

Canada Emergency Wage Subsidy

Created in response to COVID-19, the Canada Emergency Wage Subsidy (CEWS) provides savings to employers by providing 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.

Who is eligible?

The CEWS will be available to organizations that are considered “eligible employers”. This includes:

- 1 Individuals (i.e., sole proprietorships)
- 2 Taxable corporations
- 3 Partnerships with the eligible employers noted above as partners
- 4 Non-profit organizations
- 5 Registered charities

Public bodies, which includes municipalities, local governments, Crown corporations, public universities, colleges, schools and hospitals would not qualify.

How is it calculated?

There are two main calculations involved in determining the amount of the CEWS:

- 1 Determining the decrease in revenues
- 2 Determining the amount of the subsidy based on remuneration

Decrease in revenues

To qualify, a business must be experiencing at least a 30% decrease in revenues during an “eligible period” caused by the COVID-19 pandemic.

For the purposes of determining the CEWS, revenues would be from a business carried on in Canada earned from arm’s length sources (i.e., not from a related party, such as a subsidiary or sister corporation). Revenues would be calculated based on the employer’s normal accounting method and would exclude extraordinary items and amounts on account of capital (e.g., a gain on the sale of a capital asset).

The definition of revenues for non-profit organizations and registered charities has not yet been specified; however, the government has stated that they would work with these organizations to determine what would be appropriate for their specific circumstances.



Calculation of subsidy based on remuneration

The amount of the CEWS is based on the eligible remuneration paid during eligible periods between March 15 and June 6, 2020.

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.

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

- 1 75% of the remuneration paid, up to \$847/week, and
- 2 The lesser of:
 - The amount of remuneration paid, up to \$847/week, and
 - 75% of the employee's pre-crisis weekly remuneration

It has not yet been determined what will be included in "pre-crisis weekly remuneration." Further details will be forthcoming.

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 CEWS would be limited to the eligible remuneration paid in any pay period between March 15 and June 6, 2020, up to a maximum benefit of \$847 per week or 75 % of the employee's pre-crisis weekly remuneration. Although it is not clear due to the imprecise wording on the Department of Finance's website, it appears that this rule is meant to restrict an owner-manager's access to the wage subsidy if their "pre-crisis weekly remuneration" was low or nil because they only received payment through dividends prior to March 15, 2020. Further clarification is expected once the draft legislation is released.

It also appears that 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.

How it works

The process to claim the CEWS would generally work as follows:

- If the eligible employer experiences the required 30% decline in revenues, it would be able to claim the CEWS, calculated based on eligible remuneration during the eligible period.
- The eligible period is determined as follows:

	Claiming period	Reference month for revenues
Period 1	March 15 – April 11	March 2020 vs March 2019
Period 2	April 12 – May 9	April 2020 vs April 2019
Period 3	May 10 – June 6	May 2020 vs May 2019

- An eligible employer would first be required to pay its employees.
- After the employees are paid, the eligible employer would apply for the CEWS through the CRA's *My Business Account* portal, which will be set up for this purpose in the near future. The Department of Finance's website also mentions that an eligible employer can apply through a web-based application, but no further details were provided as to what this was referring to.
- The CEWS, up to the limits mentioned above, would be received through direct deposit, for those eligible employers that are set up for direct deposit. (Presumably, an eligible employer not set up through direct deposit with the CRA will be mailed a cheque, which would likely take longer.) Estimated timeline to receive this payment is six weeks after application.
- Eligible 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 eligible employers will be required to reapply each month.

Numerical example

- Eligible employer has 10 employees:
 - 5 employees (Group 1) earn an annual salary of \$36,400 each (\$700 per week)
 - 5 employees (Group 2) earn an annual salary of \$72,800 each (\$1,400 per week).
 - Total salaries paid by the employer are \$10,500 per week. It's assumed the employer continues to pay the employees their full salary during the COVID-19 crisis.

- Determine the weekly claim per employee:
 - Group 1: 75% of the weekly salary of each of the first 5 employees is less than the \$847/week maximum limit. Therefore, the subsidy is equal to 75% of each weekly salary, which is \$525.
 - Group 2: 75% of the weekly salary of each of the first 5 employees is more than the \$847/week maximum limit. Therefore, the subsidy is equal to \$847/week.
- Determine the claim for the eligible employer for the eligible period:
 - Group 1: $\$525 \times 5 \text{ employees} \times 4 \text{ weeks} = \$10,500$
 - Group 2: $\$847 \times 5 \text{ employees} \times 4 \text{ weeks} = \$16,940$
 - **Total overall CEWS for the eligible period = \$27,440**

The table below summarizes the results from the example above:

	Salary per employee	Salary/week	CEWS/week (75% of salary; max \$847)	# of employees	Total CEWS/week	Total CEWS/period
Group 1	36,400	700	525	5	2,625	10,500
Group 2	72,800	1,400	847	5	4,235	16,940
All employees				10	6,860	27,440

Other important details

- Although details for the CEWS are already available online at the Department of Finance's website, the legislation still has to be passed in Parliament. This could result in changes to the rules that are currently explained here. Due to the urgency of the current economic situation, it's likely that the legislation would be passed quickly, particularly given the recent level of cooperation between the government and opposition parties.
- The temporary 10% wage subsidy, which was previously introduced in mid-March, will also be available to businesses and other organizations that qualify. However, any employer that receives the benefit of the 10% temporary wage subsidy for remuneration paid in a given period would not also be able to claim the CEWS for that same period.
- The CEWS is considered government assistance; therefore, it would be taxable to the employer. If an employer receives assistance under either the CEWS program or the 10% temporary wage subsidy in the prior point, it would reduce the amount of remuneration that would be eligible for other federal tax credits.
- An employer cannot claim the CEWS for remuneration paid during a 4-week period if the employee is eligible to claim the Canada Emergency Response Benefit (CERB) during that same period. The wording on the Department of Finance's webpage does not specifically state that the employee has to actually claim the CERB, just that they have to be eligible to claim it. This may work contrary to the government's intention to have employers hire back employees who have already been laid off. We will have to wait and see how this rule is written when the legislation is eventually drafted.
- Although proper checks and balances are not currently in place, any business that tries to "game" the system would face severe consequences. It's not clear what those consequences are, however, it's likely to involve hefty fines.

- For companies that are not able to compare revenues to the same month of the previous year, for example, a startup with less than a year in operation, other comparisons may be allowed. For example, a comparison to the previous month (i.e., February 2020) may be allowed to determine eligibility. Additional administrative details are expected to be provided as soon as possible.
- Prime Minister Trudeau has stated that the CEWS would be aligned 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.

Additional information

For further details on this program, please see the Government of Canada's official [news release](#) with all the measures, or on the [Department of Finance's CEWS page](#), which provides the greatest amount of detail available to date.

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

© 2020 Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd. All rights reserved.

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.