

April 15, 2020

Canada Emergency Wage Subsidy **Updates & Interpretations as at April 15, 2020**

The legislation supporting the Canada Emergency Wage Subsidy (commonly known as the 75% wage subsidy, or CEWS) is finally here. On April 11, Parliament passed [Bill C-14](#), officially passing the subsidy into law and giving our sector more concrete guidelines for evaluation and application. Below, we have outlined the existing plan as well as the updates to help you navigate the implementation of the wage subsidy for your organization.

Need help? Contact us at info@youngassociates.ca.

Overview

The Canada Emergency Wage Subsidy (CEWS) will reimburse eligible employers 75% of employees' wages or salaries, based on a maximum annual salary of \$58,700 – representing a benefit of up to \$847 per week, per employee. The program will be in place for a 12-week period, from March 15 to June 6, 2020.

Employers are eligible if they are private sector entities (commercial or nonprofit) that have experienced a 15% reduction in revenue in March, and a 30% reduction in revenue for the remaining months of the program.

Eligibility for this wage subsidy is based on the salary or wages actually paid to employees. The application will be processed on a retroactive basis, so the amount of salary and wages paid will need to be identified during the application. All employers are expected to make best efforts to bring employees' wages to their pre-crisis levels – i.e. pay the remaining 25%.

An application portal for the subsidy is in the works and is expected to be available within the next 3-6 weeks.

Calculating Revenue Loss

To be eligible for the program, employers must:

- Decide on what basis they will calculate their eligibility. There are two basic options. Either compare their revenue in March, April and May 2020 to that of the same month of 2019. Or, compare their revenue in March, April and May 2020 to the average of their revenue in January and February 2020 to show the required reduction. (That is: the Jan-Feb average serves as the benchmark for each of the following three months.) Once the method is chosen, it must be used throughout the program period.
 - For March, the government reduced this 30% benchmark to 15% in recognition of the fact that many businesses were not affected by COVID-19 until halfway through the month.
 - Employers are allowed to measure revenues either on the basis of accrual accounting (as they are earned) or cash accounting (as they are received). Once chosen, the same accounting method must be used by the employer throughout the program period.
- **NEW:** To provide certainty for employers, the government has included wording that states once an employer is found eligible for a specific period, they will automatically qualify for the next period of the program. For example, an employer with a revenue drop of more than 15% in March would qualify for the first and second periods of the program, covering remuneration paid between March 15 and May 9. Similarly, an employer with a revenue drop of 30% in April would qualify for the second and third periods of the program, covering remuneration paid between May 10 to June 6.
 - Note, however, if you receive funds for which you are not eligible, you will be required to pay them back. If any fraudulent activity is found individuals could face fines and/or imprisonment.
 - We anticipate further clarity on this point to be forthcoming from the federal government

Charities and nonprofits have options available when it comes to calculating the 30% loss of revenue required to qualify for the program

- To recognize the challenges in measuring revenues of non-profit organizations and registered charities the legislation gives the option to choose whether or not to include amounts received from government sources in revenues for the purpose of applying the revenue decline test. This would include operating and project grants. Once chosen, the same approach must be maintained by the organization throughout the program period.
 - It is to your advantage to consider future months before making your first filing.

Pay Periods

Note that the subsidy is framed as a weekly amount by the CRA. If you pay your staff weekly, you're set. If you pay bi-weekly, obviously, the calculation is straightforward. If you pay your staff semi-monthly or monthly, you cannot use your payroll numbers: you need to calculate it separately.

Donations from Board Members, Transfers from Investments and other Non-Arm's Length Transactions

Bill C-14 does not count as revenue amounts derived from a person or partnership not dealing at arm's length with the organization. We take this to mean that donations from board members and staff, transfers from investments, intercompany transactions (e.g. between an organization and its foundation) and amounts from other non-arm's length entities should not be included in your calculations evaluating revenue decreases.

Refund of Employer Source Deduction Contributions

For employees who are on leave **with pay** due to COVID-19, the CEWS will also compensate the employer for the employer's portion of their contributions to the Canada Pension Plan, Employment Insurance, Quebec Pension Plan and Quebec Parental Insurance Plan on top of the 75% wage subsidy.

You can claim this amount for each week that the employee is receiving their salary or wages but is not working at all.

Employees who COULD work but are refusing don't qualify for the above. The leave has to be initiated by the employer.

It is unclear at the moment how the employee's leave should be documented, but it seems clear that documenting the leave – and the reason for the leave – will be important. We recommend one or both of the following: 1) Save written correspondence with the employee explicitly documenting the leave 2) Create an internal document (e.g. a Board motion) stating your rationale.

Penalties

The employer will be required to repay amounts received under the CEWS if they do not meet the eligibility requirements.

The government is also imposing a penalty of 25% of the CEWS received by an employer if the employer has engaged in transactions that artificially reduce the employer's revenue in order to qualify for the subsidy.

Under existing provisions of the Income Tax Act, persons making, or participating in making, a false or deceptive statement could be prosecuted with a summary or indictable offence. Anyone found guilty could be sentenced to prison for up to 5 years.

Interaction with the 10% Temporary Wage Subsidy

Note that the 75% CEWS does not replace the 10% Temporary Wage Subsidy. Both programs exist. Employers may qualify for both.

If you qualify for both, in our opinion it is to your advantage to claim the 10% subsidy **now**. You can claim this as a reduction to source deductions payable, thereby helping your cashflow right away. The CEWS portal is expected to launch in 3 to 6 weeks, with a direct deposit turnaround of several additional days. Please see our [prior tipsheet](#) for more information.

Note that the amount you claim via the 10% Temporary Wage Subsidy must be deducted from your 75% claim to CEWS. You cannot exceed the 75% subsidy amount.

Interaction with the Work Share Program

Note that you still can still qualify for the CEWS if you are participating in the Work Share program administered through Service Canada. You will be required to report amounts you have already received through the Work Share program which will reduce the amount received from the CEWS.

CEWS and CERB

Whether it is best to rehire employees that are currently receiving CERB or to continue to have them laid off is a matter that needs to be evaluated on a case by case basis. It is to your benefit – and your employees' – to evaluate your financial position to determine the best course of action.

Claiming CEWS for Subsidized Positions

This point is not specifically covered by government publications, but we wish to draw it to your attention, as in our view it is likely to be interpreted by the CRA as “double-dipping.”

Fully-Funded Positions

If a position is already 100% funded (e.g. Investing In Neighbourhoods, Canada Summer Jobs, Young Canada Works) do not also claim the CEWS.

Partially Funded Positions

If a position is partially funded by another program, claim only the amount that would bring your total funding for the position up to 75% of the total wages paid. For example, if a Young Canada Works position is subsidized on a 50-50 basis between the employer and the government, the government is already subsidizing 50% of the wages. Therefore, you would claim the additional 25% to “top-up” the total subsidy to 75%.

Decisions that May Be Open to Interpretation

The legislation and general content presently available about CEWS does not cover every possible situation. Employers may need to make their own decisions about how to interpret the rules.

For any element of CEWS that may be open to interpretation, it will be prudent to document your process for potential future audit.

The government’s approach is to respond to the immediate crisis by paying first and asking questions later. Employers must behave responsibly in interpreting the available guidelines, and must assume that there is an eventual risk of audit. Maintain thorough documentation, and ensure that your board of directors understands the decisions you are making.

How [Young Associates](#) can assist

A consultation with us may make all the difference to your comfort level and confidence that your accounting system is up to the challenge of the pandemic.

We can help you calculate your year over year revenue decreases and provide cash flow projections for the coming months, as well as help you calculate and implement the 75% or the [10% wage subsidy](#) for your organization.

We’d also be happy to give you [a quote for full-service bookkeeping](#).

We work on the basis of fixed price agreements, so you'll know going in how much our work will cost — and we always offer a money-back guarantee: if you're not completely delighted with our service, we will, at your option, either refund the price or accept a portion of said price that reflects your level of satisfaction.

Contact us: info@youngassociates.ca

This tip sheet was created by Cassie Wojcik, Alicia McGuire PCP and the Young Associates team based on the best information available to us as of the date of posting. We are happy to receive your comments at info@youngassociates.ca.

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Founded in 1993, Young Associates provides bookkeeping and financial management services in the charitable sector, with a focus on arts and culture. Young Associates also provides consulting services in the areas of data management, business planning and strategic planning. Heather Young published [Finance for the Arts in Canada \(2005, 2020\)](#), a textbook and self-study guide on accounting and financial management for not-for-profit arts organizations.