

Wage Subsidies for Employers – Federal

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To help businesses keep and rehire workers through the challenges posed by the COVID-19 pandemic, the Government of Canada has introduced two wage subsidies for employers, that is, the Canada Emergency Wage Subsidy and the Temporary Wage Subsidy. Here is a summary of these measures, based on information available to date.¹

CANADA EMERGENCY WAGE SUBSIDY

Generally, eligible employers could benefit from a subsidy of up to 75% of the remuneration paid to their employees for the period from March 15, 2020 to June 6, 2020.²

Eligible employers

Entities concerned

Employers who are either:

- individuals, taxable corporations or partnerships consisting of eligible employers;
- non-profit organizations and registered charities.

Employers of all sizes and all industry sectors, except for public sector entities, are eligible for this subsidy,³ as long as they respect the decline in revenue criterion.

Decline in revenue criterion

Employers must have seen a drop of at least 30% of their gross revenue⁴ from their business carried on in Canada and earned from arm's-length sources for the months of March, April or May 2020.

The subsidy would be paid every month (claiming period) and eligibility for each of these periods would be determined based on a reference period. For each reference period, the decline in revenue will be determined by comparing revenues⁵ from each of these months in 2020 with those of the same month for 2019. For each claiming period, eligibility will be determined based on the following reference period:

Claiming period	Reference period ⁶
■ From March 15 to April 11	March 2020 over March 2019
■ From April 12 to May 9	April 2020 over April 2019
■ From May 10 to June 6	May 2020 over May 2019

Subsidy amount

The weekly subsidy amount for a given employee would be the greater of:

- 75% of the amount of remuneration paid by the employer (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 weekly remuneration, **whichever is less**.

As such, the subsidy can reach up to 100% of the first 75% of pre-crisis wages or salaries of existing employees.

¹ The government plans to introduce additional support to assist employers in certain sectors (air, tourism, etc.) as well as non-profit and charitable organizations (particularly those involved in the front-line response to COVID-19).

² Additional details are available on [Canada.ca](https://www.canada.ca).

³ Public bodies such as municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals are not eligible for this subsidy.

⁴ The definition of revenue will be adapted for non-profit organizations and registered charities.

⁵ Income should be calculated using the employer's normal method of accounting and exclude income from extraordinary items and capital amounts.

⁶ For employers established after February 2019, eligibility will be determined by comparing monthly earnings to a reasonable benchmark.

Example 1

An employee normally earns a salary of \$52,000 per year, i.e. \$1,000 per week. Due to the drop in his level of activity, his employer pays him a weekly amount of \$750 since March 15, 2020. The employer will be entitled to a \$750 subsidy for the employee, calculated as follows:

	The greater of A or B		
A	<ul style="list-style-type: none"> 75% of the wages paid (max. \$847) (75% of \$750) 		\$563
B	<ul style="list-style-type: none"> The lesser of: 		
	– the wages paid (max. \$847)	\$750	
	– 75% of the wages the employee was earning before the crisis (75% of \$1,000)	\$750	\$750

Example 2

An employee normally earns a salary of \$52,000 per year, i.e. \$1,000 per week. Due to the drop in his level of activity, his employer pays him a weekly amount of \$500 since March 15, 2020. The employer will be entitled to a \$500 subsidy for the employee, calculated as follows:

	The greater of A or B		
A	<ul style="list-style-type: none"> 75% of the wages paid (max. \$847) (75% of \$500) 		\$375
B	<ul style="list-style-type: none"> The lesser of: 		
	– the wages paid (max. \$847)	\$500	
	– 75% of the wages the employee was earning before the crisis (75% of \$1,000)	\$750	\$500

Example 3

An employee normally earns a salary of \$98,800 per year, that is, \$1,900 per week. Due to the decrease in her activity level, her employer pays her a weekly amount of \$1,520, i.e. 80% of her salary, since March 15, 2020. The employer will be entitled to an \$847 subsidy for the employee, calculated as follows:

	The greater of A or B		
A	<ul style="list-style-type: none"> 75% of the remuneration paid (max. \$847) (75% of \$1,520) 		\$847
B	<ul style="list-style-type: none"> The lesser of: 		
	– the remuneration paid (max. \$847)	\$847	
	– 75% of the remuneration the employee was earning before the crisis (75% of \$1,900)	\$1,425	\$847

Example 4

Before the crisis, an employee normally earned a salary of \$41,600 per year, that is, \$800 a week. To recognize this employee's contribution to an essential service, her employer pays her \$900 per week since March 15, 2020. The employer will be entitled to a \$675 subsidy in her regard, calculated as follows:

	The greater of A or B		
A	<ul style="list-style-type: none"> 75% of the remuneration paid (max. \$847) (75% of \$900) 		\$675
B	<ul style="list-style-type: none"> The lesser of: 		
	– the remuneration paid (max. \$847)	\$847	
	– 75% of the remuneration the employee was earning before the crisis (75% of \$800)	\$600	\$600

Eligible remuneration

Eligible remuneration includes salary, wages, and other remuneration.⁷ However, it does not include severance pay, or items such as stock option benefits or the personal use of a corporate vehicle.

Employees that do not deal at arm's length with the employer

For employees that do not deal at arm's length with the employer, the subsidy amount will be limited to the remuneration actually paid, up to 75% of the employee's pre-crisis weekly remuneration (a maximum benefit of \$847 per week).

This rule would prevent the undue increase in remuneration that would be paid to such an employee. For example, the maximum weekly subsidy for an employee not dealing at arm's length who was earning \$500 per week before the crisis would be \$375, even if the employee receives a \$1,000 wage during the crisis.⁸

Similarly, the subsidy would not be available to shareholders starting to pay themselves a salary when they had been paying themselves with dividends only before.

Clarifications

- The government expects these employers to maintain, as much as possible, the salaries the current employees were making before the crisis.
- No general limit applies for the subsidy.
- Employers will also be eligible for a subsidy of up to 75% of the actual remuneration paid to new employees.

Applying for the subsidy

Eligible employers would be able to apply online through a Canada Revenue Agency's (CRA) portal to be deployed shortly. Employers will have to file a subsidy claim for each eligible month (claiming periods).

At the press briefing on April 1, 2020, Canada's Minister of Finance clarified that the funds would be available in six weeks, starting in mid-May 2020.

Records to keep

Employers would have to keep records demonstrating their reduction in arm's-length revenues and remuneration paid to employees. More details about the application process will be made available shortly.

Interaction with the Canadian Emergency Response Benefit

An employer would not be eligible to claim the Canada Emergency Wage Subsidy for remuneration paid to an employee in a week that falls within a four-week period for which the employee is eligible for the Canadian Emergency Response Benefit.

Employers who are not eligible for the Canada Emergency Wage Subsidy would still be able to furlough employees who will receive up to \$2,000 a month.

⁷ These are amounts for which employers would generally be required to withhold or deduct income tax at source.

⁸ In such a situation, for an arm's length employee, the employer would be entitled to a subsidy of \$750, 75% of the actual amount paid.

Penalties

Penalties will apply to businesses who try to cheat the system. The government will ensure that the amounts are allocated and paid to employees.

Employers would be required to repay amounts paid under the Canada Emergency Wage Subsidy if they do not meet the eligibility requirements. Furthermore, penalties may apply in cases of fraudulent claims. In addition, anti-abuse rules will be proposed to ensure that employees are paid the amounts they are owed. The penalties may include fines or even imprisonment.

TEMPORARY 10% WAGE SUBSIDY

On March 18, 2020, the federal government announced the implementation of a wage subsidy equal to 10% of the remuneration paid, up to \$1,375 for each eligible employee and to a total maximum of \$25,000 per employer.⁹ This subsidy also applies for a three-month period as of March 18, 2020.

Interaction between wage subsidies

According to the April 1, 2020 announcement, entities that do not qualify for the 75% Canada Emergency Wage Subsidy may be able to claim the 10% subsidy if they satisfy the eligibility requirements.

Moreover, any benefit from the temporary 10% wage subsidy for remuneration paid in a specific period would generally reduce the amount available to be claimed under the Canada Emergency Wage Subsidy in that same period.

Employers eligible for the 10% subsidy

Canadian-controlled private corporation

To qualify for the subsidy, the taxable capital of a Canadian-controlled private corporation (CCPC) in the previous year must be less than \$15M.

If the corporation is a member of a group of associated corporations, the taxable capital of all of the group's corporations must be less than \$15M. Each of the corporations in the group will be entitled to a maximum subsidy of \$25,000, to the extent they were allotted an amount as a business limit for purposes of the small business deduction (SBD) in the previous year.

Criterion based on business limit

Based on the changes made to the *Income Tax Act* on March 25, 2020, it seems that only corporations that had a business limit for purposes of the SBD would be eligible for this subsidy.¹⁰ It would therefore be wise to allocate a portion of the business limit to each of the corporations in an associated group entitled to the SBD for the last taxation year ended before March 18, 2020.

The business limit must not take account of the passive investment income reduction. Accordingly, a corporation would qualify for the subsidy if it had a business limit in its last taxation year, if this business limit was not reduced by passive income.

Other eligible employers

Eligible employers also include:

- An individual (other than a trust);
- A non-profit organization (NPO) or registered charity (RC);
- A partnership if all of the members are eligible employers (i.e. previously described CCPCs, individuals other than a trust, NPOs and/or RCs).

Moreover, the employer must have a business number and a payroll program (RP) account with the CRA as at March 18, 2020.

Eligible remuneration

Eligible remuneration includes salary, wages, bonuses, or other remuneration paid to your employee, who is employed in Canada, during the eligibility period from March 18, 2020 to June 19, 2020 inclusively (these dates will be confirmed based on the latest changes announced).

Applying for the subsidy

Employers must calculate the subsidy amount they are entitled to receive themselves and reduce the payroll remittance¹¹ payable to the CRA by that amount.

Employers can reduce their remittance in the first remittance period that includes remuneration paid from March 18, 2020 to June 19, 2020 (any other date in this respect will be determined subsequently). They then reduce subsequent remittances for the period until the applicable subsidy limit is reached.

If the subsidy is higher than the federal tax withheld for the payment period, the unused amount can be deferred to a payment period after June 19, 2020, that is, a period that falls outside the wage subsidy application period.

Subsidy not claimed during the year

An eligible employer who did not reduce payroll remittances during the year can apply to have the subsidy paid at year end or transferred to the next year.

Documents to support the subsidy

The following documents must be kept to support the subsidy calculation:

- The total remuneration paid during the period;
- The federal, provincial, or territorial income tax that was deducted from that remuneration;¹²
- The number of employees paid in that period.

TAXABLE GOVERNMENT ASSISTANCE

A wage subsidy that an employer receives under these two programs is considered to be government assistance and must be included in taxable income.

⁹ Associated CCPCs do not have to share the maximum subsidy of \$25,000 per employer.

¹⁰ If there is no previous year, the condition must be satisfied as though its taxation year end was March 17, 2020.

¹¹ Applies solely to payments to the CRA for federal, provincial or territorial taxes. Thus, this measure does not apply to Quebec income tax remittance. In addition, CPP contributions or Employment Insurance premiums remittance cannot be reduced.

¹² Other than Quebec tax.

Moreover, amounts received under either of the wage subsidies will reduce the compensation expense that qualifies for federal tax credits calculated on the basis of remuneration.

Do not hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine which measures apply to your situation and assist you with the steps needed to benefit from these measures. Do not hesitate to contact us.

For more information, visit us at rcgt.com.