



TaxNewsFlash Canada

Canada Further Extends and Expands Wage Subsidy

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Certain employers may now be able to receive the Canada Emergency Wage Subsidy for an extended period of time. The government said it would extend the deadline until December 19, 2020, although it only provided details to November 21, 2020. The government also proposed other new changes to the wage subsidy on July 17, 2020, including new measures to expand the eligibility to employers who do not meet the previous 30% revenue threshold and to replace the subsidy with a new two-part subsidy consisting of a “base” and “top-up” amount. Under the new rules, the amount of the wage subsidy an eligible employer could qualify for would vary depending on their revenue decline, with a maximum combined subsidy of up to 85% of eligible remuneration. These proposals are based on feedback received from a recent public consultation on the subsidy, and are generally intended to apply beginning with the current July reporting period.

The draft legislation also contains new changes that provide continuity rules for employers that have recently purchased assets of a business, provide an appeal process for the wage subsidy and extend the subsidy application deadline. The legislative proposals also include previously announced measures for the subsidy affecting employers with a paymaster arrangement, amalgamated corporations, tax exempt trusts and seasonal employees. The draft legislation further includes previously tabled measures to allow the government to temporarily extend or suspend certain federal statutory deadlines and time limits up to December 31, 2020.

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 Canada Emergency Wage Subsidy was previously

a temporary 24-week subsidy that generally provided an amount to eligible 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.

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* 2020-54, "[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](#)".

Subsidy extended to December 2020

Eligible employers will now be able to claim the Canada Emergency Wage Subsidy until December 19, 2020, according to the government's most recent announcement. Although the government released proposed legislation to enact the extension and other changes to the subsidy, these measures only specify changes to the revenue thresholds, subsidy rates and reference periods until November 21, 2020.

Revenue threshold and subsidy rate changes

In addition to allowing eligible employers to claim the wage subsidy until December 19, 2020, the government is proposing for the wage subsidy to apply on a sliding scale, depending on the employer's revenue decline, and will also introduce a "top-up" subsidy that can only be claimed by employers that experience a three-month average revenue decline of more than 50%. These changes are proposed to apply beginning July 5, 2020, and the amount of the subsidy will gradually be reduced throughout the remaining claim periods.

An eligible employer may now be eligible for a wage subsidy of up to 85% of employees' remuneration paid, up to a maximum of \$960 per week, after allowing for the "top-up" rate. The government has proposed a "safe harbour" rule to allow employers with a revenue decline of 30% or more to receive the same 75% subsidy rate for the July and August periods (i.e., periods 5 and 6) that they otherwise would have received under the previous rules, if this is a larger amount.

The proposals vary the rate of the base subsidy depending on the level of revenue decline, including for employers with a revenue decline of less than 30%. The maximum base rate applies when the revenue drop is 50% or more, while a declining base rate applies when the revenue drop is less than 50%. The maximum base subsidy rate is gradually reduced from 60% in July and August to 20% in November. The subsidy is calculated on a maximum remuneration per employee of \$1,129 per week.

The proposed base subsidy rates are as follows for reference periods beginning July 5, 2020:

	July 5 – Aug. 1 (Period 5)	Aug. 2 – Aug. 29 (Period 6)	Aug. 30 – Sept. 26 (Period 7)	Sept. 27 – Oct. 24 (Period 8)	Oct. 25 – Nov. 21 (Period 9)
Subsidy Rate (by Revenue Drop)					
50% and over	60%	60%	50%	40%	20%
0% to 49%	1.2 x revenue drop	1.2 x revenue drop	1.0 x revenue drop	0.8 x revenue drop	0.4 x revenue drop
Maximum Weekly Subsidy Per Employee					
	Up to \$677*	Up to \$677	Up to \$565	Up to \$452	Up to \$226
* i.e., 60% of \$1,129.					

“Top-up” subsidy

The proposals also provide a “top-up” rate for employers that have experienced a three-month average revenue drop of more than 50%. This rate is equal to 1.25 times the average revenue drop in excess of 50%, up to a maximum top-up rate of 25% (which is attained at a 70% or more revenue decline). The subsidy is calculated on a maximum remuneration of up to \$1,129 per employee per week. Examples of how the top-up rate will be calculated are illustrated as follows:

Three-Month Average Revenue Drop	Top-up Rate	Top-up calculation 1.25 x (3-month revenue drop - 50%)
70% and over	25%	1.25 x (70%-50%) = 25%
65%	18.75%	1.25 x (65%-50%) = 18.75%
60%	12.5%	1.25 x (60%-50%) = 12.5%
55%	6.25%	1.25 x (55%-50%) = 6.25%
50% and under	0.0%	1.25 x (50%-50%) = 0.0%

An employer that experienced a three-month average revenue drop of 70% or more in the preceding three months would calculate its overall rate as follows:

	July 5 – Aug. 1 (Period 5)	Aug. 2 – Aug. 29 (Period 6)	Aug. 30 – Sept. 26 (Period 7)	Sept. 27 – Oct. 24 (Period 8)	Oct. 25 – Nov. 21 (Period 9)
Subsidy Rate (by Revenue Drop)					
50% and over	85% (60% + 25% top-up)	85% (60% + 25% top-up)	75% (50% + 25% top-up)	65% (40% + 25% top-up)	45% (20% + 25% top-up)
0% to 49%	1.2 x revenue drop + 25% top-up	1.2 x revenue drop + 25% top-up	1.0 x revenue drop + 25% top-up	0.8 x revenue drop + 25% top-up	0.4 x revenue drop + 25% top-up
Maximum Weekly Subsidy Per Employee					
	Up to \$960*	Up to \$960	Up to \$847	Up to \$734	Up to \$508
* i.e., 85% of \$1,129.					

Reference periods

The government is also proposing to expand the ways that an eligible employer can calculate its revenue drop for the current July period and all subsequent periods. Specifically, an eligible employer would be able to calculate its revenue drop as the greater of its percentage revenue decline when comparing:

- The current month to the same month in 2019, and
- The previous month to the same month in 2019.

An eligible employer can also elect to use an alternative method to compare either:

- The current month to the average of January and February 2020
- The previous month to the average of January and February 2020.

The government notes that employers who elected to use the alternative approach for the first four periods can maintain that election for the July claim period (i.e., Period 5) and onward or revert to the general approach. Similarly, employers who have used the general approach for the first four periods would be able to continue with the general approach or elect to use the alternative approach for the July claim period and onwards. Whichever approach an employer chooses will apply for the July claim period and onwards.

For each claiming period, the revenue drop is calculated based on the decline in revenue in the following reference periods:

Claiming period	Reference Period For Eligibility (general)	Alternative Reference Period
July 5 – August 1, 2020	July 2020 over July 2019; or June 2020 over June 2019	July or June 2020 over average of January and February 2020
August 2 – August 29, 2020	August 2020 over August 2019; or July 2020 over July 2019	August or July 2020 over average of January and February 2020
August 30 – September 26, 2020	September 2020 over September 2019; or August 2020 over August 2019	September or August 2020 over average of January and February 2020
September 27 – October 24, 2020	October 2020 over October 2019; or September 2020 over September 2019	October or September 2020 over average of January and February 2020
October 25 – November 21, 2020	November 2020 over November 2019; or October 2020 over October 2019	November or October 2020 over average of January and February 2020

The government has not yet released details on the final claiming period from November 22, 2020 to December 19, 2020.

“Top-up” reference periods

The government proposes to determine the eligibility for the top-up subsidy by calculating a three-month revenue decline, as follows.

Claiming period	Reference Period For Eligibility (general)	Alternative Reference Period
July 5 – August 1, 2020	April to June 2020 over April to June 2019	Average of April to June 2020 over average of January and February 2020
August 2 – August 29, 2020	May to July 2020 over May to July 2019	Average of May to July 2020 over average of January and February 2020
August 30 – September 26, 2020	June to August 2020 over June to August 2019	Average of June to August 2020 over average of January and February 2020
September 27 – October 24, 2020	July to September 2020 over July to September 2019	Average of July to September 2020 over

		average of January and February 2020
October 25 – November 21, 2020	August to October 2020 over August to October 2019	Average of August to October 2020 over average of January and February 2020

Employee eligibility changes

The government proposes to extend the subsidy to eligible employees that are without remuneration for 14 or more consecutive days in an eligibility period, effective July 5, 2020. Previously, the eligibility criteria excluded these employees.

The changes to the subsidy calculation do not apply to furloughed employees. For the July and August claim periods (i.e., periods 5 and 6), the subsidy would remain the same as in the March to June periods (i.e., periods 1 to 4). The government proposes to adjust the wage subsidy for furloughed employees starting for the September claim period (i.e., period 7) to align with the Canada Emergency Response Benefit (CERB) and Employment Insurance (EI).

The government also explains that, for active arm's-length employees, the amount of remuneration would be based solely on actual remuneration paid for the eligibility period, without reference to the "pre-crisis" remuneration concept used for earlier periods. and that a modified special rule would apply to active employees that do not deal at arm's length with the employer. Starting for the July claim period (i.e., period 5) and subsequent periods, the wage subsidy for these employees would be based on the employee's weekly eligible remuneration or pre-crisis remuneration, whichever is less, up to a maximum of \$1,129. The subsidy would only be available in respect of non-arm's-length employees that were employed before March 16, 2020.

For the June claim period (i.e., period 4), an employee's pre-crisis remuneration would be based on the average weekly remuneration paid to the employee from January 1 to March 15, 2020; from March 1, 2019 to May 31, 2019; or from March 1, 2019 to June 30, 2019. Starting for the July claim period (i.e., period 5), an employee's pre-crisis remuneration would be based on the average weekly remuneration paid to the employee from January 1 to March 15, 2020 or from July 1, 2019 to December 31, 2019. In all cases, the calculation of average weekly remuneration would exclude any period of 7 or more consecutive days without remuneration. Employers can choose which period to use on an employee-by-employee basis.

Legislative changes

The government proposes additional technical changes that would generally apply as of March 15, 2020. Specifically, these changes:

- Provide continuity rules for calculating a revenue decline where the employer purchased, from a person or partnership, all or substantially all of the assets used in carrying on the seller's business in Canada, provided an election is filed
- Provide an appeal process for the subsidy amount to the Tax Court of Canada based on the existing appeal process for notices of determination
- Allow prescribed public institutions that are eligible employers and either a registered charity or a non-profit organization to choose whether to exclude government-source revenue for the purpose of computing their reductions in qualifying revenue
- Allow employers that use the cash method of accounting to elect to use accrual-based accounting to compute their revenues for the subsidy
- Extend the subsidy application deadline to January 31, 2021 (from September 30, 2020).

Other previously announced proposals

The legislation also includes measures to enact previously announced measures regarding the wage subsidy. Specifically, these measures:

- Allow employers with “paymaster arrangements” to qualify for the subsidy
- Allow corporations formed on amalgamation (or winding up) to calculate their benchmark revenue for the revenue-decline test using their combined revenues, except where it is reasonable to consider that one of the main purposes for the amalgamation (or winding up) was to qualify for the subsidy, or increase the amount of the subsidy
- Allow certain tax-exempt trusts to qualify for the subsidy
- Allow employers to choose one of two periods when calculating their employees' baseline remuneration in order to help seasonal employees and employees returning from extended leave.

In addition, the legislation includes measures to enact previously tabled measures to allow the government to temporarily extend or suspend certain federal statutory deadlines and time limits up to December 31, 2020 and allow the government to access taxpayer information for the purpose of making a one-time payment to persons with disabilities. The federal government previously introduced these and other proposals in Bill C-17, which did not receive enough support to pass under Canada's current minority government. For details, see *TaxNewsFlash-Canada* 2020-54, "[COVID-19 — Canada Seeks Changes to Relief Measures](#)" and *TaxNewsFlash-Canada* 2020-47, "[Canada Extends 75% Wage Subsidy and Refines Eligibility](#)".

An action plan for your business — 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.

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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