June 12, 2020

Important CEWS Budgeting Considerations

As more and more businesses move out of the emergency phase and into the planning phase of the pandemic, considerations surrounding CEWS and other government supports available throughout the rest of the year are top of mind. We want to make sure you understand provisions of CEWS that may help you with budgeting for staffing over the summer and fall.

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

Food for Thought About Maximizing CEWS and Other Government Support

We're very aware of the challenges of planning for reopening — and that for many, particularly in the performing arts, the next production is likely to be many months in the future. Understanding the provisions of CEWS may help you with budget decisions.

It's important to understand a feature of the program that may not have been top of mind while you were sorting out eligibility and the first subsidy claim. You can base your CEWS claim on pre-crisis compensation — not necessarily on the compensation you are paying right now. In your budget planning, you may want to consider reducing salaries temporarily, to reflect reduced current workload, and to shift your salary spending to the fall, after CEWS has ended.

This opens the possibility of reducing compensation now and still being subsidized up to 75% of your staff's pre-crisis wages. Therefore, if wages are reduced to 75% or less, they will be subsidized in full. If wages are kept above 75%, anything above that benchmark will be paid by the organization.

Note that due to maximum claim amounts, any employees earning more than $847 per week will need different calculations.

Additionally, there's a special provision for employers who keep staff on payroll when there's no work for them — AKA "furloughed" staff. CEWS will cover 75% of their wages and 100% of employer CPP and EI costs.

Scenarios to Help With Planning

Many of you will have worked through — or are working through — your own calculations. We are offering the following scenarios to illustrate options and the financial outcomes you might attain.

Results will vary by company. We have used publicly sourced T3010 data as the basis of our sample company.

XYZ Theatre Company has an operating budget of $875,000. Its 5 staff are all at home, working remotely. The leadership will confirm reopening plans based on public health advisories – but they are anticipating their next show will be February 2021.

That's 8 months down the road.

At the moment, they are paying everyone their normal salaries. Board and management are looking at what the company can reasonably afford while conserving resources for a successful re-launch.

They qualify for CEWS, which provides 24 weeks of subsidy, ending August 29. Staff will require notice of any change to salary levels. Each company must evaluate this relative to its circumstances. We are using the July 4 pay period as the first possible date for a pay change.

Calculations are based on a number of additional assumptions, which you can find here.

Salary and CEWS details are given on the table below.

XYZ Theatre	Pre-COVID annual salary	Pre-COVID weekly salary	CEWS eligibility - weekly	CEWS subsidy @ 75%	Total Subsidy, 15Mar-29Aug (24 weeks)	Net annual salary cost
Artistic Director	61,100.00	1,175.00	1,129.33	847.00	20,328.00	40,772.00
Managing Director	61,100.00	1,175.00	1,129.33	847.00	20,328.00	40,772.00
Business Manager	43,420.00	835.00	835.00	626.25	15,030.00	28,390.00
Development Manager	52,000.00	1,000.00	1,000.00	750.00	18,000.00	34,000.00
Marketing Manager	44,980.00	865.00	865.00	648.75	15,570.00	29,410.00
	262,600.00				89,256.00	173,344.00

If XYZ Theatre Company continues to pay everyone their regular salary during 2020, CEWS will reduce their net cost by 89,256.

To give you a sense of proportion, this company's salaries represent 30% of its 2020 operating budget. CEWS will cover a bit more than 10% of the total budget. This illustration won't hold true in all circumstances; proportions depend on the size of the company and its payroll.

Click here to review the impact of CEWS on a sample pay period in July.

Scenario: 75%

One alternative under consideration is reducing pay to 75%, effective with the July 4 pay.

If they pay 100% of regular pay from the start of the year to the June 27 pay, and then reduce pay to 75% until Dec 31, their net salary cost will be 140,519. You can review the table here.

In this scenario, their net salary cost falls to 140,519.

Click here to review a sample pay period in July.

They will receive the same subsidy (89,256) as if they kept salaries at 100%, because they can base their CEWS claim on pre-COVID earnings.

In XYZ Theatre's case, reducing the AD and MD salaries to 75% moves their gross pay below the CEWS max, but because the subsidy is the lesser of pre-COVID earnings or actual salary paid, the company can still claim the maximum CEWS subsidy.

From September to December, the wage reduction will save an additional 32,825. Total bottom-line impact will be 122,081. On their $875,000 budget, this represents savings of about 14%.

Summary table

Here are the results of our two scenarios, side by side.

	Pre-COVID Annual Salary Exp	Salary Reduction %	Reduced Salary Exp	CEWS Subsidy	Total Net Exp	Total % Savings from Pre-COVID
Scenario 1	262,600.00	100%	262,600.00	89,256.00	173,344.00	34.0%
Scenario 2	262,600.00	75%	229,775.00	89,256.00	140,519.00	46.5%

Additional considerations

We are not advocating for salary reductions — simply illustrating the importance of CEWS being based on pre-COVID earnings.

If you reduce salaries by more than 75%, you will reduce the subsidy amount as well — effectively gaining nothing.

If you are considering salary reductions, consult with an HR professional about the specifics of your organization's situation.

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 think through this process and prepare budgets and cash flow projections for the next few months and beyond.

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 Heather Young CPB 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.