partnership can also include other partnerships all of whose members are those noted in points 1-4, above.

3 This allows the government the flexibility of including other organizations that may have been unintentionally omitted.

Decrease in revenues

To qualify for the subsidy, an eligible entity must see a decrease in revenues in the "current reference period" as compared to a "prior reference period" as follows:

- For the month of March 2020, **at least 15%**, or
- For the months of April or May 2020, **at least 30%**.

This required percentage for each period is known as the "specified percentage."

In determining its prior reference period, the employer has two alternatives:

Method 1:

- Compare March 2020 revenues to March 2019 revenues,
- Compare April 2020 revenues to April 2019 revenues, and
- Compare May 2020 revenues to May 2019 revenues.

Method 2:

- Compare March 2020 revenues to an average of January and February 2020,
- Compare April 2020 revenues to an average of January and February 2020, and
- Compare May 2020 revenues to an average of January and February 2020.

Once the employer has chosen one of the two methods, it must continue to compare revenues using that same method for all three periods.

Qualifying periods

If an employer determines it qualifies for the subsidy, it would apply that subsidy against eligible remuneration (discussed further, below) paid in a particular qualifying period. Each qualifying period pertains to a specific current reference period, as follows:

- Revenue decrease in March 2020 → remuneration paid in March 15, 2020 – April 11, 2020
- Revenue decrease in April 2020 → remuneration paid in April 12, 2020 – May 9, 2020
- Revenue decrease in May 2020 → remuneration paid in May 10, 2020 – June 6, 2020

Automatically qualifying in next period

The rules now state that if an employer qualified for the subsidy in a prior period, they also qualify for the subsidy in the next period too. For example, an employer that qualifies for the subsidy for March 2020 by meeting the minimum 15% revenue decrease would also automatically qualify for the subsidy for April 2020, even if April's revenues only decreased by 15% as well. However, in order to qualify for the subsidy for May 2020, it would need to see a revenue decrease of at least 30% in April or May.

Payroll account

An eligible entity that wishes to apply for the CEWS must have a payroll account setup up as of March 15, 2020.

The rules outlined in this section are summarized in the following tables:

Method 1 – Comparing year-over-year

Period	Current reference period	Prior reference period	To qualify for subsidy, either:		Qualifying period – claim subsidy for wages paid between:
			Minimum revenue decrease	Eligible for prior period	
1	March 2020	March 2019	15%	n/a	March 15 – April 11, 2020
2	April 2020	April 2019	30%	Eligible for period 1	April 12 – May 9, 2020
3	May 2020	May 2019	30%	Eligible for period 2	May 10 – June 6, 2020

Method 2 – Comparing to January-February 2020 average

Period	Current reference period	Prior reference period	To qualify for subsidy, either:		Qualifying period –claim subsidy for wages paid between:
			Minimum revenue decrease	Eligible for prior period	
1	March 2020	$\frac{\text{Jan + Feb 2020}}{2}$	15%	n/a	March 15 – April 11, 2020
2	April 2020		30%	Eligible for period 1	April 12 – May 9, 2020
3	May 2020		30%	Eligible for period 2	May 10 – June 6, 2020

How are revenues determined?

For purposes of the CEWS, "qualifying revenues" for either a prior or current period are based on the inflow of cash, receivables or other consideration arising from the sales of goods, rendering of services, or use by others of resources of the employer in the course of ordinary activities of the eligible entity in Canada (discussed in greater detail, below). Specifically excluded are extraordinary items as well as revenues from non-arm's length (NAL) persons[4] or partnerships (subject to the rule, below).

When the subsidy was first announced, several issues were raised with respect to the calculation of revenues for purposes of determining eligibility for the subsidy. Some of these issues have now been addressed.

Revenues "in Canada"

In the new legislation, the term "qualifying revenue" refers to:

> "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…"

Although there are several areas of uncertainty in this wording, in particular is the reference to "in Canada". It is unclear what exactly this might pertain to. Does this mean that the customers have to be located in Canada but the employer can be located outside? Does the entity selling the goods/services/resources have to be located in Canada, or have a permanent establishment[5] in Canada, but the customers and clients can be located outside? Depending on how this wording is interpreted could affect the ability to claim the subsidy.

Cash or Accrual method

Employers would normally use the accrual method of accounting; however, for purposes of determining revenues for the prior and current period, they are allowed to use the cash method. Either method must be chosen (i.e., both cannot be used).

Revenues on per-entity basis

For employers that report consolidated revenues, if all consolidating entities choose to determine their qualifying revenues separately, then they may do so. This will allow specific entities to take advantage of the subsidy, even if the entire consolidated group did not meet the required decrease in revenues.

Consolidated revenues for affiliated companies

Eligible entities that are affiliated[6] are able to jointly elect to determine their qualifying revenue on a consolidated basis if all of them do so. If the election is made, then all eligible entities would use the revenues of the consolidated group to determine if they qualify for the subsidy. This would be beneficial in scenarios where the revenues of the overall group have declined but specific entities within the group have not met the required specified percentage. The manner and form of the election have not yet been provided but, presumably, it would be included as part of the application process.

Non-arm's length revenues

Although the rules originally did not previously allow revenues from NAL persons to be included, these rules have since been adjusted to include the many organizations that would not have been able to claim the wage subsidy simply because of their organizational structure.

An entity that has at least 90% of its revenues from one or more persons or partnerships that are NAL can factor in its NAL revenues in determining its decrease in revenues from the prior reference period to the current reference period. All NAL persons or partnerships must jointly elect with the organization in order for this rule to apply.

An organization that meets the criteria above would determine if it qualifies for the subsidy by factoring in the change in revenues of the NAL persons from which it receives its revenues, on a pro-rated basis. This would allow, for example, an organization that has a centralized payroll company to potentially qualify for the subsidy, even if that payroll company only earns fees from NAL companies. If the NAL companies have suffered a decline in revenues as required (see discussion above) then the payroll company would likely qualify for the subsidy.

There is a specific formula provided in the legislation that pro-rates the decline in revenues of each NAL person or partnership. This decline in revenues is then applied to the eligible entity; in the example above, the payroll company.

4 For tax purposes, the term "person" includes individuals, corporations and trusts.

5 Permanent establishment generally refers to a fixed physical location, however, can also include employees with authority to enter contracts on the employer's behalf, among other things.

6 "Affiliated" would generally refer to a person and their spouse/common-law partner as well as any corporations controlled by any combination of those same individuals and/or other affiliated corporations.

Joint ventures

If an eligible entity has all of its interests owned by participants in a joint venture and at least 90% of the eligible entity's revenues in a qualifying period are in respect of the joint venture, the eligible entity can use the qualifying revenues of the joint venture, instead, in determining if it qualifies for the subsidy.

Charities and NPOs

The same rules, above, would apply for charities and non-profit organizations. In addition, both charities and NPOs are able to choose whether or not to include revenues from government sources for purposes of determining eligibility for the subsidy.

How is the subsidy calculated?

The amount of the subsidy is based on the eligible remuneration paid to an eligible employee for the 12 weeks between March 15 and June 6, 2020.

Eligible remuneration

Eligible remuneration would include salary, wages and other remuneration. However, it would not include severance pay, stock option benefits or certain other taxable benefits, such as the use of a company car. Generally, eligible remuneration would include amounts from which the employer would be required to withhold tax on.

Eligible remuneration paid to any employee, regardless of how much they are earning, would be eligible for the subsidy. However, even employees earning a significant salary (e.g., $1 million) would still only be eligible for a maximum subsidy of $847/week (as discussed further, below).

Eligible employee

An eligible employee refers to an individual employed in Canada by the eligible entity during one of the claiming periods noted above. Any individual that does not receive remuneration in respect of 14 or more consecutive days in the qualifying period would not be considered an eligible employee and, thus, the employer would not be able to claim the subsidy on any wages paid to that individual in that qualifying period. If an individual is either hired or rehired (after being laid off) in a qualifying period where they were not working for 14 consecutive days, then they would not be eligible. However, if an employee is hired or rehired within the first 2 weeks (i.e., 14 days) of a qualifying period, they would still be considered an eligible employee for purposes of receiving the subsidy. Therefore, an employer may need to take careful consideration of the timing of hiring or rehiring employees.

An employer cannot claim the CEWS for remuneration paid during a 4-week period if the employee has claimed the Canada Emergency Response Benefit (CERB) during that same period. The wording on the Department of Finance's webpage states that the government is "considering implementing an approach to limit duplication." It appears that this would include a process for employees who are rehired by their employer to cancel their CERB and repay any amount received, although it is not yet clear how this repayment would occur. Further details will likely be provided soon.

Components of the CEWS

The amount of the subsidy that can be received consists of two main components:

1. The wages paid per employee, limited to $847 per week.
2. The amount of employer-paid premiums on Employment Insurance (EI), the Canada Pension Plan (CPP), the Quebec Pension Plan (QPP) or the Quebec Parental Insurance Plan (QPIP) related only to employees who are on paid leave. These amounts should continue to be collected from employees and the employer must remit both the employee and employer portions, as required.

However, the total subsidy can be reduced if any assistance is received pertaining to either:

1. Payroll remittances withheld by the employer as per the 10% temporary wage subsidy (dollar-for-dollar), or
2. Amounts received by an eligible employee as a work-sharing benefit under the *Employment Insurance Act*.

The subsidy is considered to be government assistance; therefore, any amount received would be taxable.

> there is an expectation that employers will make their best effort to continue to pay the pre-crisis earnings to its employees.

Wages paid – CEWS formula

The formula to determine the amount of the wage component of the subsidy is calculated as the greater of:

1. The lesser of:
   - 75% of the remuneration paid per week, and
   - $847/week, or
2. The least of:
   - The amount of remuneration paid per week,
   - 75% of the employee's pre-crisis wages (referred to as "baseline remuneration" in the legislation), and
   - $847/week.

Pre-crisis wages refer to the average weekly eligible remuneration paid to an eligible employee between January 1 to March 15, 2020, inclusive. However, if the employee was not paid for seven or more consecutive days, this would not be factored into determining the average.

The government has stated that there is an expectation that employers will make their best effort to continue to pay the pre-crisis earnings to its employees.

NAL employees – limit on wage subsidy

A special rule applies for remuneration paid to an employee that is non-arm's length to the employer (e.g., the owner of an incorporated business). The special rule adds a third amount to the first "lesser of" calculation in the formula above: $nil.

This subtle change effectively prevents employers from claiming a subsidy on wages paid to NAL employees who did not receive any remuneration in the period from January 1 – March 15 (i.e., the baseline remuneration period). If the NAL employee did receive a wage during that period, the subsidy would still be limited to 75% of the baseline remuneration. This prevents the employer from receiving a greater subsidy if the NAL employee's pay is increased after March 15, 2020.

Employees employed by more than one NAL employer

In a scenario where an employee is employed by more than one eligible entity that are non-arm's length to each other, the total amount of the subsidy is limited to what the subsidy would be equal to if it were paid by only one entity.

How to apply

The application for the CEWS is not yet available. Once available, the application process would generally work as follows:

- An employer would first be required to pay its employees. It must also ensure it collects any applicable CPP, QPP, QPIP or EI from the employee and remits both the employee and employer portions.
- After the employees are paid, the employer would apply for the CEWS through the CRA's *My Business Account* portal, which will be setup for this purpose in the near future. The Department of Finance's website also mentions that an employer can apply through a web-based application, but no further details have been provided as of yet.
- The CEWS, up to the limits mentioned above, would be received through direct deposit, for those employers that are setup for direct deposit. (Presumably, an employer not setup through direct deposit with the CRA will be mailed a cheque, which would likely take longer.) The latest estimated timeline to receive payment, based on Finance Minister Morneau's press conference on April 11, 2020 is 3 - 5 weeks.
- Employers will be asked to attest that they are doing "everything they can" to pay the other 25% of the employees' wages. Although it is not yet known how this attestation would be made, it may be a step as part of the application process on the portal.
- Currently, the CEWS is available for the months of March, April and May, and employers will be required to reapply each month.

Example of CEWS calculation

Scenario

An employer has 6 employees:

- **Employee 1**
  Before March 15, 2020 earns $700 per week. After March 15 continues to receive $700 (employer-paid CPP/EI of $50).
- **Employee 2**
  Before March 15, 2020 earns $700 per week. After March 15 on unpaid leave (no CPP/EI premiums paid).
- **Employee 3**
  Before March 15, 2020 earns $1,400 per week. After March 15 continues to receive $1,400 (employer-paid CPP/EI of $100).
- **Employee 4**
  Before March 15, 2020 earns $1,400 per week. After March 15 goes on paid leave, reduced to $700 per week (employer-paid CPP/EI of $50).
- **Employee 5**
  Non-arm's length. Before March 15, 2020 earns $2,000 per week. After March 15 continues to receive $2,000 (employer-paid CPP/EI of $150).
- **Employee 6**
  Non-arm's length. Before March 15, 2020 earns $500 per week plus dividends. After March 15 salary increased to $2,000 per week (employer-paid CPP/EI of $150).

The employer did not receive any amounts under the 10% temporary wage subsidy nor did any employee participate in a work-sharing program during the qualifying period.

Calculation of subsidy

Determine the weekly subsidy claimed per employee:

- **Employee 1**
  This employee's eligible remuneration has not changed after March 15. The CEWS is equal to 75% of the weekly salary, $525/week.
- **Employee 2**
  This employee's eligible remuneration has decreased to $nil (unpaid leave). No CEWS can be claimed since the employee is not being paid.
- **Employee 3**
  This employee's eligible remuneration has not changed after March 15. However, 75% of the employee's pay is above the $847 limit. The CEWS is equal to this maximum amount of $847/week.
- **Employee 4**
  This employee's eligible remuneration has decreased to $700 while on paid leave. The CEWS is equal to this amount plus the CPP/EI premiums paid by the employer. Total $750/week.
- **Employee 5**
  This employee is non-arm's length to the employer. However, the employee's eligible remuneration did not change after March 15. The CEWS is equal to the maximum amount of $847/week.
- **Employee 6**
  This employee is non-arm's length to the employer. The employee's eligible remuneration increased after March 15. The CEWS is limited to 75% of the pre-March 15 weekly pay of $375/week.

Total overall CEWS for the week = $1,372

Total overall CEWS for the eligible period = $1,372 x 4 = $5,488

Summary

				Wage subsidy, greater of:								
				Least of			Least of					
	A	B	C	D = B x 75%	E		G = B	H = A x 75%	I			
Employess	Pre-March 15 salary/ week	Post-March 15 salary/ week	CPP/EI (if on paid leave)	75% of amount paid ($nil if NAL)	Max $847	F = lesser of D and E	Amount paid	75% of pre-March 15 pay	Max $847	J = least of G, H and I	K = Greater of F and J	L = C + K Total CEWS/ week
Empl 1	700	700	-	525	847	525	700	525	847	525	525	525
Empl 2	700	-	-	-	847	-	-	525	847	-	-	-
Empl 3	1,400	1,400	-	1,050	847	847	1,400	1,050	847	847	847	847
Empl 4	1,400	700	50	525	847	525	700	1,050	847	700	700	750
Empl 5 (NAL)	2,000	2,000	-	-	847	-	2,000	1,500	847	847	847	847
Empl 6 (NAL)	500	2,000	-	-	847	-	2,000	375	847	375	375	375
All	6,700	6,800										1,372

Potential penalties

Although proper checks and balances are not currently in place, the government has stated that any business that tries to "game" the system would face severe consequences.

The government has announced that any entity that is not entitled to the subsidy will be required to repay it. Specifically, if an employer entered into an anti-avoidance transaction, event or action, or a series of transactions, events or actions that would reduce the qualifying revenues for the current period, will be required to repay the subsidy received.

Furthermore, an entity that enters into an anti-avoidance transaction or series of transactions in an effort to receive the subsidy that it would not otherwise be entitled to would face significant penalties.

Wage subsidies in other countries

Prime Minister Trudeau has stated that the CEWS would be inline with best practices in other countries. The programs that have been mentioned most often in recent days have been those introduced in the United Kingdom and Denmark. These programs, and other potentially relevant ones to the Canadian context, are briefly summarized here:

United Kingdom: grants provided to employers to cover up to 80% of employee income and up to 80% of self-employed individuals' business income. Amounts are capped at £2,500/month (approximately C$4,450).

Denmark: businesses that have to dismiss at least 30% of their employees or 50 employees can receive salary compensation equal to 75% of the salary up to DKK 23,000/month (approximately C$4,800) for full-time monthly-paid employees or 90% for hourly workers, up to DKK 26,000/month (approximately C$5,400).

United States: the employee retention credit will cover up to 50% of employee wages up to US$10,000 (approximately C$14,200) for businesses with a full or partial suspension due to a government order or that have a greater than 50% reduction in first quarter gross receipts. The credit is allowed against payroll tax.

New Zealand: the wage grant provides up to NZ$585.80/week (approximately C$500) for employees working over 20 hours/week and up NZ$350/week (approximately C$300) for employees working less than 20 hours/week.

Australia: recently introduced the JobKeeper package, which provides employers with a flat minimum payment of AUD$1,500 (approximately C$1,300) per fortnight (i.e., 2 weeks) for the next six months. It's available to full-time, part-time and casual employees who have been with their employers for at least 12 months.

Should I apply for the CEWS?

If you are an employer that meets the eligibility criteria, the subsidy could provide you with significant help to retain your employees.

The subsidy may also allow you to rehire employees that were laid off and avoid any further layoffs. It is important to understand that if you qualify for the subsidy, it is available for all employees who qualify, not only those that may be subject to layoffs. Furthermore, if you do recall employees who were previously laid-off, there is no requirement for them to report to work.

The challenge some businesses may face is uncertainty of qualifying. Grant Thornton can help in analyzing revenues on a consolidated or entity-by-entity basis, whether using the cash or accrual method, as well as navigating through the complicated rules and requirements that may apply to your business.

Additional information

For further details on this program, please see the Government of Canada's official news release with all the measures.

Several other webpages on the Department of Finance's website also provide additional information:

Department of Finance CEWS webpage

CEWS - News release 1

CEWS - News release 2

CEWS - Backgrounder

We're here to help

We understand that you want to be agile and responsive as the situation unfolds. Having access to experts, insights and accurate information as quickly as possible is critical—but your resources may be stretched at this time.

We're here to support you as you navigate through the impacts of coronavirus on your business and your investments.

Grant Thornton LLP wants to caution that these rules are still new and continue to evolve as the government continues to re-evaluate the economic impact caused by the COVID-19 pandemic. We may still see changes to these measures—as well as new measures—as the government attempts to address the issues that have been raised by us and the tax community. Therefore, any analysis included herein, reflects our knowledge as of the date and time of this email and may no longer be applicable if changes do occur and you should proceed with caution before making any decisions.

Visit our COVID-19 Hub for timely information and resources and connect with your Grant Thornton advisor to learn more.

Grant Thornton

grantthornton.ca

Audit | Tax | Advisory

About Grant Thornton LLP in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member and correspondent firms operate in over 100 countries worldwide.