

COVID-19: CHANGES TO THE CANADA EMERGENCY WAGE SUBSIDY (CEWS)

AUGUST 2020



On July 17, 2020, the Federal government announced changes to the Canada Emergency Wage Subsidy (CEWS). The new changes enable any employer with a revenue decline for any reason to be eligible for the subsidy for the periods beginning July 5, 2020 and ending December 19, 2020. The deadline to apply for any or all CEWS periods is now January 31, 2021.

Effective July 5, 2020, the CEWS will consist of Base CEWS and Top-Up CEWS.

Base CEWS

Base CEWS is available to all eligible employers that experience a decline in revenue. The rate of the base subsidy is determined by the percentage decrease in the eligible employer's monthly revenue.

Employers with a revenue drop of 50% or more are eligible for a maximum Base CEWS rate of 60% in period 5 with a gradual reduction to 20% in period 9.

Employers with a revenue drop of less than 50% are eligible for a lower Base CEWS rate that is gradually phased out as the revenue drop percentage declines from 50% to zero.

Table 1 shows the potential Base CEWS amounts with a less than 50% drop in revenue versus a greater than 50% drop in revenue.

Table 1

	Claim Period	Base CEWS	
		Revenue drop < 50%	Revenue drop > 50%
Period 5	July 5 to August 1		
Period 6	August 2 to August 29	1.2 x revenue drop	60%
Period 7	August 30 to September 26	1.0 x revenue drop	50%
Period 8	September 27 to October 24	0.8 x revenue drop	40%
Period 9	October 25 to November 21	0.4 x revenue drop	20%



BASE CEWS IS AVAILABLE TO ALL ELIGIBLE EMPLOYERS THAT EXPERIENCE A DECLINE IN REVENUE.

Here are the Base CEWS rate and maximum weekly base subsidy assuming a 20% drop in revenue:

Period 5 - 1.2 x 20% revenue drop = 24% Base CEWS rate. Maximum weekly base subsidy up to \$677

Period 6 - 1.2 x 20% revenue drop = 24% Base CEWS rate. Maximum weekly base subsidy up to \$677

Period 7 - 1.0 x 20% revenue drop = 20% Base CEWS rate. Maximum weekly base subsidy up to \$565

Period 8 - 0.8 x 20% revenue drop = 16% Base CEWS rate. Maximum weekly base subsidy up to \$452

Period 9 - 0.4 x 20% revenue drop = 8% Base CEWS rate. Maximum weekly base subsidy up to \$226

Top-Up CEWS

Top-Up CEWS is available to eligible employers that experience a revenue drop greater than 50% when comparing:

1) Revenues in the preceding 3 months to those in the same months of the prior year

OR

2) Average monthly revenue in the preceding 3 months to the average monthly revenue in January and February 2020. The maximum Top-Up CEWS rate is 25% for the employers with a 3-month average revenue drop of at least 70%

Table 2

3 Month Average Revenue Drop	70% and over	65%	60%	55%	50% and under
Top-Up CEWS Rate	25%	18.75%	12.50%	6.25%	0%

The Base CEWS and Top-Up CEWS apply to eligible remuneration of up to \$1,129 per week for active employees.

Safe harbour rule applies for periods 5 and 6. It allows eligible employers with at least a 30% revenue decline in those periods to continue to receive a CEWS amount under the same rules as for periods 1 to 4.

Who is an Eligible Employee?

An eligible employee is an individual who is employed in Canada. Effective July 5, 2020, the eligibility criteria no longer excludes employees that are without remuneration in respect of 14 or more consecutive days in a claim period.

CEWS for Furloughed Employees

CEWS for furloughed employees (i.e. employees on leave but with pay) is available to eligible employers that qualify for either the base subsidy or the top-up subsidy in the relevant period.

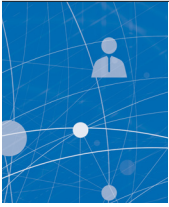
Periods 5 and 6

The calculation will remain the same as for periods 1 to 4, which is the greater of:

- 75% of the amount of eligible remuneration paid for arm's length employees, up to \$847 per week; and
- The lessor of:
 - the amount of eligible remuneration paid
 - 75% of the employee's pre-crisis weekly remuneration (baseline remuneration); and
 - \$847

Periods 7 to 9

The calculation will be adjusted to align with the benefits provided through Canada Emergency Response Benefit (CERB) and/or Employment Insurance (EI). Starting period 5, the CEWS for furloughed employees is available to eligible employers that qualify for either the base rate or top-up subsidies for active employees in the relevant period. For these employers, their portion of contributions for Canada Pension Plan (CPP) and EI will continue to be refunded to the employer as part of the CEWS claim.



TOP-UP CEWS IS AVAILABLE TO ELIGIBLE EMPLOYERS THAT EXPERIENCE A REVENUE DROP GREATER THAN 50%.

The amount per employee is based on the revenue drop. There are different ways to calculate your rate. Use the one that works best for your situation:

- 1)** You can use the calculation from period 4 (safe harbour rule) only for claim periods 5 (July 5 to August 1) and 6 (August 2 to August 29). If you have a revenue drop of 30% or more, then you qualify for 75% of the eligible employees' remuneration up to a maximum of \$847/week.

OR

- 2)** For claim periods 5 to 9, you can use the new calculation outlined below (Base CEWS and Top-Up CEWS).

Note: you must use the new calculation for periods 7 and beyond.

Determining Your Revenue Drop

For periods 5 to 9, an eligible employer has two reference period options for determining the revenue decline percentage for both Base CEWS and Top-Up CEWS:

General approach – based on the current monthly revenue compared to the same month's revenue in the prior year

An eligible employer must use the same reference period approach to determine its revenue drop percentage for periods 5 to 9. This approach must be used for determining both the Base CEWS and the Top-Up CEWS.

Note: an employer does not have to continue using the same approach that it had used previously for periods 1 to 4.

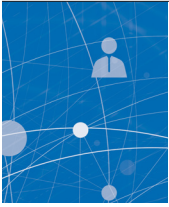
For periods 5 to 9, however, an eligible employer's Base CEWS revenue decline percentage in the current period will reflect the greater of its percentage revenue decline in the current period and that in the prior period. This is intended to provide some certainty for employers. It is a modification of the current rule that applies for periods 1 to 4 which allows an employer that meets the revenue decline test in one period to automatically qualify for the next period.

Table 3

Claim Period	General Approach (Current or Previous)	Alternate Approach (Current or Previous)
Period 5	July 2020 over July 2019 or June 2020 over June 2019	July 2020 over average of January and February 2020 or June 2020 over average of January and February 2020
Period 6	August 2020 over August 2019 or July 2020 over July 2019	August 2020 over average of January and February 2020 or July 2020 over average of January and February 2020
Period 7	September 2020 over September 2019 or August 2020 over August 2019	September 2020 over average of January and February 2020 or August 2020 over average of January and February 2020
Period 8	October 2020 over October 2019 or September 2020 over September 2019	October 2020 over average of January and February 2020 or September 2020 over average of January and February 2020
Period 9	November 2020 over November 2019 or October 2020 over October 2019	November 2020 over average of January and February 2020 or October 2020 over average of January and February 2020

NOTEWORTHY POINTS

- Effective July 5, 2020:
 - If the prior monthly revenue decline is greater than the revenue decline of the month in which the claim is being made, the revenue decline of the prior month will be used in order to determine the CEWS percentage, which will result in a greater CEWS claim.
 - The subsidy calculation applicable to employees on paid leave has been modified and may represent an opportunity to retain employees, even if a full workforce is not required on or after July 2020.
- Entities that do not use GAAP as their normal accounting method can elect to use GAAP when computing revenues for the purpose of the CEWS.
- The concept of **baseline remuneration** has been modified in a manner that may be helpful if an employee was not receiving salary from January to March 2020 but was receiving salary in 2019.
- CEWS is now available where the employer's payroll is administered by another person and the source deductions are remitted under that person's business number.
- CEWS may now be available where all or substantially all of a business' assets were acquired from another business.
- Rules were introduced to ensure CEWS is available in certain circumstances where an amalgamation has taken place.
- The **anti-avoidance rule** has been extended to encompass actions taken to increase a CEWS payment by way of increasing a revenue decline in relation to periods beginning July 5, 2020 and onwards.
- Private schools or colleges which are either a registered charity or exempt from income tax will be able to exclude funding from government sources in the determination of qualifying revenue.



AN ELIGIBLE EMPLOYEE IS AN INDIVIDUAL WHO IS EMPLOYED IN CANADA.

Base CEWS + Top-Up CEWS - Putting it All Together

Table 4

Period	Qualifying Period	Maximum Weekly Benefit Per Active Employee	CEWS Rate (%)		
			≥ 50%	< 50%	
		(based on maximum CEWS rate x maximum \$1,129 of eligible remuneration paid)	If one-month revenue drop (see Table 1 on how to determine revenue drop % for the Base CEWS)		
5	July 5 to August 1, 2020	Base	\$677	A = 60%	B = 1.2 x revenue drop %
		Top-up ²	\$282	C = Lesser of (i) 25%, and (ii) 1.25 x (three-month revenue drop % - 50%)	
		Total	\$960	Total CEWS rate = A + C (maximum 85%)	Total CEWS rate = B + C
6 ¹	August 2 to August 29, 2020	Base	\$677	A = 60%	B = 1.2 x revenue drop %
		Top-up ²	\$282	C = Lesser of (i) 25%, and (ii) 1.25 x (three-month revenue drop % - 50%)	
		Total	\$960	Total CEWS rate = A + C (maximum 85%)	Total CEWS rate = B + C
7	August 30 to September 26, 2020	Base	\$565	A = 50%	B = 1.0 x revenue drop %
		Top-up ²	\$282	C = Lesser of (i) 25%, and (ii) 1.25 x (three-month revenue drop % - 50%)	
		Total	\$847	Total CEWS rate = A + C (maximum 75%)	Total CEWS rate = B + C
8	September 27 to October 24, 2020	Base	\$452	A = 40%	B = 0.8 x revenue drop %
		Top-up ²	\$282	C = Lesser of (i) 25%, and (ii) 1.25 x (three-month revenue drop % - 50%)	
		Total	\$734	Total CEWS rate = A + C (maximum 65%)	Total CEWS rate = B + C
9	October 25 to November 21, 2020	Base	\$226	A = 20%	B = 0.4 x revenue drop %
		Top-up ²	\$282	C = Lesser of (i) 25%, and (ii) 1.25 x (three-month revenue drop % - 50%)	
		Total	\$508	Total CEWS rate = A + C (max 45%)	Total CEWS rate = B + C

1 Safe harbour rule: For periods 5 and 6, an eligible employer would be entitled to a CEWS amount not lower than the amount that they would be entitled to if their entitlement were calculated under the CEWS rules that were in place for periods 1 to 4. This means that in periods 5 and 6, an eligible employer with a revenue decline of 30% or more in the relevant reference period would receive a CEWS amount that is at least equivalent to what they would have received for periods 2 to 4 or potentially a higher CEWS amount using the new rules outlined above.

2 Top-up CEWS applies to employers that have experienced a 3-month revenue drop greater than 50% (Table 2). Maximum Top-Up CEWS rate of 25% is attained when 3-month revenue drop is at least 70%.

Scenarios

1) Café qualifies for 85% wage subsidy

A café has 5 employees who make \$1,000 per week. Due to COVID-19, the owners laid off all of their employees. The owners closed the café in March and reopened in July. They rehired all of their employees who each worked for 4 weeks in the 5th qualifying period.

	Revenue Period	Revenue for General Approach	Revenue Decline
Base CEWS	July 2020	\$150,000	70%
	July 2019	\$500,000	
Top-Up CEWS	April to June 2020	\$300,000	80%
	April to June 2019	\$1,500,000	

Base CEWS = 60% (maximum reached)
 +
 Top-up CEWS = lessor of 37.5% (1.25 x (80%-50%))
 OR 25%
 =
 Combined CEWS is 85% of eligible remuneration up to a maximum of \$1,129 per week.
 The CEWS for the 5th qualifying period is \$17,000 (\$1,000 x 4 weeks x 5 employees x 85%).

2) Furloughed employees and <30% revenue drop

Auto Inc. has 5 employees who make \$1,000 per week. Each employee worked 4 weeks during the 5th qualifying period except for 1 employee who was furloughed. The business qualified for CEWS for the previous periods but revenues are starting to pick up.

	Revenues	Revenue for General Approach	Revenue Decline
Base CEWS	July 2020	\$80,000	20%
	July 2019	\$100,000	
Top-Up CEWS	April to June 2020	\$300,000	25%
	April to June 2019	\$400,000	

Base CEWS = 24% (1.2 x 20%)
 +
 Top-Up CEWS = lessor of 0% (1.25 x (25%-50%))
 OR 25%
 +
 Furloughed employee subsidy is the greater of:
 • \$750 and
 • Minimum of \$750, \$847 or \$1,000
 =
 Combined CEWS is 24% (24%+0%) of eligible remuneration up to a maximum of \$1,129 per week + 75% of furloughed employee remuneration
 In this scenario, the CEWS for the 5th qualifying period is \$6,840 (\$1,000 x 4 weeks x 4 employees x 24% + \$1,000 x 4 weeks x 1 employee x 75%).
 In addition, the CPP and EI contributions of the furloughed employee would also be reimbursed.

The Tax group at Fuller Landau is ready to answer any of your questions.

COVID-19 RESOURCES HUB

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fullerllp.com/covid-19-resources/



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