Government of Canada Gouvernement du Canada

The Canada Emergency Wage Subsidy

What It Means for Canadian Employers

The new Canada Emergency Wage Subsidy (CEWS) provides a 75% wage subsidy to eligible employers for up to 12 weeks, retroactive to March 15, 2020.

The CEWS prevents further job losses, encourages employers to re-hire workers previously laid off as a result of COVID-19, and help better position Canadian companies and other employers to more easily resume normal operations following the crisis.

Eligible Employers

Eligible employers includes:

- individuals
- taxable corporations
- partnerships consisting of eligible employers, non-profit organizations and registered charities. Those that see a drop of at least 15% of their revenue in March 2020 and 30% for the following months (see *Eligible Periods*).

Public bodies are not eligible for this subsidy. Public bodies generally include municipalities and local governments, Crown corporations, wholly owned municipal corporations, public universities, colleges, schools and hospitals.

To ensure that the Canada Emergency Response Benefit (CERB) applies as intended, we are considering implementing an approach to limit duplication. This could include a process to allow individuals rehired by their employer during the same eligibility period to cancel their CERB claim and repay that amount.

Calculating Revenues

An employer's revenue for this purpose is its revenue in Canada earned from arm's-length sources. Revenue is calculated using the employer's normal accounting method, and exclude revenues from extraordinary items and amounts on account of capital.
Employers are allowed to calculate their revenues under the accrual method or the cash

method, but not a combination of both. Employers select an accounting method when first applying for the CEWS and require to use that method for the entire duration of the program.

For registered charities and non-profit organizations, the calculation includes most forms of revenue, excluding revenues from non-arm's length persons. These organizations are allowed to choose whether or not to include revenue from government sources as part of the calculation. Once chosen, the same approach applies throughout the program period.

Special rules for the computation of revenue are provided to take into account certain non-arm's length transactions, such as where an employer sells all of its output to a related company that in turn earns arm's length revenue. As well, affiliated groups are able to compute revenue on a consolidated basis.

Amount of Subsidy

The subsidy amount for a given employee on eligible remuneration paid for the period between March 15 and June 6, 2020 is the greater of:

- 75% of the amount of remuneration paid, up to a maximum benefit of $847 per week; and
- the amount of remuneration paid, up to a maximum benefit of $847 per week or 75% of the employee's pre-crisis weekly remuneration, whichever is less.

In effect, employers may be eligible for a subsidy of up to 100% of the first 75% of pre-crisis wages or salaries of existing employees. These employers are expected where possible to maintain existing employees' pre-crisis employment earnings.
The pre-crisis remuneration for a given employee is based on the average weekly remuneration paid between January 1 and March 15 inclusively, excluding any seven-day periods in respect of which the employee did not receive remuneration.
Employers are also eligible for a subsidy of up to 75% of salaries and wages paid to new employees.

Eligible remuneration may include salary, wages, and other remuneration like taxable benefits. These are amounts for which employers are generally required to withhold or deduct amounts to remit to the Receiver General on account of the employee's income tax obligation. However, it does not include severance pay, or items such as stock option benefits or the personal use of a corporate vehicle.

A special rule applies to employees that do not deal at arm's length with the employer. The subsidy amount for such employees is limited to the eligible remuneration paid in any pay period between March 15 and June 6, 2020, up to a maximum benefit of the lesser of $847 per week and 75% of the employee's pre-crisis weekly remuneration. The subsidy is only available in respect of non-arm's length employees employed prior to March 15, 2020.

There is no overall limit on the subsidy amount that an eligible employer may claim.

Employers are expected to make their best effort to top-up employees' salaries to bring them to pre-crisis levels.

Refund for Certain Payroll Contributions

We expanded the CEWS by introducing a new 100%refund for certain employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan. This refund covers 100% of employer-paid contributions for eligible employees for each week throughout which those employees are on leave with pay and for which the employer is eligible to claim for the CEWS for those employees.

In general, an employee is 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 is not be available for eligible employees that are on leave with pay for only a portion of a week.

This refund is not subject to the weekly maximum benefit per employee of $847 that an eligible employer may claim in respect of the CEWS. There is no overall limit on the refund amount that an eligible employer may claim.

For greater certainty, employers are required to continue to collect and remit employer and employee contributions to each program as usual. Eligible employers apply for a refund, as described above, at the same time that they apply for the CEWS.

Eligible Periods

Eligibility is determined by the change in an eligible employer's monthly revenues, year-over-year, for the calendar month in which the period began.

All employers are allowed to calculate their change in revenue using an alternative benchmark to determine their eligibility. This provides more flexibility to employers for which the general approach may not be appropriate, including high-growth firms, sectors that faced difficulties in 2019, non-profits and charities, as well as employers established after February 2019.

Under this alternative approach, employers are allowed to compare their revenue using an average of their revenue earned in January and February 2020. Employers can select the general year-over-year approach or this alternative approach when first applying for the CEWS and are required to use the same approach for the entire duration of the program.

In order to provide certainty to employers, once an employer is found eligible for a specific period, the employer automatically qualifies for the next period.

- ABC Inc. is a start-up that started its operations last September. It reported revenues of $100,000 in January and $140,000 in February, for a monthly average of $120,000. In

March, its revenues dropped to $90,000. Because revenues in March are 25% lower than $120,000, ABC Inc. would be eligible for the CEWS for the first and second claiming period. To be eligible for the third claiming period, ABC Inc. revenues would have to be $84,000 or less for the month of April or May (that is, 30% lower than $120,000).

The amount of wage subsidy (provided under the COVID-19 Economic Response Plan) received by the employer in a given month is ignored for the purpose of measuring year-over-year changes in monthly revenues.

- For example, if revenues in March 2020 were down 20% compared to March 2019, the employer would be allowed to claim the CEWS (as calculated above) on remuneration paid between March 15 and April 11, 2020, as well as between April 12 to May 9.
- Alternatively, this employer could use its average revenue from the months of January and February 2020, instead of March 2019, to determine if it is eligible for the CEWS.
- Once an approach is chosen, the employer would have to apply it throughout the program period.

The table below outlines each claiming period, the required reduction in revenue and the reference period for eligibility.

Eligible Periods			
	Claiming period	**Required reduction in revenue**	**Reference period for eligibility**
Period 1	March 15 to April 11	15%	March 2020 over: • March 2019 or • Average of January and February 2020
Period 2	April 12 to May 9	30%	Eligible for Period 1 **OR** April 2020 over: • April 2019 or • Average of January and February 2020
Period 3	May 10 to June 6	30%	Eligible for Period 2 **OR** May 2020 over: • May 2019 or

Eligible Periods			
	Claiming period	**Required reduction in revenue**	**Reference period for eligibility**
			• Average of January and February 2020

Eligible employees

An eligible employee is an individual who is employed in Canada.

Eligibility for the CEWS of an employee's remuneration is available to employees other than those who have been without remuneration for 14 or more consecutive days in the eligibility period, i.e., from March 15 to April 11, from April 12 to May 9, or from May 10 to June 6.

This rule replaces the previously announced restriction that an employer would not be eligible to claim the CEWS for remuneration paid to an employee in a week that falls within a 4-week period for which the employee is eligible for the Canadian Emergency Response Benefit.

How to Apply

Eligible employers will be able to apply for the CEWS through the Canada Revenue Agency's *My Business Account* portal. Employers will need to keep records demonstrating their reduction in arm's-length revenues and remuneration paid to employees. More details about the application process will be made available shortly.

Ensuring Compliance

In order to maintain the integrity of the program and to ensure that it helps Canadians keep their jobs, the employer is required to repay amounts paid under the CEWS if they do not meet the eligibility requirements. Penalties may apply in cases of fraudulent claims. The penalties may include fines or even imprisonment. In addition, anti-abuse rules will be put in place to ensure that the subsidy is not inappropriately obtained and to help ensure that employees are paid the amounts they are owed.
Employers that engage in artificial transactions to reduce revenue for the purpose of claiming the CEWS will be subject to a penalty equal to 25% of the value of the subsidy claimed, in addition to the requirement to repay in full the subsidy that was improperly claimed.

Interaction with 10% Wage Subsidy

On March 25, 2020, the *COVID-19 Emergency Response Act*, which included the implementation of a temporary 10% subsidy, received Royal Assent. For employers that are eligible for both the CEWS and the 10% wage subsidy for a period, any benefit from the 10% wage subsidy for remuneration paid in a specific period generally reduces the amount available to be claimed under the CEWS in that same period.

Interaction with the Work-Sharing Program

On March 18, 2020, the Prime Minister announced an extension of the maximum duration of the Work-Sharing program from 38 weeks to 76 weeks for employers affected by COVID-19. This measure provides income support to employees eligible for Employment Insurance who agree to reduce their normal working hours because of developments beyond the control of their employers.

For employers and employees that are participating in a Work-Sharing program, EI benefits received by employees through the Work-Sharing program reduce the benefit that their employer is entitled to receive under the CEWS.

Government Assistance

The usual treatment of tax credits and other benefits provided by the government applies. As a consequence, the wage subsidy received by an employer is considered government assistance and is included in the employer's taxable income.

Assistance received under either wage subsidy reduces the amount of remuneration expenses eligible for other federal tax credits calculated on the same remuneration.

How employers benefit from the CEWS

Maude and Stéphane own a corporation that operates an automobile repair shop in Saint Boniface, Manitoba. They are working full time, each drawing a salary of $1,300 per week, and have three part-time employees, each earning $800 per week, for a total weekly payroll of $5,000. Maude and Stéphane have reduced their opening hours due to decreased demand for their services. They had initially laid off their employees, but they have now decided to re-hire them following the announcement of the Canada Emergency Wage Subsidy. Their employees are not being asked to report to work during this challenging period.

Maude and Stéphane are now keeping their employees on the payroll, paying them 75% of their pre-crisis salary ($600 per week). Maude and Stéphane would be eligible for a weekly wage subsidy of $3,494 ($847 for each of themselves and $600 for each of their employees). Maude and Stéphane would also be eligible for a 100-per-cent refund of their employer-paid contributions to Employment Insurance and the Canada Pension Plan in respect of their employees, providing an additional benefit of up to $124 per week.

At the end of each claiming period, Maude and Stéphane would submit an application through the Canada Revenue Agency portal, attesting that their decline in revenues in each month is sufficient to qualify, when compared to the average of January and February. They would also report the total remuneration paid to themselves and their furloughed employees during the month. As Maude and Stéphane have access to direct deposits with the Canada Revenue Agency, they would receive their subsidy shortly after each application.

Date modified: 2020-04-11