



TaxNewsFlash Canada

Employers — Canada Eases Access to 75% Wage Subsidy

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Canada has provided more details of the Canada Emergency Wage Subsidy to help businesses retain employees during COVID-19. Finance stated that employers will now only have to show that they have experienced a 15% reduction in revenue in March 2020 to claim the subsidy (instead of a 30% reduction), and indicated that employers can also choose to use an average of revenue for January 2020 and February 2020 to compare to their revenue for March, April and May 2020, instead of the equivalent month from 2019, among other changes. These changes were announced on April 8, 2020.

The government also noted that it will offer additional flexibility for the revenue loss calculation to registered charities and non-profit organizations. As well, the government announced that employers eligible for the Canada Emergency Wage Subsidy will be entitled to receive a 100% refund for certain employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan. The legislation to enact the Canada Emergency Wage Subsidy is not yet publicly available, but it is expected soon.

Earlier on April 8, 2020, the Prime Minister also announced that an unrelated wage subsidy provided under the Canada Summer Job program would increase to 100%.

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 announced 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. At that time, the government stated that the subsidy is available for eligible employers that have lost at least 30% of revenue due to COVID-19, and will apply retroactively from March 15, 2020 to June 6, 2020.

In addition, eligible employers who do not qualify for the Canada Emergency Wage Subsidy will be able to claim the previously enacted 10% temporary wage subsidy to help certain small businesses. The government stated that this temporary three-month taxable subsidy would be available on up to 10% of eligible employee salaries and was restricted to individuals, eligible small businesses, certain partnerships, registered charities and not-for-profits. This subsidy will provide 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.

For details, see *TaxNewsFlash-Canada* 2020-10, "[Tax Measures Included in Canada's COVID-19 Response](#)", *TaxNewsFlash-Canada* 2020-11, "[Fiscal Relief on the Way Following COVID-19 Concerns](#)", *TaxNewsFlash-Canada* 2020-14, "[COVID-19 — Tax Deadline Delay and More Relief Announced](#)", *TaxNewsFlash-Canada* 2020-29, "[Federal COVID-19 Relief — More Details Released](#)" and *TaxNewsFlash-Canada* 2020-35, "[Employers — Canada Provides Details of 75% Wage Subsidy](#)".

How much does the subsidy provide?

The government confirmed that it will provide a subsidy on eligible remuneration of an employee paid between March 15, 2020 and June 6, 2020 that is the greater of:

- 75% of remuneration paid, up to a maximum of \$847 per week, or
- The lesser of either:
 - The remuneration paid, up to a maximum of \$847 per week, or
 - 75% of the employee's "pre-crisis" weekly remuneration

The government has now stated that pre-crisis remuneration for a given employee will be based on the average weekly remuneration paid between January 1 and March 15, 2020 inclusively, excluding any seven-day periods that the employee did not receive remuneration.

Eligible remuneration includes salary, wages, and other remuneration, but not severance pay, or items such as stock option benefits or the personal use of a corporate vehicle. However, the government has now clarified that taxable benefits are considered eligible remuneration. Employers are expected to make their “best effort” to maintain existing employees’ employment earnings, where possible, and there is no overall limit on the subsidy amount that an eligible employer may claim.

Employers will also be eligible for a subsidy of up to 75% of salaries and wages paid to new employees. In addition, where employees do not deal at arm’s length with the employer, the subsidy amount for these employees will 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. The subsidy would only be available in respect of non-arm’s length employees employed prior to March 15, 2020.

Changes to eligibility

The government said it is considering limiting duplication, which could include a process to allow individuals rehired by their employer during the same eligibility period to cancel their Canada Emergency Response Benefit (CERB) claim and repay that amount.

Eligibility for the Canada Emergency Wage Subsidy of an employee’s remuneration, will be limited to employees that have not been without remuneration for more than 14 consecutive days in the eligibility period (i.e., from March 15 to April 11, from April 12 to May 9, and from May 10 to June 6). Previously, the government noted that the subsidy would not be available for remuneration paid to an employee in a week that falls within a four-week period for which the employee is also eligible for the Canadian Emergency Response Benefit.

The government also clarified that an eligible employee is an individual who is employed in Canada.

Calculating decrease in revenue

Employers can show a 15% reduction for March 2020

The government will ease the eligibility criteria for employers to claim the subsidy in March 2020. Specifically, businesses will now only have to show that they have experienced a drop of at least 15% in revenue in March 2020 (previously, a 30% reduction was required). Despite this change, eligible employers will still have to show a 30% reduction in April and May 2020 to claim the subsidy for those months.

Reference period options

The government will allow businesses to choose between two different methods to calculate the decline in revenue. Businesses can compare their revenue to the same monthly period in 2019, as previously announced, but can now also choose to instead use an average of revenue for January and February 2020 to show the reduction. Once

employers decide how to show their revenue decline, they must use the same method throughout the program. This change is intended to provide more flexibility to high-growth firms, sectors that faced difficulties in 2019, non-profits and charities, and employers established after February 2019.

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

Claiming period	Reference period for eligibility
March 15 to April 11, 2020 (15% required reduction in revenue)	March 2020 over either March 2019 or average of January and February 2020
April 12 to May 9, 2020 (30% required reduction in revenue)	April 2020 over either April 2019; or average of January and February 2020
May 10 to June 6, 2020 (30% required reduction in revenue)	May 2020 over either May 2019; or average of January and February 2020

Accounting method options

The government has clarified that businesses will also be allowed to measure revenues on the basis of accrual accounting or cash accounting to determine this decline, but not a combination of both. In addition, once employers select an accounting method, they must apply it throughout the program.

KPMG observations

The government said it will provide special rules to address issues for corporate groups, non-arm's length entities and joint ventures. It is not yet known when these rules will be released. In addition, the Finance Minister indicated in a press conference on April 8, 2020, that employers will be required to designate someone with control over finances to ensure that claims are appropriate.

Employer contributions — Refund for eligible businesses

The government also announced that businesses that qualify for the Canada Emergency Wage Subsidy may now receive a refund for certain employer-paid contributions to Employment Insurance (EI), the Canada Pension Plan, the Quebec Pension Plan and the Quebec Parental Insurance Plan. This refund would apply to the entire amount of employer-paid contributions for eligible employees for each week that these employees are on leave with pay, and that the employer is eligible to claim the subsidy for those employees.

For these purposes, an employee will be considered to be on leave with pay throughout a week if that employee is remunerated by the employer for that week, but does not perform any work for the employer in that week. This refund will not be available for eligible employees that are on leave with pay for only a portion of a week. The government advised that this refund would not be subject to the employer's weekly maximum benefit per

employee of \$847, and there will be no overall limit on the refund amount that an eligible employer may claim.

To obtain this refund, eligible employers would be required to continue to collect and remit employer and employee contributions to each program as usual, and then apply for a refund when applying for the Canada Emergency Wage Subsidy.

Special rules for charities

The government also advised that registered charities and non-profit organizations will have additional flexibility for the revenue decrease calculation. Specifically, these employers will include most forms of revenue in the calculation, excluding revenues from non-arm's length persons. These organizations would be allowed to choose whether or not to include revenue from government sources as part of the calculation. Once chosen, the same approach would have to apply throughout the program period.

Additional compliance measures

The government confirmed that employers that do not use the subsidy as intended would face “stiff and severe” penalties. In particular, the government advised that employers that engage in artificial transactions to reduce revenue to claim the subsidy would be subject to a penalty equal to 25% of the value of the subsidy claimed, and must also fully repay the subsidy that was improperly claimed.

KPMG observations

The Finance Minister also noted in the press conference on April 8, 2020, that employers that engage in artificial transactions would effectively be subject to a fine of up to 225% of the amount received under the subsidy. In addition to this fine, the Finance Minister also noted that such employers may be punished by up to five years in prison.

Interaction with Work-Sharing program

The government clarified that EI benefits received by employees through the Work-Sharing program will reduce the benefit that their employer is entitled to receive under the subsidy.

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

Your KPMG advisor can help you assess how COVID-19 may affect your tax obligations. We can also keep you abreast of any tax-related changes related to COVID-19 that you'll need to consider in the days and weeks ahead.

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