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# Government Support During COVID-19

## What This Means for You and Your Business

With Peter Bangs and Gavin Miranda, MNP  
April 22, 2020



# Your Hosts



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# MNP: National in Scope, Local in Focus

More than 70 offices  
strategically located in  
urban and rural  
centres throughout  
Canada.



# Agenda

- Tax Filing and Payment Deadlines
- Canada Emergency Wage Subsidy “CEWS” and Temporary Wage Subsidy “TWS”
- Canada Emergency Response Benefit “CERB”
- Stimulus Credit Programs – including Canada Emergency Business Account “CEBA”
- Tax Planning During an Economic Slowdown



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# Tax Filing & Payment Deadlines



# Updated Tax Filing Deadlines

Due Dates				
Jurisdiction	Form	Original	Revised	Notes
Federal	T1	April 30, 2020	June 1, 2020	Self-employed returns still due June 15
Federal	T2	six months after y/e	June 1, 2020	Returns due between March 18, 2020 and May 31, 2020
Federal	T3	March 30, 2020	May 1, 2020	Applicable for calendar year trusts only
Federal	T3010		December 31, 2020	Returns due between March 18, 2020 and Dec. 31, 2020
Federal	T5013	March 31, 2020	May 1, 2020	No change to partnership returns due five months after year-end

Current as at April 15, 2020

# Updated Tax Payment Due Dates

## Balance due

Due Dates				
Jurisdiction	Balance Due	Original	Revised	Notes
Federal	Part I tax	Amounts due after March 18, 2020	September 1, 2020	Includes instalments (business, individual, trusts )
Alberta	Alberta tax	Amounts due after March 18, 2020	August 31, 2020	Applicable to Alberta corporate income tax balances and instalment payments

Current as at April 15, 2020

# Payroll and GST Considerations

## Payroll Remittance Payments

- CRA has not permitted the extension of payments of payroll source deduction remittances
- These payments are still due when the payroll account is required to make payment



# Payroll and GST Considerations

## **GST Payments and Filing Requirements**

- CRA indicated that businesses should continue to file their GST/HST returns by the due dates, but the CRA will not impose penalties on late filed returns provided the returns are filed by June 30, 2020
- GST/HST remittances, including customs and duties have been deferred until June 30, 2020
- File returns with refunds to assist with cash flow
- Recommended to electronically file returns as paper filed returns will not be processed until CRA resumes operations

# Cash Preservation Measures

- Deferral of corporate and personal taxes and instalment payments until Sept 1, 2020.
- Defer GST/HST remittances until June 30, 2020 (but efile if refunds)
- Request refunds of corporate instalments already made prior to March 18 (or transfer them to 2019 account)
- Property tax deferral



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Temporary Wage Subsidy (TWS) – 10%

Canada Emergency Wage Subsidy (CEWS) –  
75%



# Temporary Wage Subsidy (TWS)

- If you do not qualify for the Canada Emergency Wage Subsidy you may continue to qualify for the previously announced Temporary Wage Subsidy of 10 percent

## **An Eligible Employer qualifies provided they:**

- Employ one or more individuals in Canada;
- Have an existing business number and payroll program account with the CRA on March 18, 2020; and
- Pay salary, wages, bonuses, or other remuneration to an eligible employee.

# Temporary Wage Subsidy (TWS)

## **Eligibility – limited to the following employers:**

- A Canadian Controlled Private Corporation “CCPC” that is eligible for the small business deduction subject to rules;
- An individual (other than a trust);
- A partnership, all members of which are: eligible CCPC,s individuals, partnerships and registered charities;
- A non-profit organization exempt from tax; and
- A registered charity.

# Temporary Wage Subsidy (TWS)

## Calculation of Subsidy

- Equal to 10 percent of the remuneration paid between March 18, 2020 and June 19, 2020
- Maximum Subsidy amount is \$1,375 per employee to a maximum of \$25,000 for the employer



# Temporary Wage Subsidy (TWS)

## Calculation of Subsidy

- Each corporation in an associated group would be permitted these amounts provided that the taxable capital of the associated group is below \$15 million
- TWS is paid by a reduction of payroll income tax remittances.
- There is no reduction to the remittance of CPP and EI premiums
- Subsidy is taxable to the corporation

# Temporary Wage Subsidy (TWS)

## Example

- 5 employees earning monthly salaries of \$4,100 for total monthly payroll of \$20,500
- Subsidy is \$2,050 ( $\$20,500 \times 10\%$ ) per month.
- Over the designated three-month period, the total subsidy received would be \$6,150

# Canada Emergency Wage Subsidy (CEWS)

- A 75 percent wage subsidy provided by the Government of Canada for qualifying businesses, retroactive to March 15, 2020.
- Applies at a rate of 75 percent on the first \$58,700 normally earned by employees – representing a maximum benefit of \$847 per week.
- The program is in place for a 12-week period – March 15 to June 6, 2020





# Canada Emergency Wage Subsidy (CEWS)

- Key criteria to be met:
  - Eligible employee
  - Eligible entity
  - Qualifying revenue
  - Qualifying period
  - Eligible remuneration
- Legislation and qualifications are very complex



# Canada Emergency Wage Subsidy (CEWS)

## Eligible Employee

- An individual employed in Canada by an eligible entity, that has not been without remuneration in respect of 14 or more consecutive days in the qualifying period.
- Employee may or may not be working.

# Canada Emergency Wage Subsidy (CEWS)

## What if employee is laid off?

- Employee laid off March 31, 2020 – will qualify for March 15 to April 11 period for weeks employee is paid (has not been without remuneration for more than 14 or more consecutive days in period)
- Employee laid off March 22, 2020 – does not qualify for March 15 to April 11 period (has been without remuneration for 14 or more consecutive days)
- Can rehire previously laid off workers and pay them retroactively and still qualify



# Canada Emergency Wage Subsidy (CEWS)

## Eligible Entity

- Individuals, trusts, taxable corporations, partnerships consisting of eligible employers, non-profit organizations and registered charities.
- Excludes public bodies – municipalities, local governments, crown corps, universities, etc.

# Amount of Subsidy – Basic Rules

- Amount of subsidy depends on whether employee is employed before March 15, 2020 or is a new hire and whether the employee deals at arm's length with qualifying entity.
- Pre-existing employee – lesser of:
  - a) Amount of “eligible remuneration” paid in the week, to a max. of \$847/week, and
  - b) 75% of employee's baseline remuneration (wkly. avg. between Jan. 1 & Mar. 15)

# Amount of Subsidy – Basic Rules

- New hire – 75% of amount of remuneration paid in the week, up to a max. of \$847/week
- Non-arm's length employee – only qualifies if a pre-existing employee (new NAL hire does not qualify)
- Calculated on an employee by employee basis and no overall limit on CEWS that a qualifying entity may claim
- CEWS is government assistance and taxable in year received



# Amount of Subsidy - Example

	Pre-Existing Employee A	Pre-Existing Employee B	New Hire A	New Hire B	NAL* A	NAL* B
Eligible Remuneration During Qualifying Period (weekly)	\$900	\$750	\$900	\$750	\$1,250	\$1,250
Baseline Remuneration (avg weekly pay between Jan 1- March 15)	\$1,150	\$950	N/A	N/A	\$1,500	\$0
CEW Subsidy	\$847	\$712.50	\$675	\$562.50	\$847	\$0
Notes:	Least of \$900, \$847 and 75% of \$1,150 (\$862.50)	Least of \$750, \$847 and 75% of \$950 (\$712.50)	Least of \$847 and 75% of \$900 (\$675)	Least of \$847 and 75% of \$750 (\$562.50)	Least of \$1,250, \$847 and 75% of \$1,500 (\$1,125)	Least of \$1,250, \$847 and 75% of \$0(\$0)

# Eligible Remuneration

## Includes:

- Salary, wages or commissions
- Must be paid in respect of the week in the qualifying period
  - Thus, paying a previously booked bonus is not eligible as expense was claimed in prior period (not in respect of qualifying period)
- Paid between March 15, 2020 and June 6, 2020

# Eligible Remuneration

## Does not include:

- Dividends
- Severance pay
- Stock option benefits



# Eligible Remuneration

## Does not include:

- Any amount received that can reasonably be expected to be paid or returned to employer or non-arm's length person (cannot loan funds back)
- Cannot temporarily bump remuneration to maximize CEWS

# Refund of Certain Payroll Contributions

- There is a new 100 percent refund for certain employer paid contributions to EI, CPP and QPP and the Quebec Parental Insurance Plan
- The refund is available on employer-paid contributions for eligible employees for each week throughout which those employees on leave with pay, and for those employees that the employer is eligible to claim the CEWS

# Qualifying Periods

Qualifying Periods	Period 1 March 15 to April 11	Period 2 April 12 to May 9	Period 3 May 10 to June 6
Wages During Period	Earned between March 15 through April 11	Earned between April 12 through May 9	Earned between May 10 through June 6
Revenue Period	March 2020 revenues	April 2020 revenues	May 2020 revenues
Prior reference period (default); or	March 2019 revenues	April 2019 revenues	May 2019 revenues
Prior reference period (alternative) Note 1	May elect to use average of January and February 2020 revenues as the prior reference period for all qualifying periods		
Required decrease in revenues	<b>15%</b> or greater	<b>30%</b> or greater (deemed met if 15% or greater reduction in period 1)	<b>30%</b> or greater (deemed met if 30% or greater reduction in period 2)

NOTE 1 - Any entities that did not carry on business on March 1, 2019 must use January and February 2020 average revenues as the reference period.



# Revenue Tests

## Revenue

- If January and February 2020 average revenue is used as prior reference period, this must be used for all periods
- If the eligible entity did not carry on business as of March 1, 2019, **MUST** use January and February 2020 average revenue as prior reference period





# Revenue Tests

## Revenue - General Rules

- Qualifying revenue (per legislation) means:
  - Inflow of cash, receivables or other consideration arising in the course of the ordinary activities of employer – generally from sale of goods, rendering of services and use by others of resources of employer

# Revenue Tests

## Revenue - General Rules

- In accordance with normal accounting practices
  - Excludes extraordinary items
  - Excludes CEWS and TWS subsidy income
  - Excludes amounts derived from non-arm's length persons or partnerships
- Under these rules, certain entities having all/substantially all of their revenues from non-arm's length parties may not qualify
- There are special rules to deal with these situations and situations where you have joint ventures.

# Revenue Tests

## How to Measure Revenue

- Some guidance in legislation but still lots of questions
- If entity is part of a group that consolidates its f/s, each member of group may determine its qualifying revenue separately as long as all members of group do it on same basis.

# Revenue Tests

## How to Measure Revenue

- An entity may use qualifying consolidated revenue of an affiliated group of eligible entities and each member of group makes a joint election
- Entity may elect to use cash method (must be used throughout program)





# Revenue Tests

## Revenue

- March 2020 vs reference period = 85% or less
- April 2020 vs reference period = 70% or less
- May 2020 vs reference period = 70% or less
- Cannot round up: 14.7% does not equal 15%
- No phasing - "all or nothing" test





# Revenue Tests

## Revenue Choice of Method:

- Can elect for all qualifying periods to determine revenue on cash basis
- If elect for cash basis, must use cash basis for all qualifying and reference periods



# Revenue Tests – Accrual vs. Cash Method

Reference Period	Accrual Revenue	Cash Revenue
March 2019	\$1,000	\$800
<b>January 2020</b>	<b>\$1,300</b>	<b>\$1,500</b>
<b>February 2020</b>	<b>\$1,200</b>	<b>\$1,500</b>
<b>March 2020</b>	<b>\$1,100</b>	<b>\$1,200</b>

- March 2020 accrual revenue is 110% of March 2019 – up 10% (don't qualify)
- March 2020 accrual revenue is 88% of Jan/Feb 2020 accrual revenue – down 12% (don't qualify)
- March 2020 cash revenue is 150% of March 2019 cash revenue – up 50% (don't qualify)
- March 2020 cash revenue is 80% of Jan/Feb cash revenue – down 20% (**QUALIFY**)

But..... must use cash method for the next period as well!

# Revenue Tests

## Practical problems for homebuilders

- Accrual method and cash method may yield same results.
- Revenue “earned” under accrual method when risks and rewards of ownership pass to homeowner (i.e. on closing). This is when you get cash typically.
- Will revenue be down 15%/30%/30% March-May year over year (or from Jan/Feb 2020) or will impact hit industry later?



# Revenue Tests - Example

Assume house prices = \$500,000

Assume deposit is 5% = \$25,000

	# of PSA's signed ("signings")	Deposit \$ received	# Actual Closings	Cash on Closing	Total Cash Received	Decline in Revenue	Qualify (Y/N)
<b><u>Option A</u></b>							
March 2019 or Jan/Feb'20)	10	\$250,000	0	\$0	\$250,000		
March 2020	5	\$125,000	0	\$0	\$125,000	50%	Y
<b><u>Option B</u></b>							
March 2019 or Jan/Feb'20	10	\$250,000	7	\$3,325,000	\$3,575,000		
March 2020	1	\$25,000	7	\$3,325,000	\$3,350,000	6%	N

# Revenue Tests - Example

	# of PSA's signed	Deposit \$ received	# Actual Closings	Cash on Closing	Total Cash Received	Decline in Revenue	Qualify (Y/N)
<u>Option C</u>							
March 2019 or Jan/Feb'20	10	\$250,000	7	\$3,325,000	\$3,575,000		
March 2020	1	\$25,000	5	\$2,375,000	\$2,400,000	33%	Y

- Option A – do qualify
- Option B – don't qualify despite falling sales
- Option C – do qualify, but only because of closings were lower than 2019

# Revenue Tests

## Important Reminders

- Analyze revenues carefully!!
- CEWS legislation provides government ability to extend the program until Sept 30, 2020 and the ability to change the Required Revenue Reduction criteria and subsidy amount during any extended term.

# How to Apply/Maintaining Records

- Eligible employers would be able to apply for the CEWS through the Canada Revenue Agency's My Business Account portal as well as a web-based application, effective April 27, 2020
- Can have your accountant/advisor do it for you on Represent a client
- Can apply using a separate online application form (available Apr. 27)
- CEWS processed at the payroll program (RP) account level so separate application for each RP account you have.



# Compliance/Penalties

- Employers not meeting eligibility requirements will be required to repay amounts received under the CEWS – 100%
- Employers engaging in artificial transactions to reduce revenues for the purpose of claiming the CEWS will be subject to a penalty equal to 25% of the subsidy claimed, in addition to the full repayment of the subsidy received.
- Fraudulent claims may result in penalties, including fines or even imprisonment.
- Minister may make information relating to CEWS application public



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# Canada Emergency Response Benefit (CERB)

# What is the CERB Program?

- A program that provides temporary income support to workers who have stopped working and are without employment or self-employment income for reasons related to COVID-19.
- The benefit is temporary in nature and is paid in blocks of four weeks for a total of \$2,000 per month or equivalent to \$500 per week; Maximum 16 weeks of benefits can be paid.
- The benefit is available from March 15, 2020 to October 3, 2020.
- The applicant must apply before December 2, 2020.



# Applying for the CERB Program?

- Applications have opened starting April 6, 2020
- Applicants can apply through CRA My Account, Service Canada, or by calling 1-800-959-2019 or 1-800-959-2041 if tax returns were filed for 2018 and previously
- For individuals who do not currently have a CRA My Account number should consider registering online at:
  - <https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>



# Who is Eligible for the CERB?

- A Canadian resident - at least 15 years of age
- Who has stopped working because of reasons related to COVID-19 or are eligible for EI or has exhausted their EI regular benefits between Dec 29/19 and Oct 3/20; voluntary work stoppages not applicable
- Who had employment and/or self-employment income of at least \$5,000 in 2019 or in the 12 months prior to the application date
  - Non-Eligible Dividends of at least \$5,000 will also qualify for the income
- You cannot have earned more than \$1,000 in employment and/or self-employment income for 14 or more consecutive days within the initial four-week benefit period

# What does “ceases working” mean?

- The term is not defined in the Income Tax Act. However, the literal meaning is “to stop; discontinue, or to come to an end.”
- The Department of Finance in their FAQ’s on the CERB program have indicated the following examples:
  - You have been let go from your job or your hours have been reduced to zero;
  - You are in quarantine or sick due to COVID-19;

# What does “ceases working” mean?

- You are away from work to take care of others because they are in quarantine, sick due to COVID-19; and/or
- You are away from work to take care of children or other dependents whose care facility is closed due to COVID-19.
- It is also specifically stated that you cannot quit your job voluntarily.

# FAQs

## **Is the CERB amount taxable?**

- The amount is taxable to the individual and CRA indicated that tax will not be deducted at source

## **Can I have other income while receiving the CERB?**

- The individual must have stopped working as a result of COVID-19 and cannot have >\$1,000 of employment self-employment income for at least 14 consecutive days within the initial four-week period and for subsequent periods.



# FAQs

## **When will payment be received?**

- Benefits will start within a few days of the individual submitting the application. Payments will be retroactive to the individual's eligibility date.

## **I am currently on EI, do I qualify for this program?**

- If the individual was eligible for EI benefits that started before March 15, 2020 and these benefits end before October 3, 2020, then the individual may apply for the CERB if they meet the eligibility requirements



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# Stimulus Credit Programs

# Stimulus Credit Programs Available to Small Businesses

1. Canada Emergency Business Account “CEBA”
2. Working Capital Loan
3. Small and Medium Enterprise Loan and Guarantee

# Canada Emergency Business Account (CEBA)

- Small businesses may apply for an interest-free loan of up to \$40,000
- To help cover operating costs – used to pay non-deferrable operating expenses including payroll, rent, utilities, insurance, property tax and regularly scheduled debt service.



# Canada Emergency Business Account (CEBA)

- Must not be used to pay dividends, distributions and increases in management compensation or prepayments/refinancing of existing indebtedness
- To qualify, each applicant must demonstrate that they paid between \$20,000 to \$1.5 million in total payroll in 2019. Repaying the loan in full prior to December 31, 2022 will result in loan forgiveness of 25 percent of the loan being repaid, subject to a cap of \$10,000.
- No interest during the initial term (Dec 31/22) and then 5% per annum during extended term

# Working Capital Loan Program

**Through this Working Capital Loan, the new relief measures for qualified businesses include:**

- 36 month subordinated working capital loans of \$100,000 up to \$2 million with flexible terms.
- Principal payment postponements during the first 12 months for all qualifying businesses and for existing BDC clients.
- Following the initial 12-month principal payment free period, 40 percent of loan is to be repaid within the remaining 24 months.
- 60 percent is payable in a balloon payment due at the 36<sup>th</sup> Month.



# Working Capital Loan Program

- The Working Capital Loan – COVID 19 requires a General Security Agreement and a Personal Guarantee by ownership. Pricing is BDC Rate less 1.75 percent (currently this is 3.3 percent).

# Small and Medium Enterprise Loan and Guarantee Program

- BDC together with financial institutions co-lend term loans for operational cash flow requirements.
- EDC will also provide guarantees to financial institutions so that they can issue new operating credit and cash flow term loans of up to \$6.25 million to small and medium-sized businesses. These loans will be 80 percent guaranteed by EDC, to be repaid within one year.





# Small and Medium Enterprise Loan and Guarantee Program

- Eligible companies could obtain up to \$12.5 million through these two lending streams.
- Applications must be made and can only be adjudicated through the existing bank or other authorized financial institution with whom the applicant has an existing banking relationship with.



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# Canada Emergency Commercial Rent Assistance (CECRA)



# Canada Emergency Commercial Rent Assistance

- Program for small businesses that will seek to provide loans and/or forgivable loans to commercial property owners who in turn will lower or forgo the rent of small businesses for the months of April (retroactive), May, and June.
- Implementation of the program will require a partnership with provincial and territorial governments who are responsible for property owner-tenant relationships.
- More details will be available soon.





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# Tax Planning During An Economic Slowdown



# Income Tax Planning

- Review Owner Remuneration Strategy (salary vs dividends)
- Triggering Capital Losses on Investments (selling investments)
- Consider selling shares and acquiring companies in the same sector
- Payment of Tax-Free Capital Dividends – Capital Dividend Account
- Transfer of Property from Corporation to the Individual Shareholder
- Asset Protection Planning
- Estate Freeze
- Thaw/Refreeze Transaction



# Questions?



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# Stay Up to Date

This situation is dynamic and government programs can change. To stay up to date and receive insights from our team, visit our [COVID-19 Business Advice Centre at MNP.ca/COVID-19](https://mnp.ca/COVID-19).

MNP is dedicated to supporting Canada's business leaders by providing timely information and practical solutions for navigating through the uncertainty of COVID-19.





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Thank You for Joining Us