



## Canada Extends 75% Wage Subsidy and Refines Eligibility

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Certain employers will now be able to receive the 75% Canada Emergency Wage Subsidy until August 29, 2020. In addition, the government announced it will broaden eligibility for the Canada Emergency Wage Subsidy to include additional partnerships and other organizations. The government has also proposed amendments to certain calculations to address amalgamations and seasonal workers. The government indicated that it intends to consult with Canadian businesses to consider further adjustments to eligibility for the subsidy, including possible changes to the 30% revenue decline threshold.

The 75% Canada Emergency Wage Subsidy is available to qualifying employers that have lost revenue during COVID-19 and generally provides an amount to employers equal to 75% of employees' remuneration paid, up to a maximum of \$847 per week per employee, starting March 15, 2020. The subsidy was previously set to expire on June 6, 2020.

### **Background**

In response to COVID-19, Canada made a series of announcements that it would enact targeted fiscal and tax relief intended to support individuals and businesses. Among other measures, Canada proposed changes to accelerate Employment Insurance (EI) sickness benefits, make additional credit available to businesses, and introduce a Canadian Emergency Response Benefit to help individuals. In addition, the CRA announced that it would delay various tax filing and remittance deadlines for taxpayers.

The government also enacted temporary wage subsidies for businesses. The Canada Emergency Wage Subsidy is a temporary 12-week subsidy that will generally provide an amount to employers equal to 75% of employees' remuneration paid, up to a maximum of \$847 per week per employee. The subsidy is available for eligible employers that

have lost revenue during the COVID-19 period, and applies retroactively from March 15, 2020.

In addition, eligible employers who do not qualify for the Canada Emergency Wage Subsidy may be able to claim the 10% temporary wage subsidy to help certain small businesses. This temporary three-month taxable subsidy is available on up to 10% of eligible employee salaries and is restricted to individuals, eligible Canadian-controlled private corporations, certain partnerships, registered charities and not-for-profits. This subsidy provides 10% of remuneration paid from March 18 to before June 20, 2020, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer. The subsidy was included with other COVID-19 emergency measures passed into law on March 25, 2020.

The 75% Canada Emergency Wage Subsidy was passed into law on April 11, 2020, and the application period opened on April 27, 2020. For details, see *TaxNewsFlash-Canada* 2020-39, "[Employers — Canada's 75% Wage Subsidy Now Enacted](#)" and *TaxNewsFlash-Canada* 2020-41, "[Employers — Prepare to Apply for 75% Wage Subsidy](#)".

### Subsidy extended to August 29, 2020

Eligible employers will now be able to claim the 75% Canada Emergency Wage Subsidy for an additional twelve weeks until August 29, 2020, following the government announcement. Unless the government later amends the rules further, employers will have to show a 30% reduction in revenue to claim the subsidy for these weeks. Businesses can compare their revenue to the same monthly period in 2019 or instead use an average of revenue for January and February 2020 to show the reduction. Once employers have decided how to calculate their revenue decline, they must continue to use that same method for all subsidy periods.

### More organizations now eligible for subsidy

The government has also extended eligibility for the 75% Canada Emergency Wage Subsidy to certain partnerships with one or more non-eligible members and additional types of organizations, retroactive to the first qualifying period starting March 15, 2020, and subsequent qualifying periods, provided they meet all other eligibility criteria.

#### *Partnerships with one or more non-eligible members*

The government has expanded eligibility for the 75% Canada Emergency Wage Subsidy to certain partnerships where non-eligible members, taken together, do not hold a majority of the interests in that partnership. Specifically, these partnerships will now be eligible for the subsidy provided that the fair market value of all interests in the partnership held, directly or indirectly, through one or more partnerships by non-eligible entities at all times in the qualifying period does not exceed 50% of the fair market value of all interests in the partnership. Previously, all of a partnership's members were required to be eligible entities

(generally, individuals, taxable corporations, certain non-profit organizations, or registered charities).

### *Other organizations*

Further, the following organizations will also be eligible for the 75% Canada Emergency Wage Subsidy for qualifying periods starting March 15, 2020:

- Registered journalism organizations that are tax-exempt under paragraph 149(1)(h) of the *Income Tax Act*
- National-level Registered Canadian Amateur Athletic Associations that are tax-exempt under paragraph 149(1)(g) of the *Income Tax Act*
- Private colleges and private schools, including for-profit and not-for-profit institutions (e.g., arts schools, language schools, driving schools, flight schools, culinary schools)
- Indigenous government-owned corporations that are carrying on a business and are tax-exempt under paragraph 149(1)(d.5) of the *Income Tax Act* (Indigenous governments include First Nation bands, self-governing Indigenous governments and other comparable Indigenous governing bodies)
- Wholly owned subsidiaries of Indigenous government-owned corporations that are carrying on a business and are tax-exempt under paragraph 149(1)(d.6) of the *Income Tax Act*
- Partnerships where each partner of the partnership is either an Indigenous government or an eligible employer.

### **Proposed legislative changes**

In addition, the government announced that it will propose legislative amendments to help certain amalgamated corporations calculate a revenue decline and to amend the eligibility requirements for tax-exempt trusts. In addition, the government will propose changes to address situations involving certain seasonal employees and employees returning from extended leave to avoid unintended consequences. Proposed legislation to implement these amendments is expected soon.

### *Amalgamated corporations*

The government will propose changes to the 75% Canada Emergency Wage Subsidy to specify how corporations formed on amalgamation can calculate their revenue decline. Specifically, the government will allow corporations formed on an amalgamation of two or more predecessor corporations (or where a corporation is wound up into another), to calculate the benchmark revenue for the revenue-decline test using their combined revenues. However, this approach would not be available where it is reasonable to consider that one of the main purposes for the amalgamation (or the winding up) was to

qualify for the subsidy. This proposal would apply to qualifying periods starting March 15, 2020.

### *Tax-exempt trusts*

The government proposes to change the eligibility for trusts with employees so that a trust that is a tax-exempt entity (other than a public institution), will qualify for the 75% Canada Emergency Wage Subsidy only if it is a registered charity or one of the other types of eligible tax-exempt entities. In addition, a trust that is a public institution would qualify only if it is a prescribed organization. This change is proposed to apply beginning with the third qualifying period (i.e., May 10 to June 6, 2020).

### *Seasonal employees and employees returning from extended leave*

The government proposes to allow employers to choose one of two periods when calculating their employees' baseline remuneration to address certain unintended outcomes when applying for the 75% Canada Emergency Wage Subsidy. In particular, this change is intended to help organizations determine remuneration for employees on parental, disability, or unpaid leave, or for individuals employed on a seasonal basis. Specifically, employers would be allowed to calculate baseline remuneration as either of the following, excluding any period of seven or more consecutive days without remuneration:

- The average weekly remuneration paid to the employee from January 1 to March 15 of 2020, or
- The average weekly remuneration paid to the employee from March 1 to May 31 of 2019.

Employers could choose which calculation method to use on an employee-by-employee basis. This change is proposed to be retroactive to apply to qualifying periods starting March 15, 2020.

#### **KPMG observations**

More changes may be coming to the 75% Canada Emergency Wage Subsidy, as the government has indicated that it will consult with key business and labour representatives over the next month on potential adjustments, including to the 30% revenue decline threshold. The government states that this consultation is intended to ensure the subsidy maximizes Canada's employment, reflects business needs, and supports the post-crisis economic recovery.

### **An action plan for your business — We can help**

While businesses may qualify for benefits under both 75% Canada Emergency Wage

Subsidy, as well as the 10% Temporary Wage Subsidy, it is important to understand the nuances of each program and determine eligibility.

As your trusted advisors, we're here to help. Because every business is unique, our experienced professionals may be able to assist you with establishing that the methodology you use to determine eligibility is consistent with similar organizations in your sector and across Canada. We can provide various levels of assistance to help you determine that you've assembled the appropriate documentation to support your claims, ranging from accounting advice and assistance, a specific procedures report or an audit report on financial information.

These subsidies may play a critical role in your imminent staffing decisions, so do not hesitate to reach out to us to discuss an action plan for your organization. Together, we can help your organization navigate these unprecedented times.

**Stay connected on the latest COVID-19 developments**

We continue to watch tax and legal issues related to the evolving COVID-19 situation and will provide further information as it becomes available. For the latest developments, see our dedicated COVID-19 site, [The Business Implications of Coronavirus](#).

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