

Canada Emergency Business Account

The Canada Emergency Business Account (CEBA) was created by the federal government to provide interest-free loans of up to \$40,000 for small businesses and not-for-profit organizations. The loan is meant to assist businesses and NPOs with covering their operating costs during a period when revenues have temporarily decreased.



Who is eligible?

The CEBA will be available to:

- 1 Small businesses, and
- 2 Not-for-profit organizations.

As of May 19, CEBA has been expanded to include:

- ▶ sole proprietors,
- ▶ businesses that rely on contractors, and
- ▶ family-owned corporations that pay employees through dividends instead of payroll.

Organizations can qualify through either the Payroll stream or the Non-deferrable Expenses stream.

Regardless of the stream, organizations will have to meet the following criteria, common to both streams:

- Must be a Canadian operating business in operation as of March 1, 2020.
- Must have a federal tax registration number, which is the 15-digit number found at the top-right of the T4-SUM.

- Must have opened a business banking account with a participating financial institution (“FI”) on or prior to March 1, 2020. The eligible entity cannot be in arrears on existing borrowing facilities with the FI for 90 days or more as at March 1, 2020.
- Must not have previously used the CEBA program and will not apply for CEBA support at another FI.
- Must acknowledge intention to continue to operate its business or resume operations.
- Must agree to participate in post-funding surveys conducted by Government of Canada or its agents.

Payroll stream

Under the Payroll stream, organizations must demonstrate they had total payroll between \$20,000 and \$1.5 million in 2019. Organizations with more than one payroll program account will be required to add total employment income for all accounts to ensure total payroll is within the required range.



Eligible non-deferrable expense stream

The program has now been opened up to organizations that had payroll less than \$20,000 in 2019. Applicants with payroll lower than \$20,000 can also qualify, provided they have met the common requirements noted above.

Furthermore, the applicant will have to meet the following additional criteria:

- They have a CRA business number and have filed a 2018 or 2019 tax return,
- They have eligible non-deferrable expenses between \$40,000 and \$1.5 million. These include costs such as rent, property tax, utilities and insurance.

Eligible non-deferrable expenses

The CEBA website states that the following are considered eligible non-deferrable expense categories:

- Wages and other employment expenses to independent (arm's length) third parties;
- Rent or lease payments for real estate used for business purposes;
- Rent or lease payments for capital equipment used for business purposes;
- Payments incurred for insurance related costs;
- Payments incurred for property taxes;
- Payments incurred for business purposes for telephone and utilities in the form of gas, oil, electricity, water and internet;

- Payments for regularly scheduled debt service;
- Payments incurred under agreements with independent contractors and fees required in order to maintain licenses, authorizations or permissions necessary to conduct business by the Borrower.

How does it work?

The CEBA is provided to an organization through that organization's financial institution, which would be providing this loan in cooperation with Export Development Canada.

The loan is interest-free and 25% of the loan is forgivable (up to \$10,000) if the organization repays the loan on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

Organizations that have applied for other COVID-related government funding, such as the Canada Emergency Wage Subsidy, should keep in mind that it could impact the amount of the expenses that could be included in the total 2020 eligible non-deferrable expenses for CEBA purposes.

The government has also stated that the funds can only be used to pay non-deferrable operating expenses, which include payroll, rent, utilities, insurance, property tax and regularly scheduled debt service. The funds cannot be used for prepayment/refinancing of existing indebtedness, payments of dividends, distributions and increases in management compensation.

Who is not eligible?

The government has outlined specific types of organizations that would not be eligible for the CEBA:

- 1 A government organization or body or an entity wholly owned by a government organization or body.
- 2 A non-profit organization, registered charity, union or fraternal benefit society or order, or an entity owned by such an organization, unless the entity is actively carrying on a business in Canada (including a related business in the case of a registered charity) that earns revenue from the regular supply of property/goods or services.
- 3 An entity owned by an individual that is a Federal Member of Parliament or Senator.
- 4 An entity that promotes violence, incites hatred or discrimination on the basis of sex, gender identity or expression, sexual orientation, colour, race, ethnic or national origin, religion, culture, region, education, age or mental or physical disability.

How to apply

For organizations applying through the Payroll stream, the application will be made through their financial institution's website. After the application is submitted, it will be assessed by the government and, if approved, funds will be provided to the business account via the financial institution.

Organizations applying through the Non-deferrable expenses stream will also be required to start the application via their bank's website. However, once the application is submitted, the organization will then be directed to a separate CEBA website, where they will be required to provide documentation to support their 2020 eligible non-deferrable expenses and complete the application. If the application is approved, funds will be provided to the business account via the financial institution.

To apply through this stream, organizations will need to ensure they have supporting documentation, such as invoices, receipts, agreements, etc., to support their eligible non-deferrable expenses. Organizations will also need the name of the financial institution where they submitted their application as well as their 9-digit business number that was used in that application.

Some banks and credit unions may have a different application process, particularly those in smaller or rural communities, therefore, it may be necessary to contact the financial institution to get more details of the application process.

Additional information

Additional details can be found on the Government of Canada's [CEBA page](#).

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 and you should proceed with caution before making any decisions.

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