

Canada Emergency Rent Subsidy and Lockdown Support

The Canada Emergency Rent Subsidy (CERS) and Lockdown Support provide subsidies to help cover a business's rent or mortgage interest, property tax and insurance retroactive to September 27, 2020. CERS provides a subsidy of up to 65 percent and the Lockdown Support provides up to an additional 25 percent if a business is required to shut down due to public health restrictions.



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Who is eligible?

The CERS and Lockdown Support will be available to businesses that meet the definition of an “eligible entity”, which includes individuals, taxable corporations and trusts, non-profit organizations and registered charities. The definition of “eligible entity” is the same one used in the Canada Emergency Wage Subsidy (CEWS) rules. Additional details can be found in Grant Thornton’s [CEWS downloadable resource](#).

To claim the CERS, an eligible entity must also be a “qualifying renter” and meet the following requirements:

- Submit the CERS claim on or before 180 days after the end of the qualifying period
- Include an attestation by the individual with principal responsibility for the financial activities of the eligible entity
- Meet one of the following three criteria:
 - Have a payroll account as of March 15, 2020 or have been using a payroll service provider
 - Have a business number on September 27, 2020 and provide records and other information to support the claim to the government
 - Meet other conditions that may be prescribed in the future.

It should be noted that many small businesses that may not have been eligible for the CEWS (e.g., a self-employed individual with no employees) may still be eligible for the CERS and the Lockdown Support, provided the criteria discussed below are met. Businesses of all sizes that rent or own property should consider whether it might make sense to apply, regardless of whether they have applied for or received the CEWS.

What are the qualifying periods?

Like the CEWS, an entity can choose to calculate its revenue decline by comparing revenue for the current reference period with the revenue for the same month of the previous year or the average monthly revenue in January and February 2020.

The CERS will be available retroactively from September 27, 2020 until October 23, 2021. The table below outlines each qualifying period and the relevant reference period for determining the revenue reduction.

Table 1: Qualifying periods and relevant reference periods

QUALIFYING PERIOD**	CURRENT REFERENCE PERIOD	PRIOR REFERENCE PERIOD* EITHER:	
8 Sep. 27 – Oct. 24, 2020	Oct. 2020	Oct. 2019	Jan. + Feb. 2020 2
9 Oct. 25 – Nov. 21, 2020	Nov. 2020	Nov. 2019	
10 Nov. 22 – Dec. 19, 2020	Dec. 2020	Dec. 2019	
11 Dec. 20 – Jan. 16, 2021	Dec. 2020***	Dec. 2019***	
12 Jan. 17 – Feb. 13, 2021	Jan. 2021	Jan. 2020	
13 Feb. 14 – Mar. 13, 2021	Feb. 2021	Feb. 2020	
14 Mar. 14 – Apr. 10, 2021	Mar. 2021	Mar. 2019	
15 Apr. 11 – May 8, 2021	Apr. 2021	Apr. 2019	
16 May 9 – Jun. 5, 2021	May 2021	May 2019	
17**** Jun. 6 – Jul. 3, 2021	Jun. 2021	Jun. 2019	
18**** Jul. 4 – Jul. 31, 2021	Jul. 2021	Jul. 2019	
19**** Aug. 1 – Aug. 28, 2021	Aug. 2021	Aug. 2019	
20**** Aug. 29 – Sep. 25, 2021	Sep. 2021	Sep. 2019	
21***** Sep. 26 – Oct 23, 2021	Oct. 2021	Oct. 2019	

* The prior reference periods chosen must be the same for both CEWS and CERS.

** Proposed legislation from Budget 2021 re-numbered the CERS periods to align them with the CEWS periods. For example, September 27 to October 24, 2020, which was previously referred as the first qualifying period for CERS, is now referred as the eighth qualifying period for CERS based on the revised legislation.

*** The reference period for CERS claim period 11 is the same as for the previous period. This is to better align the reference periods with the claim periods.

**** Introduced in the federal government’s 2021 budget plan, the CERS has been extended to September 25, 2021.

***** On July 30, 2021, the federal government proposed to extend the CERS until October 23, 2021.

What are the eligible expenses?

Only certain expenses are eligible for the CERS and Lockdown Support. To qualify, an expense must be:

- Paid to an arm’s length party under a written agreement or renewal signed before October 9, 2020
- Related to a “qualifying property”,¹ being a real or immovable property in Canada used by the eligible entity in the course of its ordinary activities

Unlike the Canada Emergency Commercial Rent Assistance (CECRA), which preceded these two new rent subsidies, businesses that own their property can also claim certain costs associated with that property. An eligible entity can claim these costs on owned property that is not primarily² used to earn rental income.

How do I determine my total rent subsidy?

The total rent subsidy available to an eligible entity is the sum of two main components:

- 1 The CERS
- 2 The Lockdown Support

Both amounts rely on many of the same definitions and concepts; however, the first is tied to the extent of revenue decline impacting the business, while the second is directly tied to the imposition of restrictions on operations due to a full or partial lockdown.

Table 2: Eligible expenses on rented or owned property

Rented property		Owned property
Eligible	Non-eligible	Eligible
<ul style="list-style-type: none"> • Gross rent • Rent based on a percentage of sales, profit or a similar criterion • Base rent payable under a net lease • Regular installments of operating expenses, such as insurance, utilities and common area maintenance expenses, customarily charged to the lessee payable under a net lease • Property and similar taxes, including school and municipal taxes payable under a net lease • Regular installments of other amounts payable to the lessor for service ancillary to the rental of real or immovable properties and customarily supplied or rendered in connection with the rental of the properties payable under a net lease • Amounts received by the lessor under the CECRA that were applied against rent payable in respect of the qualifying period, if those amounts would otherwise be required to be refunded to the eligible entity 	<ul style="list-style-type: none"> • Sales taxes • Amounts paid as, on account of, in lieu of payment of or in satisfaction of damages • Amounts paid under a guarantee, security or similar indemnity or covenant • Payment arising due to default under the agreement by the eligible entity • Interest and penalties on unpaid amounts • Fees payable for discrete items or special services • Reconciliation adjustment payments 	<ul style="list-style-type: none"> • Interest* on a mortgage or hypothec • Insurance • Property or similar taxes (e.g., school and municipal taxes)

* The amount of the mortgage interest that is deductible is limited to interest on the lesser of:
 - The lowest principal amount of all mortgages at any time after it was acquired, excluding any temporary period during a refinancing between discharge of the old mortgage and registration of the new mortgage, or
 - The cost of the property

1 The definition of “qualifying property” would exclude a place of residence that is used by the eligible entity or a non-arm’s length person, such as the owner of the company or their family.
 2 The word “primarily” would generally refer to more than 50 percent of the time.

How is the CERS calculated?

There are two amounts that need to be determined to calculate the CERS:

- 1 The rent subsidy percentage (%)
- 2 The amount of rent or mortgage interest and related expenses, known as the qualifying rent expense (\$)

The amount of CERS an entity can receive is determined by multiplying the above two amounts.

Rent subsidy percentage

The rent subsidy percentage will vary depending on the eligible entity's rate of decline in revenue, known as the "revenue reduction percentage". This is the same percentage used to determine the base percentage in the CEWS rules.

The revenue reduction percentage is calculated by comparing the revenue in the current reference period to revenue in the prior reference period (see Table 1 above). Furthermore, if the rate of decrease in the current period is less than the rate of decrease in the prior period, the rate for the current period is deemed equal to that of the prior period (i.e., the eligible entity gets the higher amount for the current period too).

Table 3: Example of revenue reduction percentage

ABC Ltd is calculating its revenue reduction percentage for the qualifying period October 25 – November 21, 2020, based on the following amounts:

	October	November
2020 revenue	\$50,000	\$70,000
2019 revenue	\$100,000	\$100,000
% revenue drop	50%	30%

Assuming ABC chose the same month of the prior year as its prior reference period, ABC's revenue reduction percentage is based on the decrease in revenue between November 2019 and November 2020, which is 30 percent. However, because the decrease in revenue in the immediately prior period, October 2019 to October 2020, is higher (i.e., 50 percent), its revenue reduction percentage for the qualifying period October 25 – November 21, 2020 is deemed to be 50 percent.

Once the revenue reduction percentage has been calculated, it is used to determine the applicable rent subsidy percentage for the qualifying period. Depending on the rate of revenue decline, the calculation of the rent subsidy percentage varies. The higher the revenue reduction percentage, the higher the rent subsidy percentage. For periods 8-17, the maximum rent subsidy percentage is 65 percent. As proposed in Budget 2021, the maximum rent subsidy percentage available will be reduced to 60% in period 18, 40% in period 19 and 20% in period 20.

As of period 18, an eligible entity must have a minimum revenue decline of 10% to qualify. Table 4 illustrates the formulas used to calculate the rent subsidy percentage.

Table 4: Calculation of rent subsidy percentage

APPLICABLE RENT SUBSIDY PERCENTAGE (RSP)	REVENUE REDUCTION PERCENTAGE (RRP)			
	70% or more	50% - 69%	11% - 50%	0% - 10%
Periods 8 - 17	65%	$40\% + (\text{RRP} - 50\%) \times 1.25$	$0.8 \times \text{RRP}$	$0.8 \times \text{RRP}$
Period 18	60%	$35\% + (\text{RRP} - 50\%) \times 1.25$	$0.875 \times (\text{RRP} - 10\%)$	0%
Period 19	40%	$25\% + (\text{RRP} - 50\%) \times 0.75$	$0.625 \times (\text{RRP} - 10\%)$	0%
Period 20	40%	$25\% + (\text{RRP} - 50\%) \times 0.75$	$0.625 \times (\text{RRP} - 10\%)$	0%
Period 21	20%	$10\% + (\text{RRP} - 50\%) \times 0.5$	$0.25 \times (\text{RRP} - 10\%)$	0%

Adapted from Budget 2021 Table 4 on page 609 and announcement on July 30, 2021

Qualifying rent expense

The qualifying rent expense is the total of all eligible expenses paid or payable³ in respect of a qualifying period to an arm's length party. The total is reduced by any subleasing revenues that are received or receivable in respect of the qualifying period. A qualifying expense for each qualifying period is limited to \$75,000 per qualifying property and is subject to an overall limit of \$300,000 per eligible entity, and that limit must be shared with other affiliated entities.

How is the Lockdown Support calculated?

The Lockdown Support is an additional subsidy equal to 25 percent of the qualifying rent expense. This support is available to an eligible entity facing a public health restriction, which is an order or decision that meets all of the following requirements:

- It is made under a law of Canada or a province, or the authority granted under such a law
- It is made in response to the COVID-19 pandemic
- It is limited based on geographical boundaries, type of business or activity, or risks associated with a particular location
- Non-compliance is a federal or provincial offence or can result in monetary penalties or other sanctions

³ Legislation has been introduced to allow eligible amounts that have not been paid prior to a claim being made, i.e. "payable" amounts, to also qualify. The amount(s) must be paid no later than 60 days after the applicant receives the subsidy for that period.

- It does not result from a violation of an order that meets the above conditions
- As a result of the order/decision, some or all of the activities of the eligible entity or an entity that is non-arm's length⁴ to an eligible entity at, or in connection with, the qualifying property are required to completely cease
- It is reasonable to conclude that at least approximately 25 percent of the qualifying revenues of the eligible entity or an entity that is non-arm's length to an eligible entity for the prior reference period that were earned from the qualifying property were derived from the restricted activities
- The restricted activities are required to cease for a period of at least one week

It is important to note that the Lockdown Support focuses on the activity rather than the extent of the activity. For example, if restaurants are no longer allowed to accommodate indoor dining, then they may be eligible for the top-up subsidy, provided other requirements are met. However, if there is only a reduction of the number of people allowed for indoor dining, this would not qualify.

Furthermore, an eligible entity may have qualifying properties in different locations that may be subject to different public health restrictions (e.g., different municipalities across a province or region). It is important to pay attention to these restrictions and where they apply to ensure the Lockdown Support is applied to all appropriate locations.

The Lockdown Support is pro-rated based on the number of days in the qualifying period that the public health restriction is in place. As mentioned above, the restrictions must be in place for at least one week for the eligible entity to qualify for this support.

Examples of CERS and Lockdown Support calculations

Scenario A

A coffee shop pays \$8,000 monthly rent and has a 8% revenue reduction in July 2021.

CERS: \$0

Lockdown Support = \$0

Total subsidy = \$0

* They are not entitled to CERS or LS since they do not have a minimum revenue reduction of 10% for this period.

Scenario B

A heavy machinery manufacturer owns a large manufacturing facility and pays \$80,000 per month for mortgage interest, property taxes and insurance. The manufacturer has a 60 percent revenue reduction in November and is not subject to a public health restriction.

CERS: $[(40 + (60 - 50) \times 1.25) \% \times \$75,000 = 52.5\% \times \$75,000 = \$39,375$

Lockdown Support = \$0

Total subsidy = \$39,375

Scenario C

A sports centre pays \$50,000 monthly rent for its venue and is forced to shut down on November 9 due to public health restrictions. The business has an 80 percent revenue reduction for the month of November.

CERS: $65\% \times \$50,000 = \$32,500$

Lockdown Support = $25\% \times 13/28 \times \$50,000 = \$5,804$

Total subsidy = $\$32,500 + \$5,804 = \$38,304$

Scenario D

A clothing retail shop pays \$10,000 monthly rent and has a 20 percent revenue reduction in November. It is not subject to a public health restriction.

CERS: $(0.8 \times 20\%) \times \$10,000 = \$1,600$

Lockdown Support = \$0

Total subsidy = \$1,600

How do I apply?

The CERS and Lockdown Support will provide subsidies directly to qualifying renters (and property owners), without requiring the participation of landlords (in contrast to the CECRA, which required landlords to apply).

The application for the CERS and Lockdown Support is available on CRA's website. Applicants will be required to create a CERS (ZA) number, which will allow the applicant to receive the subsidy through this account. The application can be made through the CRA's [website](#) using either:

- [My Business Account](#), or
- [Represent a Client](#)

⁴ Generally, "non-arm's length" refers to entities that are controlled by the same person(s) or where one entity controls the other.

A new form, RC665, is required to be completed with the application. Similar to the CEWS form RC661, it contains elections and statements that must be attested to by the person with primary financial responsibility for the applicant. The application portal for each qualifying period opens once that qualifying period ends.

What are the potential penalties?

Similar to the CEWS, if an entity entered into an anti-avoidance transaction or a series of transactions that would reduce the qualifying revenues for the current period or increase the amount of the subsidy, it will be required to repay the subsidy received. The entity may be subject to a penalty equal to 25 percent of the amount of the CERS claimed by the eligible entity. Furthermore, the eligible entity, as well as any person that knowingly makes or participates in false statements or omissions related to the CERS application, may be liable for a penalty equal to the greater of \$100 or 50 percent of the CERS claim filed for the qualifying period.

Additional information

For further details on this program, please see the following links on the [Government of Canada's](#) website:

- [CERS backgrounder](#)
- [Lockdown Support backgrounder](#)
- [Federal budget 2021 - CERS extension](#)

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 COVID-19 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 publication and may no longer be applicable if changes do occur. 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.

