



TaxNewsFlash Canada

Employers — Canada Provides Details of 75% Wage Subsidy

April 1, 2020
No. 2020-35

Canada has announced details of the Canada Emergency Wage Subsidy to help businesses retain employees during the COVID-19 situation. This temporary 12-week subsidy, which was further described by Finance Minister Bill Morneau on April 1, 2020, 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 at least 30% of revenue due to COVID-19, and will apply retroactively from March 15, 2020 to June 6, 2020. This measure is in addition to the previously enacted 10% temporary wage subsidy to help certain small businesses, which will still be available to eligible employers who do not qualify for the Canada Emergency Wage Subsidy.

The Canada Emergency Wage Subsidy is intended to enable employers to retain employees or re-hire workers previously laid off. To receive the subsidy, businesses will have to show that they have experienced a 30% reduction in revenue in comparison to the same monthly period in 2019, among other considerations. Businesses will be able to apply for the subsidy through an online CRA portal that is expected to be launched in the coming weeks. The legislation to enact the Canada Emergency Wage Subsidy is expected soon.

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.

The government also announced a temporary wage subsidy to help 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.

In addition, the CRA announced that it would delay various tax filing and remittance deadlines for taxpayers.

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](#)" and *TaxNewsFlash-Canada* 2020-29, "[Federal COVID-19 Relief — More Details Released](#)".

Which employers are eligible for the subsidy?

The government announced that individuals, taxable corporations, and partnerships consisting of eligible employers will be eligible for the Canada Emergency Wage Subsidy, as well as non-profit organizations and registered charities. However, public bodies would not be eligible for this subsidy, including municipalities and local governments, Crown corporations, public universities, colleges, schools and hospitals.

KPMG observations

The government noted that where employers are eligible for both the Canada Emergency Wage Subsidy and the previously announced 10% wage subsidy for a period, any benefit from the 10% wage subsidy for remuneration paid in that period would generally reduce the amount the employer can claim under the Canada Emergency Wage Subsidy in that same period.

How can employers calculate a decrease in revenue?

To qualify these employers must attest that they have experienced at least a 30% drop in revenue from business carried on in Canada earned from arm's-length sources compared to the same monthly period in 2019 (i.e. March, April or May). To calculate this revenue, employers must use their normal accounting method, and exclude revenues from extraordinary items and amounts on account of capital. When comparing year-over-year changes in monthly revenues, employers should not include the amount of the wage subsidy that they received in a given month. For each claiming period below, 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	March 2020 over March 2019
April 12 to May 9, 2020	April 2020 over April 2019
May 10 to June 6, 2020	May 2020 over May 2019

For example, an eligible employer must attest that their revenue in March 2020 has declined 30% compared to their revenues in March 2019 to be eligible for the subsidy from March 15 - April 11, 2020.

KPMG observations

It's not yet clear how this subsidy may apply to employers who may not be able to show their revenue from March, April or May 2019 because, among other possibilities, they are a start-up or new company that did not have revenue at this time last year. The government said that it realizes that not all companies will be able to provide this information and that it will provide more details for these employers in the future.

In addition, the government said it will continue to work with affected non-profit organizations and registered charities to ensure the definition of revenue is appropriate to their circumstances. Further, the government indicated that is considering supplementary changes to support non-profits and charities, and that it will announce details soon.

How much does the subsidy provide?

The government 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 (further guidance on the determination of "pre-crisis" remuneration is still forthcoming).

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. 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.

KPMG observations

The government advises that amounts that an employer receives under the wage subsidy would be considered government assistance and be included in the employer's taxable income. This assistance would reduce the amount of remuneration expenses eligible for other federal tax credits calculated on the same remuneration.

Further, the government notes that the subsidy is not 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. However, employers who are not eligible for the Canada Emergency Wage Subsidy would still be able to furlough employees who will receive up to \$2,000 a month.

Additional compliance measures

The government said that employers that do not use the subsidy as intended would face "stiff and severe" penalties. In particular, employers that do not meet the eligibility requirements will have to repay subsidy amounts. New anti-abuse rules will ensure that the subsidy is not inappropriately obtained and employees are paid the amounts they are owed. Penalties may also apply to taxpayers who make fraudulent claims.

How to apply

Employers can apply for the Canada Emergency Wage Subsidy through the CRA's *My Business Account* portal and an online portal that will be available in the coming weeks. To receive the subsidy, businesses will have to keep records demonstrating their reduction in arm's-length revenues and remuneration paid to employees, and apply each month that the subsidy is available. The government said that it expects to provide the subsidy to employers in approximately six weeks, and urged businesses to ensure they are part of the CRA's direct deposit pay system.

More details about the application process are expected soon.

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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