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COVID-19

Impact on Business: Canadian Emergency Wage Subsidy (CEWS) - New Rules Announced for Extended July to December Subsidy Periods

- The federal government has announced the proposed program extension and new details of the extended CEWS program. Effective July 5th (Period 5), 2020 the CEWS for active employees will now consist of two parts. A baseline subsidy will be available to all employers that have experienced a decline in revenues with the subsidy amount now varying depending on the percentage of the revenue decline. A top-up subsidy of up to an additional 25% is available for employers who have experienced a greater than 50% revenue decline. The result is a maximum combined subsidy of up to 85 % of eligible remuneration. A separate CEWS rate structure exists for employees that are furloughed. Legislation is still pending but the new program is proposed to include the following:
- Extension of the CEWS Subsidy until December 19, 2020 with a redesign in the program qualifications and subsidy levels available.
- A safe harbor rule has been added to ensure the new program design will not result in those previously qualifying businesses receiving a lower subsidy rate for July (Period 5) and August (Period 6) than they would have received under the previous CEWS program rules (i.e. 30% revenue reduction with \$847 maximum subsidy eligibility per qualifying employee).
- The new subsidy rules are intended to make the CEWS available to a greater number of employers by now including certain businesses with revenue declines that had been less than 30% and changing the subsidy structure from that of a bright line test to a



graduating subsidy with a decreasing base. Effectively the new rules are intended to help businesses that have less than a 30% revenue decrease to now be eligible to receive support while ensuring those that have met the 30% test continue to qualify even if their revenue decline no longer meets the 30% decline level.

- A new top-up subsidy has been introduced with an additional 25% subsidy for employers that have experienced revenue declines in excess of 50%. Specifically, an eligible employer's top-up CEWS would be determined based on the revenue drop experienced when comparing revenues in the preceding 3 months to the same months in the prior year or to the alternative method of January February 2020 average.
- There has been no change to the definition of what is included in the definition of eligible remuneration, however there has been a change in expansion to the comparative eligible remuneration periods with baseline remuneration now extended to include the period July 1- December 31, 2019 as a comparative period for arm's length employees.
- Effective July 5th (Period 5) the eligibility criteria will no longer exclude employees that were without remuneration for 14 consecutive days.
- The previous CEWS rule of automatic qualification for the following period remains in effect for Period 5 onward (i.e. if an employer qualifies for CEWS in June they will automatically qualify in July).
- Employers that have elected to use an alternative revenue approach for the first four periods now have the option of maintaining previous revenue elections for Period 5 onward or changing to the general method. The same is applicable for employers that previously used the general method for Periods 1 to 4 they now can elect for Period 5 onward to change to an alternate revenue test approach.
- Eligible entities now include trusts.
- Deadline for applications has been extended to January 31, 2021.

The new rules provide more opportunities for more business to qualify for the CEWS but are more complex in their design and calculation.



Base subsidy now available to all employers with a decline in revenue

Base subsidy revenue decline compares the change in the eligible employer's monthly revenue year over year for the applicable calendar month (i.e. claim Period 6 would compare August 2020 revenue to August 2019 or the average of January and February 2020) or if the previous month's test met (i.e. July in the example of August), would result in automatic eligibility.

Timing	Period 5* July 5-Aug 1	Period 6* Aug 2-Aug 29	Period 7* Aug 30-Sept 26	Period 8 Sept 27-Oct 27	Period 9* Oct 25-Nov 21
Maximum Weekly Subsidy per Employee	Up to \$677	Up to \$677	Up to \$565	Up to \$542	Up to \$226
Revenue decline over 50%	60% of wage subsidy rate	60% of wage subsidy rate	50% of wage subsidy rate	40% of wage subsidy rate	20% of wage subsidy rate
Revenue decline 0%-49%	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.0 x revenue drop (e.g., 1.0 x 20% revenue drop = 20% base CEWS rate)	0.8 x revenue drop (e.g., 0.8 x 20% revenue drop = 16% base CEWS rate)	0.4 x revenue drop (e.g., 0.4 x 20% revenue drop = 8% base CEWS rate)

**In Period 5 and 6 the safe harbor rule will apply such that an eligible employer would be entitled to a CEWS rate no lower than the rate that they would be entitled to under the 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 would receive a CEWS subsidy rate of no less than 75%.*



Top-up subsidy calculation

Employers that have experienced a 3-month average revenue drop of more than 50% would receive a top-up CEWS rate equal to 1.25 times the average revenue drop that exceeds 50%, up to a maximum top-up CEWS rate of 25% which is attained at a 70% revenue decline. The top-up rate applies to remuneration up to a weekly maximum of \$1,129

3-month average revenue drop	Top-up CEWS rate	Top-up rate detailed calculation = 1.25 x (3-month revenue drop minus 50%)
70% and over	25%	$1.25 \times (70\% - 50\%) = 25\%$
65%	18.75%	$1.25 \times (65\% - 50\%) = 18.75\%$
60%	12.5%	$1.25 \times (60\% - 50\%) = 12.5\%$
55%	6.25%	$1.25 \times (55\% - 50\%) = 6.25\%$
50% and under	0%	$1.25 \times (50\% - 50\%) = 0\%$

Rate structure of the combined base CEWS and the top-up CEWS for the most affected employers (i.e. those that experienced an average revenue drop of 70% or more in the preceding three months)

Timing	Period 5* July 5-Aug 1	Period 6* Aug 2-Aug 29	Period 7* Aug 30-Sept 26	Period 8* Sept 27-Oct 24	Period 9* Oct 25-Nov 21
Maximum Weekly Subsidy Benefits per Employee	Up to \$960	Up to \$960	Up to \$847	Up to \$734	Up to \$508
Revenue decline 50% and over	85% (60% + 25% top-up)	85% (60% + 25% top-up)	75% (50% + 25% top-up)	65% (40% + 25% top-up)	45% (20% + 25% top-up)
Revenue decline 0%-49%	1.2 x revenue drop + 25% top-up	1.2 x revenue drop + 25% top-up	1.0 x revenue drop + 25% top-up	0.8 x revenue drop + 25% top-up	0.4 x revenue drop + 25% top-up

As an example, an employer who has experienced a revenue decline of 75% in July (and had revenue drop of 70% or more for April, May and June) and continued to pay their eligible employee a weekly salary of \$1,129 for Period 5 would now be eligible for an enhanced CEWS subsidy of 85% (60% + 25% top-up) in the amount of \$960.



An example of the application of the safe harbor transitional rules for Period 5 and 6

An employer experienced a revenue decline in June of 30%. They will automatically qualify for the Period 5 July subsidy and if they paid their eligible employee in Period 5 a weekly salary of \$1,129 they would receive a CEWS weekly subsidy of 75% of the maximum eligible amount of \$847 due to the safe harbor rule although the calculation under the new rules above would calculate a subsidy of 36% (1.2 X 30%).

CEWS for Furloughed Employees

For Period 5 and 6 the subsidy calculation remains the same as in Periods 1 to 4 for furloughed employees. Beginning in Period 7 the CEWS for a furloughed employee will follow the new CEWS rates as outlined above.

Government of Newfoundland and Labrador Essential Worker Subsidy

Note that the deadline for application for the Essential Worker subsidy program has been extended to August 20, 2020.

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. Clients can monitor updates to the Department of Finance announcements at the following link: <https://www.canada.ca/en/department-finance/news.html>

Further information on the redesigned CEWS can be found at the following link: <https://www.canada.ca/en/department-finance/news.html>

