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chartered professional accountants

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## **COVID-19**

### **FINANCIAL IMPACT REPORT**

#### **Expanded Support Programs and Upcoming Deadlines**

There have been many government programs that we have kept you abreast of during this year that have application deadlines approaching, have had recent announcements of program extension, or application portals opened. The following update will assist you in assessing these changes and ensuring that you have considered these program subsidies which your business may be entitled to receive as well as remind you of the upcoming deadlines and announced extensions.

#### **Government of Newfoundland and Labrador Programs**

Some time ago, the Government of Newfoundland and Labrador announced the following programs, the deadline for which are fast approaching:

##### **Small Business Assistance Program**

**APPLICATIONS WILL BE PROCESSED ON A FIRST COME, FIRST SERVED BASIS UNTIL DECEMBER 15, 2020 (OR EARLIER DATE IF FUNDS ARE EXHAUSTED)**

##### **Small Businesses:**

Eligible small businesses can apply for a one-time non-repayable contribution of \$5,000, \$7,500 or \$10,000 to provide relief for the impacts felt as a result of the COVID-19 pandemic, such as revenue losses and business adaptations required including physical space, online sales innovation and increased costs of health and safety protocols.



## Non-Profit Community Organizations:

Eligible non-profit community organizations can apply for a one-time non-repayable contribution of \$5,000 or \$10,000 to provide relief for the impacts felt as a result of the COVID-19 pandemic, such as revenue losses and adaptations required including physical space, online sales innovation and increased costs of health and safety protocols.

Additional information and the application process can be access here:

<https://www.gov.nl.ca/iet/small-business-assistance-program/>

## Tourism and Hospitality Support Program

There is no apparent deadline for applications on the Government of Newfoundland and Labrador website, however, we encourage eligible applicants to complete their application as soon as possible.

Eligible tourism operators may apply for a one-time, non-repayable contribution of either \$5,000 or \$10,000, dependent on gross sales. In the event of applicants with less than \$10K in annual sales in 2019, the contribution rate will be calculated at 50% of total sales or 50% of expenditures for new start-ups.

Additional information and the application process can be access here:

<https://www.gov.nl.ca/tcar/feature/thsp/>

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## Canada Emergency Wage Subsidy (CEWS)

The government had previously announced that the CEWS would be extended to June 2021 and that the maximum subsidy rate, which was scheduled to decline to 45% in period 9 (October 25 – November 21), will remain at 65% from September 27, 2020 until December 19, 2020 (periods 8, 9, and 10).

Most recent changes to CEWS:

- the subsidy is extended to June 2021
- the maximum subsidy rate for periods 8 to 10 will remain at 65% (40% base rate + 25% top-up)
- beginning in period 8, the top-up rate and base rate are now calculated using the same one-month revenue drop. **For periods 8 to 10**, use the new top-up calculation or the previous 3-month average drop, whichever works in your favour.



The following outlines the calculation of the CEWS for periods 8 to 10:

Revenue Loss	CEWS Calculation
Up to 50%	CEWS = Revenue loss % x 0.8
Between 50% and 70%	CEWS = 40% + [1.25 x (Revenue loss - 50%)]
70% and greater	CEWS = 65%

The government has announced that the maximum CEWS rates for periods after period 10 (i.e. period 11 commencing December 20, 2020) and until period 13 ending in March 2021 will be up to 75%, however the formula to calculate the subsidy has not yet been announced.

The following table is a summary of the CEWS calculation, subject to a maximum weekly benefit of \$734 per employee (including the base and top-up subsidies):

Revenue Decline	A: Base subsidy: Revenue loss 0%-50%: Multiply by 0.8	B: Top-up: For revenue loss >50%: Multiply incremental amount over 50% by 1.25%	A + B = CEWS
10%	8%		8%
20%	16%		16%
30%	24%		24%
40%	32%		32%
50%	40%		40%
60%	40%	10% x 1.25 = 12.5%	52.5%
70%	40%	20% x 1.25 = 25%	65.0%
80%	40%	25% (maximum reached)	65.0%

**The application deadlines** for each CEWS claim are as follows:

- Periods 1-5 (to August 1): Sunday, January 31, 2021
- Period 6 (to August 29): Thursday, February 25, 2021
- Period 7 (to September 26): Thursday, March 25, 2021
- Period 8 (to October 24): Thursday, April 22, 2021
- Period 9 (to November 21): Thursday, May 20, 2021
- Period 10 (to December 19): Thursday June 17, 2021



# Canada Emergency Business Account (CEBA)

As announced some time ago, the CEBA program has been expanded to allow eligible businesses and not for profit organizations (NPO) access to an additional \$20,000 interest free loan.

## Here is a summary of the changes:

- As of December 4, 2020, CEBA loans for eligible businesses and NPOs will increase from \$40,000 to \$60,000.
- Applicants who have received the \$40,000 CEBA loan may apply for the \$20,000 expansion, which provides eligible businesses with an additional \$20,000 in financing.
- All applicants have until March 31, 2021, to apply for \$60,000 CEBA loan, if you have not already applied for the original \$40,000 loan, or the \$20,000 expansion.
- You will have to sign a self-attestation of having experienced a revenue drop due to COVID-19, however, there is no minimum revenue drop to be eligible.

As with the original CEBA, the CEBA Expansion will also be administered through your financial institution.

Also, as with the original CEBA, the application process follows one of two streams, subject to the criteria outlined below:

- 1. The Payroll Stream:** Applicants with employment income paid in the 2019 calendar year between \$20,000 and \$1,500,000; or
- 2. The Non-Deferrable Expense Stream:** Applicants with \$20,000 or less in total employment income paid in the 2019 calendar year.

Every applicant under both streams must meet the following criteria:

- Have an active CRA Business Number (BN) with an effective date of registration on or prior to March 1, 2020.
- Have an active business chequing/operating account with the Lender at the time of applying for CEBA.
- Intend to continue to operate its business or to resume operations.

If you fall into the Payroll Stream, once you have completed the application with your financial institution, the Government of Canada will assess the application and inform your financial institution of the approval or decline of the loan. If approved, your financial institution will provide the funds into your business chequing / operating account.

If you fall into the Non-Deferrable Expenses Stream you must also meet the following criteria:

- Have eligible non-deferrable expenses between \$40,000 and \$1,500,000. Eligible non-deferrable expenses could include costs such as rent, property taxes, utilities, payments for regularly scheduled debt service, and insurance. Expenses will be subject to verification and audit by the Government of Canada.
- Filed an income tax return with the CRA with a tax year ending in 2019 or, if its tax return for 2019 has not yet been submitted, 2018.



## Canada Emergency Rent Subsidy (CERS)

The new CERS will reimburse eligible businesses up to 65% of their rent and related expenses, depending on their revenue decline. Similar to the current CEWS calculations, there is no minimum revenue drop required to qualify for the subsidy. The rate your revenue has dropped is only used to calculate how much subsidy you receive for these periods. A business forced to close by a public health order could also qualify for an additional top-up, bringing their subsidy to 90%.

The eligible periods run from September 27, 2020, until June 2021.

The claiming periods are the same 4-week time frames as those for the CEWS. For example:

- Period 1 September 27 to October 24, 2020
- Period 2 October 25 to November 21, 2020
- Period 3 November 22 to December 19, 2020

### Eligible entities

Types of businesses, charities, or non-profits (entities) that are eligible for CERS

- individuals (other than a trust)
- corporations (or trusts) that **are not exempt** from income tax (Part I of the Income Tax Act)
- the following persons that **are exempt** from income tax (Part I of the Income Tax Act):
  - non-profit organizations
  - agricultural organizations
  - boards of trade
  - chambers of commerce
  - non-profit corporations for scientific research and experimental development
  - labour organizations or societies
  - benevolent or fraternal benefit societies or orders
- registered charities
- partnerships consisting of eligible employers (including partnerships where at least 50% of the interests in the partnership are held by eligible employers)
- the following prescribed organizations:
  - certain Indigenous government-owned corporations that carry on a business
  - partnerships consisting of eligible employers and certain Indigenous governments
  - registered Canadian amateur athletic associations
  - registered journalism organizations
  - private schools or private colleges, and
  - partnerships consisting of eligible employers (including partnerships where at least 50% of the interests in the partnership are held by eligible employers)



## Qualifying property

Properties that do qualify include any “real or immovable property” (buildings or land) in Canada that your business or organization:

- owns or rents, and
- uses in the course of your ordinary activities

Properties that do not qualify, include:

- your home, cottage, or other residence used by you, your family members, or other non-arm’s-length persons;
- any properties you own that are primarily used to earn rental income from arm’s-length parties; or
- any properties that are primarily used to earn rental income directly or indirectly from a non-arm’s length party, that are primarily used by that party to earn rental income

## Eligibility expenses

For each claim period, you can claim eligible expenses up to a maximum of:

- \$75,000 per business location (base and top-up); and
- \$300,000 in total for all locations (including any amounts claimed by affiliated entities)
  - applies to the base subsidy only
  - there is no maximum for the top-up subsidy

For each claim period, you can claim eligible expenses up to a maximum of:

- \$75,000 per business location (base and top-up); and
- \$300,000 in total for all locations (including any amounts claimed by affiliated entities)
  - applies to the base subsidy only
  - there is no maximum for the top-up subsidy

If you have not paid the amounts due for your eligible expenses, you must attest (confirm) that these amounts will be paid within 60 days of receiving your CERS payment.

You cannot claim expenses that were paid or payable:

- To non-arm’s-length entities; or
- For a timeframe that falls outside of the claim period you are applying for



If you rent the qualifying property, your eligible expenses are:

- Rent (including rent based on a percentage of sales, profit or similar criteria)
- Amounts required to be paid or payable by you under a net lease (either to the lessor or a third party). These required amounts might include:
  - base rent
  - regular payments for customary operating expenses, such as
    - property insurance
    - utilities
    - common area maintenance
  - property and similar taxes, including municipal taxes
  - regular payments to the lessor for customary ancillary services

If you own the qualifying property, your eligible expenses are:

- Property and similar taxes, including municipal taxes
- Property insurance
- Interest on commercial mortgages for the purpose of purchasing real property. Your mortgage amount cannot exceed the lesser of:
  - A. the lowest total principal amount secured by one or more mortgages on the property at any time after it was acquired; and
  - B. the cost amount of the property.

If you earned any revenue from sub-leasing space on the property to arm's-length parties, you must subtract that revenue from your eligible expense

### Non-arm's length rentals

It is common practice for the real property used by an operating business to be owned by a separate, related entity. Since qualifying rent expenses do not include expenses paid to a non-arm's length person, the operating company in such situations would not have qualifying rent expense.

However, an eligible entity that owns qualifying property that is used primarily to earn rental income from a person or partnership with which the eligible entity does not deal at arm's length may be able to claim the CERS.

The entity that owns the property may qualify in respect of its qualifying rent expenses (i.e., mortgage interest, property taxes, insurance) as a consequence of the overall revenue decline of the two corporations or the revenue decline of the non-arm's length tenant. In such cases, the eligible entity (i.e., the property owner) will likely have to rely on one of the special rules for computing qualifying revenue, similar to in the case of the CEWS, such as:



- Determining the qualifying revenue of the affiliated group on a consolidated basis, pursuant to paragraph 125.7(4)(b) of the Income Tax Act; or
- Using the “look through” election in paragraph 125.7(4)(d)) whereby the revenue of the landlord is all or substantially all (>90%) received from a non-arm’s length party and whereby the CERS is calculated based on the revenue decline of the non-arm’s length tenant.

At this time, we have not determined the eligibility, and formula to be applied, where the landlord rents to both arm’s length and non-arm’s length parties and/or where there are multiple non-arm’s length tenants. If your company is in this situation, please contact us and we will provide additional information as it becomes available.

## Revenue decline

Revenues for the CERS are calculated in the same way they are for the CEWS. To calculate your revenue drop, you can choose one of the following two baseline revenue options:

1. General approach: compare your business eligible revenue for the claim period month in 2020 you are applying for with your eligible business revenue for the same month in 2019; or
2. Alternate approach: compare your business eligible revenue for the claim period month in 2020 you are applying for with your average eligible business revenue for the months of January and February 2020

As with the CEWS claims, when calculating your revenue loss, use your revenues from the calendar month and not the claim period. You can use the higher revenue reduction of the two calendar months that fall within the claim period to maximize your subsidy.

The following outlines the calculation of the CERS

Revenue Loss	CERS Calculation
Up to 50%	$CERS = \text{Revenue loss \%} \times 0.8$
Between 50% and 70%	$CERS = 40\% + [1.25 \times (\text{Revenue loss} - 50\%)]$
70% and greater	$CERS = 65\%$

Note: businesses required to shut down due to a public health order are eligible for a maximum 90% subsidy.

You can use the [CRA calculator](#) to determine your businesses’ CERS amount.





The following table is a summary of the CERS calculation:

Revenue Decline	A: Base subsidy: Revenue loss 0%-50%: Multiply by 0.8	B: Top-up: For revenue loss >50%: Multiply incremental amount over 50% by 1.25%	A + B = CERS
10%	8%		8%
20%	16%		16%
30%	24%		24%
40%	32%		32%
50%	40%		40%
60%	40%	10% x 1.25 = 12.5%	52.5%
70%	40%	20% x 1.25 = 25%	65.0%
80%	40%	25% (maximum reached)	65.0%

For further information please refer to the Government of Canada's website:

<https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-rent-subsidy.html>

*Please note that due to the rate at which the current COVID-19 situation is changing, and the response by government to feedback on its initiatives, the information contained in this update is accurate as of the release date indicated above.*

