



TaxNewsFlash

Canada

Canada Extends Wage Subsidy and Signals Tax Plans

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Certain employers may now be able to receive the Canada Emergency Wage Subsidy (CEWS) into 2021. In the Speech from the Throne on September 23, 2020, the government outlined some of its tax and economic priorities in the wake of COVID-19, and pledged to continue certain emergency support programs for individuals and businesses affected by the pandemic, including the CEWS. In the speech, the government said that in addition to extending these programs, it is focused on measures to create jobs, invest in health and child care and address climate change, among other priorities.

Although details of these changes have not yet been released, the government indicated that it intends to propose legislation to introduce these measures this fall, as part of an update to Canada's COVID-19 Economic Response Plan. The government also advised that it intends to implement taxes to address wealth inequality, including to limit the stock option deduction, and to tax large digital companies.

Background

In response to COVID-19, Canada enacted fiscal and tax relief intended to support individuals and businesses. Among other measures, Canada introduced temporary wage subsidies for businesses. The CEWS is a temporary subsidy that is currently available for nine qualifying four-week periods from March 15, 2020 to November 21, 2020. When the CEWS was initially introduced it generally provided an amount to eligible employers equal to 75% of employees' eligible remuneration paid, up to a maximum of \$847 per week per eligible employee, and required employers to have seen a revenue decline of at least 30% for the particular period (15% for March 2020) in order to qualify. However, beginning July 5, 2020 the government expanded eligibility for the CEWS to employers who do not meet the previous 30% revenue threshold, and

replaced the amount of the subsidy with a new two-part subsidy consisting of a “base” and a “top-up” amount. Under the new rules, the amount of the wage subsidy an eligible employer could qualify for varies depending on their revenue decline, with a maximum combined subsidy of up to 85% of employees’ eligible remuneration paid, up to a maximum of \$960 per week per eligible employee. The amount of the subsidy will be gradually reduced throughout the remaining claim periods. Previously, the government said it would extend the deadline until December 19, 2020.

The CEWS was passed into law on April 11, 2020, and the application period opened on April 27, 2020. For details, see *TaxNewsFlash-Canada* 2020-62, “[Canada Further Extends and Expands Wage Subsidy](#)”, *TaxNewsFlash-Canada* 2020-54, “[COVID-19 — Canada Seeks Changes to Relief Measures](#)”, *TaxNewsFlash-Canada* 2020-47, “[Canada Extends 75% Wage Subsidy and Refines Eligibility](#)”, *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](#)”.

COVID-19 emergency measures

CEWS and other corporate support programs

The government said it will extend the CEWS through to the summer of 2021, but did not provide further details. This extension is intended as part of a range of measures to create new jobs, including direct investments in the social sector and infrastructure, immediate training for workers and incentives for employers to hire and retain workers. The government is also introducing economic incentive programs for women, such as a new Action Plan for Women in the Economy, and additional investments in child care.

The government also announced that it will:

- Expand the Canada Emergency Business Account
- Improve the Business Credit Availability Program
- Introduce further support for industries including travel and tourism, hospitality, and cultural industries like the performing arts.

CERB and individual support measures

As Canada Emergency Response Benefit (CERB) recipients continue to be transitioned to the Employment Insurance system, the government announced it will create the transitional Canada Recovery Benefit for individuals who do not traditionally qualify for EI.

The government also signaled its intention to update the EI system to better account for self-employed individuals and those in the gig economy.

Taxation priorities and changes

Wealth inequality

The government said it intends to identify additional ways to tax wealth inequality, including by finalizing changes to limit the stock option deduction for individuals at large, established corporations, and taxing digital giants.

KPMG observations

The government first proposed changes to the stock option deduction in its 2019 federal budget. Under these changes, certain employee stock options that qualify for the stock option deduction will be annually capped at \$200,000. However, these rules provided that stock options granted by Canadian-controlled private corporations (CCPCs) and certain "highly innovative, fast-growing companies" will be exempt from the new limit. The implementation date for these rules was later indefinitely delayed (see *TaxNewsFlash-Canada* 2019-60, "[New Stock Option Rules Delayed](#)").

The government's pledge to tax "digital giants" may refer to new rules that would apply GST/HST to digital services from foreign-based firms, often referred to by the media as a "Netflix" tax. This measure could require non-resident suppliers of digital services and operators of electronic platforms to register for GST/HST and put systems in place to collect and remit GST/HST on qualifying taxable supplies.

In addition, during the 2019 election campaign, all of Canada's political parties pledged changes to ensure multinational tech companies pay a digital services tax on the revenue they generate in Canada. However, since the election, some government officials have indicated that Canada should wait for the OECD to obtain global consensus for a solution for taxation on the digital economy before moving ahead with any unilateral measures (see *TaxNewsFlash-Canada* 2020-09, "[2020 Federal Budget — Tax Changes on the Table](#)").

Environmental measures

The government notes that climate action is a cornerstone of its job creation plan. As part of this focus, the government intends to make zero-emissions vehicles more affordable, and to launch a new fund to attract investments in making zero-emissions products and reducing the corporate tax rate for these companies by 50%.

KPMG observations

The government previously pledged to cut federal corporate taxes in half for businesses that develop technologies or manufacture products that have zero emissions as part of its 2019 election platform (see *TaxNewsFlash-Canada* 2019-43, "[Post-2019 Election — Possible Tax Changes](#)").

Personal tax changes

The government also announced that it will:

- Increase Old Age Security once individuals turn 75
- Boost the Canada Pension Plan survivor's benefit
- Create a new Canadian Disability Benefit modelled after the Guaranteed Income Supplement for seniors
- Enhance the First-Time Home Buyer Incentive
- Introduce free, automatic tax filing for simple tax returns.

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](#).

We can help

It is important for businesses to understand the complexities of the Canada Emergency Wage Subsidy.

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.

The subsidy 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.

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