



TaxNewsFlash

Canada

Canada Provides Details on Latest Wage Subsidy Changes

November 11, 2020

No. 2020-80

Certain employers should determine how they may be affected by new changes to the Canada Emergency Wage Subsidy (CEWS). The government has now introduced legislation that provides more details on the changes to the CEWS it first announced on October 9 and October 14, 2020, including extending the CEWS to June 2021 and revisions to maintain the current CEWS rate of up to a maximum of 65% of eligible wages until December 19, 2020 (previously, this rate was scheduled to go down to a maximum of 45% effective October 25, 2020). Although the government has so far only provided details on the CEWS until December 19, 2020, it has indicated that it will provide details for the upcoming periods before they begin.

As part of the legislation to enact these changes, the government also proposed a Canada Emergency Rent Subsidy and a 25% Lockdown Support Subsidy for eligible businesses. For more on these new COVID-19 support programs, see *TaxNewsFlash-Canada* 2020-79, "[Canada Launches Rent Subsidy Support for Businesses](#)". These measures received first reading in the House of Commons on November 2, 2020, and are expected to soon pass into law.

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 from March 15, 2020 to December 19, 2020 and has been extended to the summer of 2021. 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.

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 in July and August 2020. The amount of the maximum subsidy was scheduled to be gradually reduced throughout the remaining claim periods and reach a maximum subsidy of 45% for the period October 25, 2020 to November 21, 2020, with no details provided for subsequent periods. However, the government subsequently said it would extend the subsidy through to June 2021, and announced that it would retain the maximum subsidy of up to 65% of eligible remuneration paid, up to a maximum of \$734 per week per eligible employee, that applied for the period September 27 to October 24, 2020 period, until December 19, 2020. The government also announced that it would harmonize the revenue-decline test for the base subsidy and the top-up subsidy starting September 27, 2020 and align the wage subsidy for furloughed employees with Employment Insurance (EI) benefits, beginning on October 25, 2020.

The CEWS was passed into law on April 11, 2020, and the application period opened on April 27, 2020. For details, see *TaxNewsNow*, [Canada Proposes additional CEWS tweaks](#), *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”](#).

Maintaining the subsidy rate

The government has now confirmed that it will extend the CEWS until June 2021, and that it will maintain the current subsidy rate of up to a maximum of 65% of eligible wages until December 19, 2020.

Harmonizing the revenue-decline test

The government has confirmed that it will align the revenue-decline test in the two components of the CEWS—the top-up wage subsidy and the base subsidy, starting September 27, 2020 onward. As a result, both the base and top-up wage subsidies will now be determined in the same way, in reference to the revenue drop calculated by comparing either:

- An eligible employer's monthly revenues, year-over-year, to either the current or previous calendar month, or
- An eligible employer's current monthly revenues with the average of its January 2020 and February 2020 revenues.

Employers must continue to use the same approach for prior reference periods that they previously chose beginning July 5, 2020. The government notes that, from September 27, 2020 to December 19, 2020 (i.e., Periods 8 to 10), an eligible employer will still be entitled to a top-up wage subsidy rate that is not lower than the rate that it would have received under the top-up wage subsidy's previous three-month revenue-decline test. To determine its combined subsidy for a qualifying period, an eligible employer can also use its greater percentage revenue decline for the current qualifying period or the preceding qualifying period.

As a result, from September 27, 2020 to December 19, 2020 (i.e., Periods 8 to 10), eligible organizations that experience a revenue drop would be eligible to claim the CEWS as follows:

- Revenue decline of 70% and over — 65% combined base and top-up wage subsidy rate (i.e., a maximum weekly benefit per employee of up to \$734)
- Revenue decline of 50% to 69% — $40\% + (\text{revenue drop} - 50\%) \times 1.25$
(e.g., $40\% + (60\% \text{ revenue drop} - 50\%) \times 1.25 = 52.5\%$ combined base and top-up wage subsidy rate)
- Revenue decline of 1% to 49% — Revenue drop $\times 0.8$
(e.g., $25\% \text{ revenue drop} \times 0.8 = 20\%$ base subsidy rate)

Alignment of benefits for furloughed employees

The government has also aligned the wage subsidy calculation for furloughed employees with EI benefits, from October 25 to December 19, 2020 (i.e., Periods 9 and 10). As a result, the calculation for a furloughed employee would be the lesser of:

- The amount of eligible remuneration paid in respect of the week, and
- The greater of \$500 or 55% of the employee's pre-crisis remuneration, up to a maximum subsidy amount of \$573.

The government notes that the employer will continue to receive refunds for their portion of contributions to the Canada Pension Plan, EI, the Quebec Pension Plan, and the Quebec Parental Insurance Plan.

Employees returning from leave — Special baseline remuneration period

The government will allow an eligible employer to elect for each qualifying period from July 5 to December 19, 2020 (i.e., Periods 5 to 10), a special baseline remuneration period for

an eligible employee who returns from a continuous maternity, parental, caregiver, or long-term sick leave that began before July 1, 2019 and ended after March 15, 2020. This baseline remuneration period is used to calculate an employee's average weekly eligible remuneration to help determine an eligible employer's entitlement to the wage subsidy.

This special remuneration period would be the 90-day period ending immediately before the beginning of the employee's leave period. For these employees, the government will allow a proposed new baseline remuneration period instead of the regular baseline remuneration period (January 1 to March 15, 2020) or, the alternative baseline remuneration period (July 1, 2019 to December 31, 2019), which would otherwise not provide any baseline remuneration for these employees.

Extended application period

The government has pushed back the wage subsidy application deadline as a result of the CEWS extension to June 2021. Under this change, eligible employers must apply for the CEWS for a qualifying period by the later of January 31, 2021 or 180 days after the end of the qualifying period (previously the deadline was no later than January 31, 2021).

Additional technical changes

The government also made certain technical changes to the CEWS rules, including for asset purchases, eligible employees and amending or revoking elections.

Asset purchases

The government has extended a rule for determining reference period revenues that applies when an entity purchases certain business assets. Specifically, where an entity that purchases the assets of a business, or of a distinct part of a business, from an arm's length seller and the purchaser uses those assets to carry on a business, then the purchaser can use the prior reference period revenues associated with those assets for the purpose of computing its revenue decline. In this case, the purchaser and seller would still need to make a joint election.

Eligible employees

The government also introduced technical changes to ensure that only employees of an eligible entity employed primarily in Canada throughout a qualifying period (or portion of a qualifying period during which the employee was employed by the eligible entity) are considered "eligible employees" for the purpose of the wage subsidy.

Amending or revoking elections

The government will allow eligible entities to amend or revoke a CEWS election on or before the application due date for the first qualifying period for which the election is made.

KPMG observations

The CRA recently began auditing CEWS claims for March 15, 2020 to August 29, 2020 (i.e., Periods 1 through 6) and, in some cases, has asked claimants to provide significant documentation within a short timeframe. Although initial information requests included an exhaustive list of documentation for claimants to provide, the CRA says it has since directed its auditors to limit these document requests to information required to complete the audit.

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.

The CRA is now actively auditing CEWS claims. We can help your organization prepare documentation for an audit, which can ensure that you properly manage the claim and audit process. Taking action now can be instrumental in maintaining your organization's ability to continue to file CEWS claims.

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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