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Wage Subsidies for Employers – Federal

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Tax News

To help businesses keep and rehire workers through the challenges posed by the COVID-19 pandemic, the Government of Canada has introduced two wage subsidies for employers, that is, the Canada Emergency Wage Subsidy (CEWS) and the 10% Temporary Wage Subsidy (TWS).

Here is a summary of these measures, based on information available to date.

The CEWS is extended to November 21, 2020[1] and its scope has been expanded to include the following two parts, as of period 5, which started on July 5, 2020:[2]

- A base subsidy available to all eligible employers that are experiencing a decline in revenue, with the subsidy rate varying depending on the scale of revenue decline;
- A top-up subsidy of up to an additional 25% for those employers that have been most adversely affected by the COVID-19 crisis.

Bill C-20, which introduces these measures, was assented to on July 27, 2020. It also provides for CEWSeasing measures.[3]

Appendix 1 summarizes the program changes that apply as of period 5 and various technical adjustments to the CEWS resulting from Bill C-20.

Eligible employers can apply for the CEWS or modify a previous claim through the CRA's My Business Account portal or the web form.[4]

CANADA EMERGENCY WAGE SUBSIDY[5]

NEW! Applications for period 7 (August 30, 2020 to September 26, 2020) may be submitted as of September 30, 2020. The calculator available on Canada.ca allows you to estimate the amount of the CEWS, including for this period.

Generally, eligible employers could benefit from a subsidy of the remuneration paid to their employees from **March 15, 2020 to November 21, 2020**. In addition, an employer is entitled to a reimbursement of certain employer-paid contributions with respect to remuneration paid to employees for a week during which they are on leave with pay, i.e. employees that do not perform any work for the employer during the week.

The government is encouraging eligible employers to rehire employees and apply for the CEWS. Employees who have been laid off or furloughed can become eligible retroactively, as long as they are re-hired, receive retroactive pay and meet the eligibility criteria for the claim period. Employees must be rehired and paid before being included in the calculation of the subsidy.[6] Re-hired employees who become ineligible for the Canada Emergency Response Benefit (CERB) received may have to repay it.[7]

1 A period 10 that would be from November 22 to December 19, 2020 could be added by Regulation. As the terms and conditions are not available, this period is not included in this *Tax News*. In connection with the September 23, 2020 Throne Speech, the Prime Minister also announced his intention to extend the CEWS until the summer of 2021. Details of this extension remain to be confirmed.

2 For periods 5 and 6, under a transitional rule, eligible employers may be allowed to use the former rules to calculate the CEWS based on applicable rates and rules, if it proves to be more advantageous.

3 These measures, applicable retroactively to March 15, 2020 (period 1), can be applied to applications filed since July 27. They may have an impact on applications filed before that date or on the retroactive eligibility of certain employers.

4 Representatives of a business, including employees duly authorized by their employer, may also submit an application using the Represent a Client service. Businesses that are not registered in My Business Account are invited to do so.

5 Additional details are available on Canada.ca. You can also go to the CRA's FAQs on the CEWS.

6 ***NEW!*** Effective period 9 (October 25 to November 21), limits will apply on the CEWS that can be claimed on the remuneration paid to an employee on paid leave. For periods 5 to 8 inclusively, the CEWS for these employees is calculated according to the rules applicable to periods 1 to 4.

7 The CERB can be repaid by mail, by online banking with a financial institution and using the CRA My Account. For more information on repaying the CERB, go to Canada.ca.

Eligible employers

Eligible entities

The following entities, other than an excluded public institution,[8] are eligible for the CEWS:

- A taxable corporation;[9]
- An individual;
- A trust;[10]
- Partnerships where at least 50% of the interest is owned directly or indirectly by eligible employers;[11]
- A non-profit organization (NPO)[12] or a registered charity;
- Certain Indigenous government-owned corporations that carry on a business;[13]
- Private colleges and schools, including institutions that offer specialized services, such as arts schools, driving schools, language schools or flight schools.

Employer number

To be eligible, an employer must have had employees on March 15, 2020 and, as the case may be:

- Have a business number and a Payroll Account (RP) number with CRA on that date;
- Use the services of a payroll service provider to manage and pay its employees' pay.

Business Acquisition! Eligible employers that acquired all or substantially all of the assets of a seller during a claim period or before may be eligible for the CEWS if the seller met one of the these conditions and that an election is made in this respect.[14] Thus, the employer (acquirer) can be eligible for the CEWS even if it is a new entity created after March 15, 2020, including a newly incorporated sole proprietorship business.

Payroll management service! Employers who used the services of a payroll service provider must register for their own payroll program account in order to claim the CEWS. The payroll provider will have to confirm to the CRA that remittances were previously made from its account on behalf of the eligible employer.[15] The CRA will transfer these remittances to the eligible employer's new account, and advise it when it can proceed with its CEWS application. The employer will have to use its new business number and payroll program account for all future payroll remittances.

An eligible entity that meets the employer number conditions is eligible for the CEWS regardless of its size or activity sector, provided it meets the decline in revenue test for a given period.

Reference period

The CEWS is paid every month (claim period). Eligibility for periods 1 to 4 and for the base amount as of period 5 is determined based on the decline in revenue for a reference month, according to the following table:[16]

Claim period	Reference month
▪ March 15 to April 11 (P1)	March 2020
▪ April 12 to May 9 (P2)	April 2020
▪ May 10 to June 6 (P3)	May 2020
▪ June 7 to July 4 (P4)	June 2020
▪ July 5 to August 1 (P5)	July 2020
▪ August 2 to August 29 (P6)	August 2020
▪ August 30 to September 26 (P7)	September 2020
▪ September 27 to October 24 (P8)	October 2020
▪ October 25 to November 21 (P9)	November 2020

For period 5 and subsequent periods, the decline in revenue calculated for the reference month is used to determine an employer's eligibility **and** its base CEWS rate.

For each claim period, the employer must demonstrate that it meets the decline in revenue test by comparing revenue for the reference months in 2020 with either:

- Revenue in the same month in 2019;
- Average revenue for the months of January and February 2020.[17]

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8 The following public institutions are not eligible for the CEWS: an organization described in Income Tax Act (ITA) 149(1)(a) to (d.6), such as municipalities and local governments, Crown corporations, corporations at least 90% of which is owned by the Crown, corporations that are wholly-owned by a municipality, health authorities and hospitals as well as public universities, colleges and schools and school boards.

9 A non-resident corporation whose Canadian source income is not subject tax under Part I of the ITA by reason of a tax treaty (e.g. non-resident airline corporation) may be eligible for the CEWS (see question 3-02 of the CRA's FAQs about the CEWS).

10 Since period 3 (May 10 to June 6, 2020) tax-exempt trusts and trusts that are public institutions are only eligible for the CEWS if they are on the list of organizations or entities that are otherwise eligible.

11 The percentage is determined on the basis of the fair market value (FMV) of the interest held by eligible members at any time during the qualifying period over the FMV of all interests in the partnership.

12 That is, a tax exempt entity under ITA 149(1)(e), (g), (h), (j), (k) and (l), including an agricultural organization, a board of trade and chamber of commerce, certain non-profit corporations for scientific research and experimental development, labour organizations, registered Canadian amateur athletic associations, registered journalism organizations and partnerships or associations operated exclusively for social welfare, civic improvement, pleasure or recreation or any other purpose except profit.

13 Essentially tax exempt corporations under ITA 149(1)(d.5) and (d.6) where at least 90% of the shares are owned by one or more indigenous government corporations and their wholly-owned subsidiaries. Partnerships where the partners are Indigenous governments or eligible employers are also eligible.

14 ***New clarification!*** If eligible, employers (acquirer) must notify the CRA of this election (by email or telephone) to have their employer number activated for the purposes of the CEWS application. Once the request has been processed, the CRA will confirm with the employer when they will be able to submit their CEWS application online.

15 The third party must provide a list of eligible employers on whose behalf the third party made remittances, including the new payroll program account number and the amount of remittance attributable to each employer since January 1, 2020. This information can be provided to the CRA by email at the following address: CEWSINFOG@cra-arc.gc.ca.

16 An employer whose activities started after February 2020 is not eligible for the CEWS (unless the employer, incorporated after this date, qualifies for the rules regarding the acquisition of a seller's existing business). It may however be eligible for the 10% TWS if it meets the eligibility conditions.

17 Average revenue must take into account the number of days where the business was being carried out in January and February 2020. According to our understanding, this rule aims to weight the average revenue of an entity that has not carried on business for part of a month. For example, for a corporation with a $100,000 revenue in January and a $140,000 revenue in February, the average would be $120,000. If the corporation started operating its business on January 15, the average would be $160,000 [i.e. $240,000 * (60 days / 45 days)].

The approach used for period 1 must be used for periods 1 to 4 inclusively.[18] For period 5 and subsequent periods, the employer can either use the same approach or the alternative approach. The approach used for period 5 must be used until the end of the program.

Appendix 2 provides a summary of the reference periods used to determine the decline in revenue.

Mergers and wind-ups

Corporations formed as a result of an amalgamation (or when a corporation is wound-up into another) can use their combined income for purposes of the decline in revenue test.

Example – Amalgamated corporation

Corporation A and Corporation B were amalgamated on March 1, 2020 to create Corporation AB. To determine its eligibility to the CEWS, Corporation AB can compare its March 2020 revenue to either the combined revenue of Corporation A and Corporation B for March 2019 or to the average combined revenue of these corporations for January and February 2020.

Business acquisition

Rules provide for determining an eligible employer's decline in revenue taking into account the revenue of a newly acquired business during or before a claim period.

The following conditions must be satisfied in this regard:[19]

- The assets were used by the seller in the course of a business carried on by it in Canada;
- The acquired assets represented all or substantially all (90% or more) of the FMV of the seller's property used in the course of carrying on a business immediately before the acquisition;[20]
- For each claim period, the eligible employer makes an election or, if the seller is still in existence for that period, the employer and the seller jointly elect to apply these rules.

To summarize, under this election, the eligible employer (acquirer) can consider revenue attributable to that business in its revenue for the claim period and the previous reference period; that revenue is then deducted from the seller's revenue.[21]

CEWS for periods 1 to 4

Eligibility for periods 1 to 4

To be eligible for the CEWS for periods 1 to 4, that is from March 15, to July 4, 2020, an employer must have experienced a decline in eligible revenue of at least:

- 15% for the month of March 2020; and
- 30% for the months of April, May and June 2020.

An employer that can show it meets the decline in revenue test for the months or March, April or May is deemed to meet this test for the immediately following period.

Example – Determination rule for periods 1 to 4

If an employer's revenue for March 2020 dropped by more than 15% compared to March 2019, the employer can claim the CEWS on remuneration paid for the March 15, to April 11, 2020 period (P1) and for the April 12, to May 9, 2020 period (P2). In order to claim the subsidy for period 3, i.e. May 10, to June 6, 2020, the employer must show it meets the decline in revenue test for the month of April or May 2020.

CEWS calculation for periods 1 to 4

The maximum subsidy per employee for periods 1 to 4 is the **greater** of the following amounts:

- 75% of the amount of remuneration paid by the employer (up to a maximum of $847 per week);
- The amount of remuneration paid **or** 75% of the employee's baseline remuneration, **whichever is less** (up to a maximum of $847).

Accordingly, the subsidy can be up to 100% of the first 75% of employees' pre-crisis remuneration or 75% of the remuneration paid to new employees (without exceeding the $847 ceiling). Appendix 3 presents examples of the CEWS calculation for periods 1 to 4.

CEWS for period 5 and subsequent periods

For period 5 and the subsequent periods, all eligible employers who experienced a decline in revenue are entitled to a base CEWS.[22] The most adversely affected employers, i.e., those who experienced an average decline in revenue of 50% or more over the previous three months, are also eligible for a top-up subsidy. The CEWS rate for these periods is therefore the sum of these two rates.

For periods 5 and 6, an eligible employer who experiences a decline in revenue of at least 30%[23] may be eligible for the CEWS calculated under the previous method if it turns out to be more advantageous.

Rates for the base CEWS and deeming rule

The following table illustrates the base CEWS rate for period 5 and subsequent periods, based on the percentage of decline in eligible revenue for the reference month.

Claim period	Rate of base CEWS according to decline in revenue %	
	50% and +	Less than 50%
July 5 to August 1 (P5)	60%	1.2 × decline in revenue %
August 2 to August 29 (P6)	60%	1.2 × decline in revenue %
August 30 to September 26 (P7)	50%	1.0 × decline in revenue %
September 27 to October 24 (P8)	40%	0.8 × decline in revenue %
October 25 to November 21 (P9)	20%	0.4 × decline in revenue %

[18] An entity that was not carrying on a business as at March 1, 2019 must use the average for January and February 2020 to establish its decline in revenue for periods 1 to 4.

[19] For more details about these rules, consult the CRA's FAQs about the CEWS (Question 8-3)

[20] According to the CRA, if the seller's business operation has more than one division, the employer must consider all the assets used in carrying on the business of all the divisions when determining whether the FMV of the acquired assets constituted all or substantially all of the property used in the course of carrying on the business of the seller.

[21] Specific rules apply for this purpose and there is an applicable presumption regarding the employer number criterion, if the acquirer did not have an active account as at March 15, 2020.

[22] As of period 5, specific rules apply depending on whether the employee is active or on paid leave.

[23] Based on the greater of the decline in revenue calculated for the current period and that for the previous period, due to the deeming rule applicable to those periods.

In determining its CEWS rate for a given period, an employer can use the greater of the decline in revenue percentage for the reference month applicable to this period or for the previous month.

Example – Deeming rule for decline in revenue rate

The employer's revenue declined by 25% in June and 20% in July. It can calculate its base CEWS for period 5 (July 5, to August 1, 2020) using the 25% decline in revenue rate, that is the higher of the current month's and previous month's. The employer's base CEWS rate for period 5 will therefore be 30% [i.e. 1.2 × 25%].

Top-up CEWS rate

The top-up CEWS could give entitlement to an additional subsidy of up to 25% for period 5 and subsequent periods (i.e. an amount up to $282 per eligible employee).

Eligibility for and the rate of the top-up subsidy for a given month are determined by comparing average revenue for the three calendar months preceding the 2020 reference month to either:

- Revenue for the same period in 2019;
- Average monthly revenue for January and February 2020, if the employer used that option as the previous reference period for purposes of the base CEWS.

The top-up CEWS rate is 1.25 times the average decline in revenue amount in excess of 50%. Employers that experienced a decline in revenue of at least 50% over the previous three months are eligible for the top-up CEWS and would be entitled to a maximum rate of 25% when the decline in revenue is at least 70%.

Example – Decline in revenue for the top-up CEWS

An employer has $210,000 in revenue between April 1, and June 30, 2020 (average monthly revenue of $70,000). If the employer had $600,000 in revenue for the same period in 2019, it therefore has a 65% decline in revenue. The employer would be entitled to a top-up CEWS of 18.75% [i.e., 1.25 × (65% - 50%)].

If the employer had $350,000 in revenue between January 1, and February 29, 2020, (average monthly revenue of $175,000) and uses this comparison option, the decline in revenue would be 60%. It could then be entitled to a top-up CEWS of 12.5% [i.e., 1.25 × (60% - 50%)].

Appendix 2 presents a summary of the reference periods and applicable rates for calculating the CEWS.

In short, for period 5 and beyond, the CEWS rate is based on the decline in revenue in the current or prior period, whichever is greater. For periods 5 and 6, if revenues have decreased by at least 30%, the employer is entitled to a CEWS rate of at least 75%, calculated under the old system.

CEWS calculation for period 5 and subsequent periods

For period 5 and subsequent periods, the base CEWS rate is added to the top-up CEWS.[24] This global rate is applied to **the lesser of**:

- The remuneration paid to the employee;
- $1,129;
- The employee's baseline remuneration if the employee is not at arm's with the employer.

IMPORTANT! As of period 5, the CEWS for employees at arm's length with the employer is calculated solely on the basis of the remuneration paid, without considering the baseline remuneration.[25]

Safe harbour rule for periods 5 and 6

For periods 5 and 6, eligible employers that experienced a decline in revenue of at least 30%[26] will be entitled to a CEWS that is at least equal to the amount that they would have been entitled to according to the calculation applicable for periods 1 to 4.

IMPORTANT! For periods 5 and 6, employers must calculate their CEWS using the former and new programs[27] to determine which is most advantageous. This calculation must be made for **each employee** and for **each week** included in the period.

The following table indicates the maximum amount an employer could receive for each employee if the employer is eligible for the base CEWS and if it is also eligible for the maximum top-up CEWS rate.

Claim period	Maximum weekly CEWS	
	Base CEWS only	Including top-up CEWS
▪ July 5 to August 1 (P5) ▪ August 2 to August 29 (P6)	$677[28]	$959
▪ August 30 to September 26 (P7)	$565	$847
▪ September 27 to October 24 (P8)	$452	$734
▪ October 25 to November 21 (P9)	$226	$508

Rounding percentages

When an employer calculates its CEWS, the CRA permits rounding percentages to the nearest hundredth (second decimal place).[29] However, rounding the revenue reduction percentage is **not permitted** for purposes of meeting the 30% eligibility threshold for periods 1 to 4 (including for purposes of determining eligibility for this method for periods 5 and 6).

Example – Rounding percentage

An employer has qualifying revenues in June 2019 of $100,000 and June 2020 of $70,005, which is a revenue reduction of 29.995% for claim period 4. Its revenue reduction for claim period 3 was 25.75%. This employer is not eligible for the wage subsidy for claim period 4 as its revenue reduction for the period is less than 30%.

[24] The CEWS is calculated as follows: [% of base CEWS + % of top-up CEWS] x eligible remuneration (max. $1,129).

[25] However, if the employer is eligible for a guaranteed minimum CEWS at the rate of 75% calculated under the old plan for periods 5 or 6, the calculation will take into account the baseline remuneration of arm's length employees, in accordance with the rules applicable to periods 1 to 4.

[26] This percentage is deemed to be the higher of the percentage calculated for the current period and the percentage for the previous period. Accordingly, for period 5, it is the decline in revenue percentage calculated for June or July, according to the higher of the two. For period 6, it will be the higher of the percentages for July and August.

[27] Each calculation must take into consideration the rates and rules applicable for purposes of eligible remuneration for each program.

[28] An employer that experiences a decline in revenue of at least 30% for periods 5 and 6 could receive the 75% CEWS calculated using the method applicable for periods 1 to 4 for those periods (maximum of $847 per employee). This method will generally be more advantageous for employers who are only eligible for the base CEWS for these periods.

[29] It is therefore possible to round up percentage for the decline in revenue and for the base CEWS and top-up CEWS.

An employer has qualifying revenue in July 2019 of $50,000 and $35,0002 in July 2020, which is a revenue reduction percentage of 29.996% for period 5. The employer will not be eligible for the CEWS calculated at the rate of 75% using the method applicable for periods 1 to 4, since its decline in revenue percentage for period 5 is less than 30%. The employer can however use a rounded percentage of 36.00% for claim period 5.[30]

CEWS reduction

The amount than an employer can claim under the CEWS for a given period is reduced by the following amounts:

- Employment insurance benefits received by an employee under the Work-Share program for the weeks included in the claim period;
- The amount claimed as the 10% TWS during the claim period.

Any amount claimed by an employer under the 10% TWS in a period reduces the CEWS for that period, including the 10% TWS claimed in respect of remuneration for an employee who is not eligible for the CEWS.

An employer that is eligible for both subsidies may waive the 10% TWS. In this case, employers do not have to reduce the amount claimed under the CEWS by the amount to which they would have been entitled under the 10% TWS. This waiver can be made for a given period or for the entire duration of the 10% TWS. This election must be disclosed in form PD27 that the employer must fill out in connection with the 10% TWS.

The CEWS is not reduced by the amount of any other salary-based government assistance otherwise received by the employer, whether it a wage subsidy, tax credit or other type of assistance. This assistance therefore does not reduce the eligible remuneration used to calculate the CEWS for an employee.

Employer's qualifying revenue

For purposes of the decline in revenue test, the employer must include gross revenue from normal activities in Canada, that is, generally, revenue from the sale of goods, provision of services or use of its resources by others.[31]

Investment income (interest or dividends) that arises in the course of the employer's ordinary activities will generally be included in its qualifying revenue. Amounts on account of capital and extraordinary items are not considered for purposes of this test.[32]

Emergency government assistance directly related to the COVID-19 crisis,[33] including assistance from the provinces or municipalities, is generally considered an extraordinary item, unless it is intended to replace regular or recurring government assistance.

If an employer changes its operations to manufacture essential products during the pandemic, it will have to consider income form the sale of these products for purposes of the decline in revenue test, even if it derives no profit. The profit margin is not a criterion to use for this test.

Revenue from non-arm's length parties

The decline in revenue test does not take into account revenue from non-arm's length persons (or partnerships). However, if all or substantially all[34] of the employer's revenue is from such persons, the employer can determine its eligibility for the CEWS using a formula that considers calculation of this test within the entities with which it is not at arm's length.[35] Appendix 4 provides an example of this calculation.

In order to use this method, the employer and each of the entities from which it derives non-arm's revenue must make a joint election.

Charities and NPO

A registered charity's eligible revenue includes revenue from donations, amounts received from its normal activities and revenue from a related business.[36]

An NPO's eligible revenue includes membership fees received (registration or other) and other amounts received from its normal activities.

Registered Charities and NPOs can choose whether or not to include revenue from government sources as part of the calculation of their eligible revenue. They must use that same approach throughout the program period.

An eligible employer can make a retroactive election with respect to government funding. It must amend all previously submitted applications to reflect this change.

Other specific rules

- Eligible revenue can be calculated using the accrual or cash method (in accordance with generally accepted accounting principles), at the employer's option. The employer cannot use a combination of both and must elect the method it wants to use for the duration of the program when submitting its first claim.[37]
- When a group generally prepares consolidated financial statements, each member of the group will determine its qualifying revenue in accordance with those statements. However, these entities can elect to use individual statements for a given period, provided all the consolidated group's members do the same.
- Members of a joint venture can generally elect to use the joint venture's revenue rather than their individual revenue to determine their eligibility for a period, provided certain terms are respected, in particular, if the joint venture's revenue represents all or substantially all (90% or more) of their revenue.

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30 i.e. 29.996% x 1.2 = 35.9952%, rounded to 36%.

31 If qualifying income is determined on the basis of a consolidated financial statement, the CRA considers that income from a sale to a third party by a non-resident member of the group could be included in the calculation of qualifying income if it is demonstrated that such income arose in the ordinary course of the group's activities in Canada, based on all applicable facts and circumstances.

32 An extraordinary item is not typical of the entity's normal activities or risks inherent in its normal operations, it should not occur regularly or frequently within several years and is out of the control of the business's owners or management. The impact of their decisions on cash inflows should therefore be considered.

33 Including in particular, amounts received under the CEWS and the 10% temporary subsidy.

34 Generally, the CRA considers that 90% and more to be all or substantially all. Depending on the circumstances and the context, the CRA may consider that this criterion is satisfied even if 90% level is not strictly achieved.

35 This determination will include the worldwide revenue of the non-arm's length parties for the reference period and the proportion of the employer's revenue from each of these entities during the reference period.

36 As defined in ITA 149.1(1).

37 The employer can make a retroactive election, in which case it must amend all previously submitted claims to reflect the election.

- An affiliated group can elect to determine revenue on a consolidated basis for a period, provided all members of the group make a joint election to that effect and use that method. This election must include the entire affiliated group. It is not possible to choose not to be a part of the affiliated group or to form smaller affiliated groups. This rule applies even if one or several members of the affiliated group does not have any income to report in the claim period.

Example – Affiliated group

Mr. A owns all the shares of Corporation A and his spouse, Mrs. A, owns all the shares of Corporation B. Both corporations are eligible employers. Corporation A and Corporation B are members of an affiliated group and could jointly elect that the qualifying revenue of the affiliated group be determined on a consolidated basis in accordance with relevant accounting principles. If the decline in revenue test is satisfied on the basis of their qualifying revenue, both corporations will be eligible for the CEWS on that basis.

IMPORTANT! The concept of an affiliated group is more restrictive than that of related or associated persons.[38] It is recommended that a tax specialist be consulted to determine if a group of entities is an affiliated group.

Employees and remuneration

Eligible remuneration

There is no general limit for the CEWS The subsidy is calculated on the basis of eligible remuneration paid to an employee in respect of a week included in the eligibility period in accordance with the applicable limits in this respect.[39]

Eligible remuneration includes salary, wages, and other remuneration as well as commissions, fees and other amounts paid for services.[40] However, it does not include severance pay or taxable benefits that **do not involve a payment to the employee**, such as benefits relating to stock options or the personal use of a corporate vehicle.

Tips that are declared under a provincial law, as is the case in the province of Quebec, and tips controlled by an employer are included in eligible remuneration, whereas tips paid directly by the customer are excluded.

Remuneration paid for a period

Eligible remuneration for purposes of the CEWS is remuneration paid with respect to a week included in a claim period and not actual remuneration paid during that period.

Eligible remuneration is therefore calculated based on the pay period in question and not on a cash basis.

Example – Eligible remuneration

If an employee is rehired on March 25, 2020 and the employee's pay for that week is paid on Thursday, April 16, 2020, the employer can claim the subsidy for the remuneration during the March 15, to April 11, 2020 period (P1).

Example – Eligible remuneration

A commission earned by an employee in January 2020 and paid to that employee on March 31, 2020 is not eligible for the CEWS, because that remuneration was earned before March 15, 2020 and is therefore paid with respect to a period not included in the eligibility period.

For more clarity, employers who retroactively rehire employees can claim the subsidy for the pay periods in question, regardless of when the amount was paid. They will, however, have had to pay the amounts to their employees when they submit their CEWS claim.[41]

If an employer's payroll cycle does not align with the claim periods, the employer must do a manual calculation of the remuneration in respect of the claim period. In this respect, it is not possible to consider an employee's average remuneration.

The eligible remuneration reported on an employer's wage subsidy application must reflect the actual amount paid with respect to each week in the claim period.

CLARIFICATION: VACATION! Remuneration paid in respect of sick days, vacation days or a legal holiday is eligible to the extent it is paid in respect of a week included in a claim period. Therefore, remuneration paid when an employee takes vacation time during a week that is within an eligibility period would be eligible. However, a lump sum payment that is not in connection with a "leave" (e.g. a lump sum to empty a vacation bank) would not.

Baseline remuneration

The baseline remuneration limits the subsidy for employees who are not at arm's length with the employer. For periods 1 to 4[42] , the subsidy calculation also takes into account the baseline remuneration of an employee at arm's length.

Base remuneration means the average weekly remuneration paid to an employee during one of the following periods:[43]

Claim period	Average weekly remuneration paid[44]
▪ Periods 1 to 3 (March 15 to June 6)	▪ January 1, to March 15, 2020 ▪ March 1, to May 31, 2019

38 Briefly, an individual is affiliated with him/herself and his/her spouse. A corporation is affiliated with the person that controls it and with that person's spouse and any corporation controlled by one of these individuals or a group of affiliated persons. A corporation may also be affiliated with a partnership if it is controlled by the latter. Example taken from the CRA's FAQs about the CEWS.

39 If an employee works for several employers who are not dealing at arm's length with each other for the same period, the amount of the subsidy calculated in respect of this employee cannot exceed the subsidy which could have been claimed if this employee had been employed by only one of these employers.

40 These are amounts for which employers would generally be required to withhold or deduct income tax at source.

41 As of period 5, specific rules apply depending on whether the employee is active or on paid leave and as of period 9 it is expected that limits will apply in this regard (details to come).

42 For these periods, the baseline remuneration can help maximize the CEWS for arm's length employees, as long as the remuneration paid during a claim period is less than their baseline remuneration. As of period 5, the baseline remuneration is intended only to restrict the subsidy for employees not dealing at arm's length with the employer.

43 The employer can elect to use a period other than January 1 to March 15 to determine the baseline remuneration. This election is made for each employee individually and for each claim period.

44 The baseline remuneration calculation excludes any period of at least seven consecutive days where the employee did not receive any remuneration during the

Claim period	Average weekly remuneration paid[44]
▪ Period 4 (June 7 to July 4)	▪ January 1, to March 15, 2020 ▪ March 1, to May 31, 2019 ▪ March 1, to June 30, 2019
▪ Period 5 and subsequent periods (July 5 to December 19)	▪ January 1, to March 15, 2020 ▪ July 1, to December 31, 2019

Anti-abuse rules are provided to prevent an employee's remuneration being increased above the baseline remuneration in order to increase the employer's CEWS.

Employees not paid for 14 consecutive days

For periods 1 to 4, that is from March 15 to July 4, an employer cannot claim the CEWS for an employee for a given period if this employee has not received any remuneration for at least 14 consecutive days during this period. This rule could impact the eligibility to the subsidy for employees hired during this period, as shown in the example below.

Example – Employee not paid for 14 consecutive days

A new employee started working on March 29, 2020. Because the employee did not receive remuneration from the employer from March 15 to 28, 2020, that is, 14 consecutive days, the remuneration paid to the employee for the period of March 29 to April 11, 2020 will not be eligible for the CEWS. However, the subsidy could be claimed for the employee for the following claim period starting on April 12, 2020 if the eligibility conditions are satisfied.

IMPORTANT! Since July 5, 2020 (P5), employees who are unpaid for 14 consecutive days are no longer excluded from the CEWS.[45] Accordingly, the remuneration paid to an employee hired on July 19 will be eligible for the CEWS for period 5, even if that employee was not paid by the employer for 14 consecutive days during the period.[46]

Employees that do not deal at arm's length with the employer[47]

The remuneration paid to an employee who is not at arm's length with the employer is only eligible for the CEWS if the employee was employed before March 16, 2020. As a result, a shareholder who pays him/herself a salary but was paid solely by dividends before March 16, 2020 is not eligible. There must be a baseline remuneration.[48]

For periods 1 to 4, the subsidy amount in respect of an employee who is not at arm's length is the lesser of the remuneration actually paid for the period or 75% of the baseline remuneration (to a maximum of $847 per week). An increase in that employee's remuneration is not eligible for the subsidy for that period.

Example – Employee not dealing at arm's length (P1 to P4)

A non-arm's length employee earned $500 per week before the crisis. The CEWS for the employee for periods 1 to 4 will be $375 (that is, 75% of $500), even if the employee earns $1,000 since March 15, 2020.[49]

For period 5 and subsequent periods, the wage subsidy for these employees is calculated applying the subsidy rate to the lesser of the eligible remuneration paid to that employee or the employee's baseline remuneration, up to a maximum of $1,129 per week.

Inactive employee (on paid leave)

For periods 1 to 4, the CEWS applies to remuneration paid to any eligible employee, whether the employee is active or on paid leave, that is receiving remuneration for a period during which the employee is not performing any work for the employer, for example during a temporary layoff.[50]

For periods 5 to 8 inclusively,[51] an employer that is eligible for the CEWS is eligible for the subsidy for remuneration paid to an inactive employee using the calculation applicable for periods 1 to 4, that is a subsidy equal to the greater of the following amounts:[52]

- 75% of the weekly remuneration paid by the employer (to a maximum of $847);
- The lesser of the weekly remuneration paid by the employer or 75% of the employee's baseline remuneration (to a maximum of $847).

CLARIFICATION! For periods 5 to 8, the 75% CEWS calculated according to the rules applicable to periods 1 to 4 will apply to all of the inactive employees of an employer that is eligible for the base or top-up CEWS, even if the employer otherwise calculates the CEWS using the new approach for active employees in these periods. The employer will therefore need to do a separate calculation using the former approach for each week included in the periods where remuneration is paid to an (inactive) employee on paid leave.

From period 9, it is expected that limits will apply to the CEWS that can be claimed for the remuneration paid to an employee on paid leave (inactive). As a result, the amount granted in this respect will be the lesser of the remuneration paid and the prescribed amount to be determined by regulation.[53] An employee who is not at arm's length with the employer will also be eligible for the CEWS in these

selected period. The period of seven consecutive days period is not solely a calendar week, it can straddle two weeks in the period, provided the unpaid days are consecutive.

45 ***NEW CLARIFICATION!*** Although on reading the Act, the 14-day criterion does not appear to apply to periods 5 and 6 even for employers calculating their CEWS based on rules applicable to periods 1 to 4, CPA Canada asked the CRA to validate this conclusion.

46 As a result of this easing of the eligibility criteria, the remuneration an employer pays to Quebec construction workers is eligible for the CEWS for period 5, even if their vacation pay is paid by the *Commission de la construction du Québec* (CCQ) for the period of July 19 to August (so technicality, these employees could be considered without remuneration from their employer for 14 consecutive days during this eligibility period).

47 Individuals connected by blood relationship, marriage or common-law partnership or adoption are considered to be related; this generally includes children, parents, grandparents, brothers and sisters and their respective spouses. These individuals are deemed to be related to the corporations where they hold a majority ownership, either alone or through a related group. Individuals related to such individuals are also related to these corporations. Lastly, unrelated individuals and corporations may be at non-arm's length if they are acting in concert with a common purpose.

48 A salary must have been paid during the periods used to determine the baseline remuneration.

49 In such a situation, for an arm's length employee, the employer would be entitled to a subsidy of $750, that is 75% of the actual amount paid.

50 The employee must not perform any duties, including minimal duties. An employee on vacation leave, sick leave or sabbatical leave is not considered to be on paid leave for purposes of the CEWS. Leave with pay would also not apply to situations where the employment relationship has been severed, such as wages in lieu of termination notice.

51 ***NEW!*** The extension of this treatment to period 8 was confirmed in the News Release issued by the Department of Finance Canada on September 25, 2020.

52 The calculation must take into account the limits applicable to employees that are not at arm's length with the employer, as applicable to periods 1 to 4.

53 Amounts not available at the time of publication.

circumstances, to the extent that the employee's baseline remuneration is greater than zero (regardless of the amount).

Reimbursement of employer-paid contributions

Employers will also be entitled to a full refund of the following employer-paid contributions with respect to employees for each week they received remuneration that qualified for the CEWS but during which no work was performed for the employer:[54]

- Employment Insurance;
- Canada Pension Plan;
- Quebec Pension Plan;
- Quebec Parental Insurance Plan.

Quebec grants a credit on contributions to the Health Services Fund (HSF) for employees on forced leave who are eligible for repayments of the employer's contribution under the CEWS.[55] This relief, for employers with an establishment in Quebec, applies from March 15, 2020 to November 21, 2020. The employer must apply for it in writing to Revenu Québec.[56]

Lastly, new rules that should apply as of period 9 to limit the CEWS that can be claimed for an employee on paid leave will not impact the repayment of employer contributions. These contributions will continue to be repaid in their respect until the end of the program.

IMPORTANT! For each employee eligible for the CEWS, it will be important to keep a record indicating whether or not the employee worked for a given week.

Employers must continue to collect and remit these contributions on remuneration paid to employees. They will be able to claim a refund of the employer-part of these contributions when they claim the subsidy.

Applying for the subsidy

Eligible employers can apply online and, since June 1, 2020, it is possible to modify an already submitted application.[57] Employers have to file a subsidy claim for each eligible month (claim periods). Separate claims have to be filed for each of the employer's payroll program (RP) account.

Applications must be submitted **no later than January 31, 2021**.

IMPORTANT! Applications may only be submitted after the end of the qualifying period and the remuneration covered by the claim must have been paid at the time the application is submitted.

The individual who has principal responsibility for the financial activities must attest that the application is complete and accurate in all material respects. If the application is submitted by a representative, including an employee duly authorized by his or her employer in Represent a Client, the representative must have a signed attestation from the business owner or the person with responsibility for the financial activities.

An automatic payment is generally issued quickly, but some applications may be selected for a pre-claim review before the payment issued.[58]

Records to keep

Employers would have to keep records demonstrating their reduction in arm's-length revenues and remuneration paid to employees.[59] They could also be required to provide an exhaustive list of employees and their social insurance numbers for verification purposes.

The documentation maintained must include an analysis of the nature of the remuneration. Dividends and other ineligible remuneration should be recognized and then clearly indicated as having been removed from the calculation. Any assumptions made in any calculation should be included in the documentation and available for review if requested.

NEW CLARIFICATION! The CRA has begun auditing certain employers who received the CEWS. The list of documents requested is exhaustive and detailed. It includes, in addition to the accounting records, extracts from the minute book and other shareholder registers of the companies concerned. It appears that these requests are intended to validate the decision-making process relating to the CEWS claim and the dividends paid during the given period. It is recommended to properly document the file.[60]

Any elections by the eligible employer for purposes of the CEWS, in particular, with respect to the accounting method used for the decline in revenue, must be retained so that it can be provided to the CRA upon request.

Lastly, a copy of the attestation signed by the individual who has principal responsibility for the financial activities must be maintained and made available upon request.

Interaction with the Canadian Emergency Response Benefit

Employee's and employer's responsibilities

Employees who claim the CERB are personally responsible for repaying it if they are not eligible, e.g. if they received remuneration in excess of $1,000 during the period. The employer is not responsible for CERB repayments and this situation has no impact on its entitlement for the CEWS. However, an employer who plans to rehire employees should clearly inform them that the CERB may have to be refunded.

An employer should not enter into any arrangement with employees to increase the wage subsidy or benefit amounts, for example, by

54 This reimbursement is not subject to the maximum limit of $847 per employee and no general limit is applicable in this regard. It is not available for eligible employees who are on paid leave only part of the week.

55 For more information, go to the Employers section of Revenu Québec's FAQs.

56 The application must include documents and information so the Minister can calculate the credit. The employer can use the contribution credit to reduce HSF contributions since May 1, 2020. The employer can also request the credit when submitting the *Sommaire des retenues et des cotisations de l'employeur* for 2020 i.e., generally, in February 2021.

57 For more information, visit Canada.ca. A partnership is deemed to be a taxpayer for the purposes of the CEWS, so it can apply for the grant itself if it otherwise qualifies.

58 It is recommended that employers sign up for Direct Deposit to receive payments more quickly. This registration can be done online or through most financial institutions.

59 Books and records include ledgers, journals, financial statements, contracts, elections, calculations or other working papers, payroll records, sales invoices and any other relevant document. In situations where a small employer does not maintain detailed monthly records, the CRA will be reasonable.

60 For more information on the records to keep, see the CEWS FAQs published by the CRA.

deferring payment of some forms of remuneration. Such an arrangement could be considered an abuse and subject to penalties.

Penalties

Employers will be required to refund amounts received under the CEWS if they do not satisfy the qualification requirements.

Additionally, penalties will apply to businesses that try to cheat the system, for example by engaging in artificial transactions for the purpose of benefitting from the subsidy.

An employer who has participated in a plan to make false or misleading information about the remuneration of employees or revenues of the entity claiming the CEWS will be liable to a penalty equal to 25% of the amount of the wage subsidy and will have to pay back any wage subsidy it received.

Other penalties, including fines and event imprisonment up to five years, may also apply in the case of fraudulent applications.

A person (such as an accountant or tax preparer) who files or prepares the CEWS application on behalf of an employer could be subject to a third-party penalty under the Act. This would be the case if they know, or would reasonably be expected to know, that the application contains false statements, including an omission of information.

T4 requirements for the wage subsidy

NEW CLARIFICATION! For 2020, employers will have to report remuneration paid during CEWS eligibility periods in the "Other Information" section of employees' T4 slips, using new codes provided for this purpose. This obligation applies to all employers, whether or not they have claimed the CEWS.[61]

List of employers that have applied for the CEWS

The Act authorizes the CRA to publish the name of any eligible employer that makes an application for the CEWS. The CRA will provide updates regarding the timely publication of a list or registry of wage subsidy applicants. The process for making this information available is still under consideration.

10% TEMPORARY WAGE SUBSIDY

The TWS applies for a period of three months, from March 18, 2020 to June 19, 2020. It is equal to 10% of the remuneration paid during this period, up to the lesser of the following amounts:

- $1,375 × the total number of eligible employees during the three-month period;[62]
- $25,000.[63]

Example – TWS limit

An employer has 8 eligible employees for the entire three-month period. The maximum allowable amount that this employer can claim with respect to the 10% TWS is $11,000 (or $ 1,375 × 8). If this employer pays each employees $2,375 biweekly, the total wages paid over the three-month qualifying period will amount to $114,000.This employer will be entitled to a subsidy of $11,000, i.e. the lesser of 10% of the remuneration paid ($11,400) and the maximum allowable of $11,000.

Employers eligible for the 10% subsidy

Canadian-controlled private corporation

To qualify for the subsidy, the business limit for purposes of the small business deduction (SBD) of a Canadian-controlled private corporation (CCPC) in the previous year must be greater than zero. Therefore, the corporation must have taxable capital of less than $15M, or, if it is a member of a group of associated corporations, the taxable capital of all of the group's corporations must be less than $15M.

Each of the corporations in the group will be entitled to a maximum subsidy of $25,000, to the extent they were allotted an amount as a business limit for purposes of the SBD in the previous year.

Test based on business limit

Only corporations that had a business limit greater than zero for purposes of the SBD are eligible for this subsidy.[64] Therefore, in order to qualify all the corporations in a group entitled to the SBD, it will be necessary to allocate a portion of the business limit to each of them for the last taxation year ended before March 18, 2020 even if they do not need it (for example, a corporation realizing losses). This allocation is particularly important for corporations that do not qualify for the CEWS.

The business limit must not take account of the passive investment income reduction. Accordingly, a corporation would be eligible for the subsidy if it had a business limit in its last taxation year, if this business limit was not reduced by passive income.

Other eligible employers

Eligible employers also include:

- An individual (other than a trust);
- An NPO[65] or a registered charity;
- A partnership if all of the members are eligible employers (i.e. previously described CCPCs, individuals other than a trust, NPOs and/or registered charities).

Moreover, the employer must have a business number and a payroll program account with the CRA as at March 18, 2020.

Eligible remuneration

Eligible remuneration includes salary, wages, bonuses, or other remuneration paid to your employee, who is employed in Canada, during the eligibility period from March 18, 2020 to June 19, 2020 inclusively.

Unlike the CEWS, the 10% TWS is calculated on a cash basis, based on the remuneration actually paid during the eligibility period. Any amount claimed under the 10% TWS reduces the CEWS amount for the same period.

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61 For additional details, see Canada.ca.

62 This limit takes into account the highest number of eligible employees at any time during the three-month period. Thus, if the employer had 5 eligible employees in the first month and 8 in the following month, the limit will be $11,000 ($1,375 × 8 employees) as shown in example below. For additional details see Canada.ca.

63 Associated CCPCs do not have to share the ceiling of $25,000 per employer.

64 If there is no previous year, the condition must be satisfied as though its taxation year end was March 17, 2020.

65 Exempted from tax under ITA 149(1)(l), i.e. a club, society, or association that is organized and operated solely for social welfare, civic improvement, pleasure or recreation or any purpose other than profit.

Claiming the subsidy

Employers must calculate the subsidy amount they are entitled to receive themselves and reduce the payroll remittance[66] payable to the CRA by that amount.

Employers can reduce their remittance in the first remittance period that includes remuneration paid from March 18, 2020 to June 19, 2020. They then reduce subsequent remittances for the period until the applicable subsidy limit is reached.

If the subsidy is higher than the federal tax withheld for the payment period, the unused amount can be deferred to a payment period after June 19, 2020, that is, a period that falls outside the wage subsidy application period.

Subsidy not claimed during the year

An eligible employer who did not reduce payroll remittances during the year can apply to have the subsidy paid at year end or transferred to the next year.

Waiver of subsidy

Employers eligible to both subsidies can waive the 10% TWS in order to only claim the CEWS.[67]

This waiver can be made for a given claim period or for the entire duration of the 10% TWS. This election has to be disclosed in form PD27 that the employer must complete regarding the 10% TWS.

Form to be completed (PD27)

Employers that are eligible for the 10% TWS must complete a self-identification form PD27 for each payroll program account where remittances were reduced by the TWS.[68]

This form must be completed by employers who claim or elect to waive the TWS.

The CRA will use this information to reconcile the subsidy with the payroll program account. The CRA will credit the payroll program account by the amount for which employers are eligible if they did not reduce their remittances.

Employers who chose to waive the 10% TWS must indicate this election on the form. If they fail to do so, they will be credited for the entire 10% subsidy and their CEWS claim will be reduced accordingly and recovered if necessary.

Documents to support the subsidy

The following documents must be kept in order to support the subsidy calculation:

- The total remuneration paid during the period;
- The income tax[69] that was deducted from that remuneration;
- The number of employees paid in that period.

TAXABLE GOVERNMENT ASSISTANCE

A wage subsidy that an employer receives under these two programs is considered to be government assistance and must be included in taxable income. For this purpose, the CEWS is deemed to be received immediately before the end of the period to which it relates and is therefore taxable in the year that includes the claim period rather than when it is actually received.

Moreover, amounts received under either of the wage subsidies will reduce the compensation expense that qualifies for federal tax credits calculated on the basis of remuneration.

Do not hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine which measures apply to your situation and assist you with the steps needed to benefit from these measures. Do not hesitate to contact us.

For more information, visit us at rcgt.com.

[66] Applies solely to payments to the CRA for federal, provincial or territorial taxes. Thus, this measure does not apply to Quebec income tax remittance. In addition, CPP contributions or Employment Insurance premiums remittance cannot be reduced.

[67] The regulation states that the subsidy rate is equal to 10% or a lower percentage elected by the eligible employer. By choosing nil, the employer would waive this subsidy.

[68] For more information about this form and the applicable terms and conditions, visit Canada.ca. In particular, the CRA provides instructions for completing it when the remuneration for a pay period started before March 18, 2020 is paid after that date or when the remuneration for a pay period started before June 19, 2020 is paid after this date (see scenario 5 of the section Submitting your self-identification form).

[69] Federal and provincial (other than Quebec tax).

Appendix 1 – Summary of program changes applicable as of period 5 and technical adjustments to the CEWS

Comparison of the two "CEWS programs"		
	CEWS for periods 1 to 4	**CEWS for periods 5 and subsequent periods**
Decline in revenue test[1]	▪ An employer that experiences a decline in revenue of 30% or more for the reference month (15% for March) is eligible	▪ An employer that experiences a decline in revenue for the reference month is eligible for the base CEWS ▪ An employer who experienced an average decline in revenue of 50% or more over the previous three months are eligible for a top-up subsidy (even if there is no decline in revenue in the given period)
CEWS rate	▪ Fixed rate of 75%	▪ Two-part program: − Base CEWS: Variable rate based on the decline in revenue % for the reference month (see Appendix 2) − Top-up CEWS: Variable rate based on the decline in revenue % for the three-month period preceding the reference month (maximum rate of 25%, nil when the decline in revenue is less than 50%)
Presumption[2]	▪ An employer that meets the decline in revenue test for March, April or May is deemed to meet this test for the following month (automatic eligibility)	▪ The decline in revenue rate for a given period is deemed to be equal to the rate for the preceding period if that rate was higher than the rate calculated for the given period
Eligible employee	▪ An employee who is unpaid for 14 consecutive days or more in an eligibility period is not eligible for the CEWS	▪ Criteria does not apply as of period 5
Eligible remuneration	▪ The CEWS is calculated on the basis of the actual remuneration paid to an employee for the period and the employee's baseline (pre-crisis) remuneration	▪ Calculation based exclusively on the actual remuneration paid for the eligibility period, regardless of the pre-crisis remuneration (unless the employee is not at arm's length with the employer)
	▪ The remuneration paid to an employee on paid leave (temporary lay off) is eligible for the CEWS	▪ For periods 5 to 8, the remuneration paid to an employee on paid leave is eligible for the CEWS using the same calculation as was applicable for periods 1 to 4. ▪ From period 9, the CEWS amount for such employees will be limited (regulation to come)
Transitional measure	▪ N/A	▪ For **periods 5 and 6**, an employer that experiences a decline in revenue of at least 30%[3] is eligible for a CEWS at least equal to the CEWS for which it would be eligible using the calculation applicable for periods 1 to 4 (75% CEWS)
Summary of main technical adjustments to the CEWS under Bill C-20[4]		
Eligible employer	▪ An employer that deals with a third party to manage its payroll is also eligible, even if the payroll service provider uses its own number for the payments. However, eligible employers will need to get their own payroll account number and have the remittances transferred therein before they can claim the CEWS. ▪ An employer who has purchased all or substantially all (90% or more) of the assets of a business that was operated by the seller (including a newly incorporated sole proprietorship) may be eligible if all conditions are met.	
Decline in revenue test	▪ Corporation formed as a result of an amalgamation (or when a corporation is wound-up into another) can use their combined income for purposes of the decline in revenue test. ▪ Rules have been added to take into account business transfers during or before a claim period. The acquiring employer must elect to consider revenue attributable to that business in its revenue for a previous reference period; that revenue is then deducted from the seller's revenue. If the seller still exists, the buyer and seller must make a joint election.[5] ▪ An employer can use the accrual or cash method to calculate its eligible revenue for the entire program (retroactive election possible).	
Baseline remuneration	▪ In determining an employee's baseline remuneration, an employer that does not want to use average weekly remuneration paid from January 1, to March 15, 2020 can elect to use remuneration paid from March 1, to March 31, 2019 (for periods 1 to 3), remuneration paid from March 1, to May 31, or June 30, 2019 (for period 4) or remuneration paid from July 1, to December 31, 2019 (for period 5 and subsequent periods).	
Claim deadline	▪ Claims must be submitted no later than January 31, 2021 (previous deadline was September 30).	

1 The other eligibility criteria must otherwise be met for the employer to be eligible for the CEWS.

2 An employer that experiences a decline in revenue in June (P4) is eligible for the CEWS for period 5 (July 5 to August 1) in accordance with the conditions that apply to that period. If the June decline in revenue is 30% or more, the CEWS for period 5 will be at least equal to the one calculated at the 75% rate under the old system. Such a deeming rule also applies to period 6.

3 According to the higher of the percentage for the period and the percentage for the previous period. Accordingly, for period 5, it is the higher decline in revenue percentage calculated for June or July. For period 6, it will be the higher of the percentages calculated for July and August.

4 These changes, which can be applied to applications filed on or July 27, 2020, apply retroactively to the first eligibility period beginning on March 15, 2020. As a result of these measures, employers who are entitled to a greater CEWS for periods filed prior to July 27, 2020 may submit an amended application. Employers may also have become eligible for the CEWS retroactive to March 15 because of new rules on mergers, business liquidations and transfers or new rules on the use of a payroll service provider. v.

5 If the conditions for application of these rules have been satisfied, the employer (acquirer) is deemed to satisfy the criterion regarding the payroll account if the seller met this criterion. Thus, a new entity that has acquired a business may qualify.

Appendix 2 – Summary of reference periods and CEWS rates based on decline in revenue

The following table summarizes the reference periods used to determine the decline in revenue for each claim period and the applicable CEWS rate based on the decline in revenue.[6]

Base CEWS[7]			
Claim period	**Reference month**	**Required decline in revenue and rate[8]**	**Presumption**
March 15 to April 11 (P1)	▪ March 2020 compared to March 2019 or to the average for January and February 2020	▪ 15% to be eligible for the 75% CEWS	None
April 12 to May 9 (P2)	▪ April 2020 compared to April 2019 or to the average for January and February 2020	▪ 30% to be eligible for the 75 % CEWS	The decline in revenue test is deemed to have been met if it is met for the previous period
May 10 to June 6 (P3)	▪ May 2020 compared to May 2019 or to the average for January and February 2020	▪ 30% to be eligible for the 75% CEWS of	
June 7 to July 4 (P4)	▪ June 2020 compared to June 2019 or to the average for January and February 2020	▪ 30% to be eligible for the 75% CEWS %	
July 5 to August 1 (P5)	▪ July 2020 compared to July 2019 or to the average for January and February 2020	▪ 50% to benefit from the 60% base rate ▪ Rate of [1,2 ×% decline in revenue] if < 50%	The decline in revenue rate for a given period is deemed equal to that of the previous period if it is greater than the rate calculated for the given period.
August 2 to August 29 (P6)	▪ August 2020 compared to August 2019 or to the average for January and February 2020	▪ 50% to benefit from the 60% base rate ▪ Rate of [1,2 ×% decline in revenue] if < 50%	
August 30 to September 26 (P7)	▪ September 2020 compared to September 2019 or to the average for January and February 2020	▪ 50% to benefit from the 50% base rate ▪ Rate of [1,0 ×% decline in revenue] if < 50%	
September 27 to October 24 (P8)	▪ October 2020 compared to October 2019 or to the average for January and February 2020	▪ 50% to benefit from the 40% base rate ▪ Rate of [0,8 ×% decline in revenue] if < 50%	
October 25 to November 21 (P9)	▪ November 2020 compared to November 2019 or to the average for January and February 2020	▪ 50% to benefit from the 20% base rate ▪ Rate of [0,4 ×% decline in revenue] if < 50%	

Top-up CEWS		
Claim period	**Reference periods[9]**	**Rate**
July 5 to August 1 (P5)	▪ Average from April to June 2020 compared to average from April to June 2019 **or** to the average for January and February 2020	▪ Maximum rate of 25% when decline in revenue is 70% or more ▪ Reduced rate equal to [1,25 × (decline in revenue % - 50%)] when decline in revenue is between 50% and 70% ▪ Rate is nil when decline in revenue is less than 50%
August 2 to August 29 (P6)	▪ Average from May to July 2020 compared to average from May to July 2019 **or** to the average for January and February 2020	
August 30 to September 26 (P7)	▪ Average from June to August 2020 compared to average from June to August 2019 **or** to the average for January and February 2020	
September 27 to October 24 (P8)	▪ Average from July to September 2020 compared to average from July to September 2019 **or** to the average for January and February 2020	
October 25 to November 21 (P9)	▪ Average from August to October 2020 compared to average from August to October 2019 **or** to the average for January and February 2020	

6 An employer that has experienced a decline in revenue of at least 30% for **periods 5 and 6** (taking into account the higher percentage for the current period or the previous period) can benefit from the 75% CEWS calculated using the method applicable for periods 1 to 4 if this method is more advantageous.

7 The reference period serves to determine the employer's eligibility and, as of period 5, to determine the rate of the base CEWS. The employer must use the same approach to determine the decline in revenue in period 1 to 4. It can then elect the approach it prefers for period 5 and subsequent periods; the approach chosen must be used until the end of the program.

8 The maximum remuneration that is eligible for the CEWS is $1,129 per week per eligible employee for the entire program (for periods 1 to 4, 75% of %1,129 is equivalent to $847).

9 If the employer uses the average for January and February 2020 as the previous reference period for purposes of the base CEWS, it must use that period for the top-up CEWS. Otherwise, that is, if the employer uses the general one year to the next method for purposes of the base CEWS, the decline in revenue for the top-up CEWS must be determined using the same three-month period in 2019.

Appendix 3 – Examples of CEWS calculation for periods 1 to 4

Example 1

An employee normally earns a salary of $52,000 per year, i.e. $1,000 per week. Due to the drop in its level of activity, the employer pays the employee a weekly amount of $750 since March 15, 2020. The employer will be entitled to a $750 subsidy for the employee, calculated as follows:

	The **greater** of A or B		
A	▪ 75% of the wages paid (max. $847) (75% of $750)		$563
B	▪ The lesser of:		
	– the wages paid (max. $847)	$750	
	– 75% of the employee's pre-crisis wages (75% of $1,000)	$750	$750

Example 2

An employee normally earns a salary of $52,000 per year, i.e. $1,000 per week. Due to the drop in its level of activity, the employer pays the employee a weekly amount of $500 since March 15, 2020. The employer will be entitled to a $500 subsidy for the employee, calculated as follows:

	The **greater** of A or B		
A	▪ 75% of the wages paid (max. $847) (75% of $500)		$375
B	▪ The lesser of:		
	– the wages paid (max. $847)	$500	
	– 75% of the employee's pre-crisis wages (75% of $1,000)	$750	$500

Example 3

An employee normally earns a salary of $98,800 per year, that is, $1,900 per week. Due to the decrease in its activity level, the employer pays the employee a weekly amount of $1,520, i.e. 80% of the employee's salary, since March 15, 2020. The employer will be entitled to an $847 subsidy for the employee, calculated as follows:

	The **greater** of A or B		
A	▪ 75% of the remuneration paid (max. $847) (75% of $1,520)		$847
B	▪ The lesser of:		
	– the remuneration paid (max. $847)	$847	
	– 75% of the employee's pre-crisis remuneration (75% of $1,900)	$1,425	$847

Example 4

Before the crisis, an employee normally earned a salary of $41,600 per year, that is, $800 a week. To recognize this employee's contribution to an essential service, the employer pays the employee $900 per week since March 15, 2020. The employer will be entitled to a $675 subsidy for this employee, calculated as follows:

	The **greater** of A or B		
A	▪ 75% of the remuneration paid (max. $847) (75% of $900)		$675
B	▪ The lesser of:		
	– the remuneration paid (max. $847)	$847	
	– 75% of the employee's pre-crisis wages (75% of $800)	$600	$600

Appendix 4 – Example of the decline in revenue test calculation for an employer that derives 90% or more of its revenue from non-arm's length persons[10]

Facts and assumptions

For the month of March 2020, Holdco derives 95% of its revenue from Corporations A, B and C that are not at arm's length. Its revenue is allocated as follows:

Revenue from Corporation A	$200,000
Revenue from Corporation B	$120,000
Revenue from Corporation C	$60,000
Revenue from third parties	$20,000

Holdco's revenue for March 2020 total $400,000. Of this amount, $380,000 comes from non-arm's length corporations.

The company chooses to use revenue for the same month in 2019 as a comparative. In determining its decline in revenue for March 2020 for purposes of the CEWS, Holdco must consider the percentage of decline in revenue for each non-arm's length corporation for that period.[11]

	Corporation A	**Corporation B**	**Corporation C**
March 2020 revenue	$150,000	$200,000	$300,000
March 2019 revenue	$300,000	$300,000	$350,000
% of decline in revenue in March 2020	50.00%	33.33%	14.29%

Holdco's decline in revenue calculation for the reference period (March 2020)

Holdco's decline in revenue for the March 2020 period will be calculated as follows, by applying the revenue decline percentage for each non-arm's length corporation to Holdco's revenue from these entities.

		Corporation A	**Corporation B**	**Corporation C**	**Total**
X	% of the decline in revenue from each corporation for the March 2020 period	50.00%	33.33%	14.29%	
Y	Holdco's revenue from the corporation for March 2020	$200,000	$120,000	$60,000	
Z	Holdco's revenue from all the corporations for March 2020	$380,000	$380,000	$380,000	
Weighted average of the decline in revenue to be used for Holdco [X(Y/Z)]*		26.32%	10.53%	2.25%	**39.10%**

Conclusion

Holdco has a 39.10% decline in revenue for March 2020. It therefore qualifies for the CEWS for the remuneration it paid for the March 15, 2020 to April 11,2020 period (P1) and for the April 12, 2020 to May 9, 2020 period (P2).

[10] Examples are also provided in CRA's FAQs about the CEWS.

[11] In determining the decline in revenue from non-arm's length parties, their revenue earned in Canada and abroad must be included.