

# What Small Businesses Need to Know about the Canada Emergency Wage Subsidy

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*Celebrating*



# Objectives

- Who is eligible?
- How the subsidy is calculated
- Choosing elections and alternatives to maximize your claim
- Filing and adjusting your CEWS claims



# Canada Emergency Wage Subsidy (CEWS)

- Estimated **\$83.6** billion subsidy paid by the Federal government to support workers to prevent further job losses and allow employers to rehire their employees.
- Allows for a percentage of eligible remuneration from March 15, 2020 to December 19, 2020 to be subsidized
- Broken up into 4 week claim periods
- Initial rules covered the period from March 15 to July 4, 2020
  - Claim Periods 1 to 4
- Revised rules provided for July 5 to November 21, 2020
  - Claim Periods 5 to 9



# Summary of Calculation

Basic CEWS (Will be the focus of the presentation)

+

Employer EI for furloughed employees

+

Employer CPP for furloughed employees

-

Eligible claim under Temporary Wage Subsidy (TWS)

-

Amount received under the ESDC Work Sharing Benefit

=

Canada Emergency Wage Subsidy



# CEWS– Who is Eligible?

- Eligible entities:
  - Corporations
  - Individuals carrying on a business
  - Registered charities that are not public institutions
  - Certain tax exempt organizations and prescribed entities
  - Partnerships where the members are eligible employers
- Has a payroll account with CRA on March 15, 2020
- Meets the required revenue decline



# How Does My Business Qualify?

- Have experienced a decline of revenues in 2020 when compared to the same month in 2019 or the average of January & February 2020.

**Periods 1-4** - requires a decline of 15% in March and 30% for April, May, or June.

**Period 5-9** - requires a revenue decline in the period.

- Each claim period is a separate calculation and thus may qualify for some or all of the periods.



# CEWS Periods

Period	Claim Period Dates (4 week Periods)	Reference period (General Method)	Reference period (Alternative Approach)	Revenue Decline %
1	March 15 to Apr 11	Mar 2020 vs. Mar 2019	Mar 2020 vs. avg. of Jan & Feb 2020	15%
2	Apr 12 to May 9	Apr 2020 vs. Apr 2019	Apr 2020 vs. avg. of Jan & Feb 2020	30%
3	May 10 to Jun 6	May 2020 vs. May 2019	May 2020 vs. avg. of Jan & Feb 2020	30%
4	Jun 7 to Jul 4	Jun 2020 vs. Jun 2019	Jun 2020 vs. avg. of Jan & Feb 2020	30%
5	Jul 5 to Aug 1	Jul 2020 vs. Jul 2019	Jul 2020 vs. avg. of Jan & Feb 2020	Any decline
6	Aug 2 to Aug 29	Aug 2020 vs. Aug 2019	Aug 2020 vs. avg. of Jan & Feb 2020	Any decline
7	Aug 30 to Sep 26	Sep 2020 vs. Sep 2019	Sep 2020 vs. avg. of Jan & Feb 2020	Any decline
8	Sep 27 to Oct 24	Oct 2020 vs. Oct 2019	Oct 2020 vs. avg. of Jan & Feb 2020	Any decline
9	Oct 25 to Nov 21	Nov 2020 vs. Nov 2019	Nov 2020 vs. avg. of Jan & Feb 2020	Any decline

# Alternative Prior Reference Period

- The average of January and February 2020 can be used if the employer was not carrying on business on March 1, 2019 or if the employer elects.
- Have to use the same reference period choice for all of claim periods 1-4.
- Have to use the same reference period choice for all of claim periods 5-9.

Period 5 is a chance to select a new prior reference period.





# Deeming Rules to Help Qualify

- To provide certainty to employers so they can plan for the next months costs.
- **Claim Periods 1-4**
  - If you qualify for a period, you automatically qualify for the following period. This means if you qualify for period 3, you qualify for period 4.
- **Claim Periods 5-9**
  - If your revenue decline percentage for the previous month is greater than the current month, the previous month decline is deemed to be the current month decline.



# What is Revenue?

- Inflow of cash, receivables or other consideration arising in the ordinary activities of the entity – generally from the sale of goods, rendering of services, and use by others of the resources of the eligible entity in Canada
- Calculated on a cash or accrual basis in accordance with normal accounting practices.
- Excludes:
  - Capital items
  - Excludes non-arm's length revenue
  - Excludes extraordinary items



# Common Revenue Elections Available

- Can elect to use the cash method (must use same method for all claim periods).
- Companies that prepare financial statements on a consolidated basis use consolidated revenue unless all companies elect to calculate on a non-consolidated basis.
- Affiliated companies can elect to calculate revenue on a consolidated basis if all elect.

# What is an Eligible Employee?

- Individuals employed in Canada
- Includes non-arm's length employees
- Excludes independent contractors
- **Claim Periods 1-4 (Mar 15 – Jul 4)**
  - Have had remuneration for more than 14 consecutive days in a claim period

# Non-arm's Length Employees

- Includes controlling shareholders and their family members
- Must have been paid in the baseline period:
  - Jan 1 to Mar 15, 2020, or
  - Elections to use alternative periods.
- The options are:

Claim Period	Period 1 -3	Period 4	Period 5-8
Standard	Jan 1 to Mar 15, 2020	Jan 1 to Mar 15, 2020	Jan 1 to Mar 15, 2020
Option 1	Mar 1 to May 31, 2019	Mar 1 to Jun 30, 2019	Jul 1 to Dec 31, 2019
Option 2		Mar 1 to May 31, 2019	

# What is Eligible Remuneration?

- Includes amounts where the employer is required to make source remittances including wages and taxable benefits that have been paid with respect of that claim period
- Commissions
- Bonuses
- Includes retroactive pay
- Excludes retiring allowances, severance payments, and stock option benefits

# How Much is the CEWS– Period 1-4

- If you meet the revenue decline percentage for the claim period, then you are eligible for a subsidy of:
  - 75% of pre-crisis remuneration paid up to a maximum of \$3,388 per claim period (\$847 per week x 4 weeks) per employee.
  - Salary of \$58,700 annually (\$1,129 per week) results in the maximum.
- If the employer does not meet the revenue decline percentage, there is no subsidy.



# How Much is the CEWS— Period 5-9

- If there is a revenue decline, there is a subsidy.
- Amount is based on the revenue reduction percentage.
- Consists of a **base subsidy** and a **top-up subsidy** for the most severely impacted employers.
- Continues to be based on a percentage of the first \$1,129 of remuneration per week.
- Revenue decline percentages are multiplied by factors to get the CEWS claim percentage.
- **For periods 5 and 6**, there is a **safe harbour rule** that deems the employer to use the original rules if they result in a higher claim. This calculation is on a per employee and per week basis.



# Period 5-9 – Base Subsidy

- Revenue decline percentage (up to a maximum of 50%) multiplied by a base factor, which decreases over time

Timing	Period 5*: July 5 – August 1	Period 6*: August 2 – August 29	Period 7: August 30 – September 26	Period 8: September 27 – October 24	Period 9: October 25 – November 21
Maximum weekly benefit per employee	Up to \$677	Up to \$677	Up to \$565	Up to \$452	Up to \$226
Revenue drop					
50% and over	60%	60%	50%	40%	20%
0% to 49%	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.0 x revenue drop (e.g., 1.0 x 20% revenue drop = 20% base CEWS rate)	0.8 x revenue drop (e.g., 0.8 x 20% revenue drop = 16% base CEWS rate)	0.4 x revenue drop (e.g., 0.4 x 20% revenue drop = 8% base CEWS rate)
* In Periods 5 and 6, employers who would have been better off in the CEWS design in Periods 1 to 4 would be eligible for a 75% wage subsidy if they have a revenue decline of 30% or more. As described further below (see <i>Safe harbour rule for Periods 5 and 6</i> ).					

# Period 5-9 Top-up Subsidy

- Relevant where the average revenue decline percentage in the preceding 3 months is greater than 50% when compared to the reference period chosen (general or alternative method).
- Revenue decline percentage less 50% x 1.25 = Top-up CEWS rate. Maximum top-up is 25%.

3-month average revenue drop	Top-up CEWS rate	Top-up calculation = 1.25 x (3 month revenue drop - 50%)
70% and over	25%	$1.25 \times (70\% - 50\%) = 25\%$
65%	18.75%	$1.25 \times (65\% - 50\%) = 18.75\%$
60%	12.5%	$1.25 \times (60\% - 50\%) = 12.5\%$
55%	6.25%	$1.25 \times (55\% - 50\%) = 6.25\%$
50% and under	0.0%	$1.25 \times (50\% - 50\%) = 0.0\%$



# Top-up Subsidy Reference Periods

	Claim period	General approach	Alternative approach
<b>Period 5</b>	July 5 to August 1, 2020	April to June 2020 over April to June 2019	April to June 2020 average over January and February 2020 average*
<b>Period 6</b>	August 2 to August 29, 2020	May to July 2020 over May to July 2019	May to July 2020 average over January and February 2020 average*
<b>Period 7</b>	August 30 to September 26, 2020	June to August 2020 over June to August 2019	June to August 2020 average over January and February 2020 average*
<b>Period 8</b>	September 27 to October 24, 2020	July to September 2020 over July to September 2019	July to September 2020 average over January and February 2020 average*
<b>Period 9</b>	October 25 to November 21, 2020	August to October 2020 over August to October 2019	August to October 2020 average over January and February 2020 average*

\* The calculation would equal the average monthly revenue over the 3 months of the reference period divided by the average revenue for the months of January and February 2020.

# Summary of changes for Periods 5 -9

- ✓ The subsidy rate varies, depending on how much your revenue dropped. If your revenue drop was less than 30%, you can still qualify, and keep getting the subsidy as employees return to work and your revenue recovers.
- ✓ Employers who were hardest hit over a period of 3 months get a higher amount.
- ✓ Employees who were unpaid for 14 or more days can now be included in your calculation.
- ✓ Even if your revenue has not dropped for the claim period, you can still qualify for the top-up subsidy if your average revenue over the previous three months has dropped more than 50%.
- ✓ The maximum base subsidy rate is 60% in claim periods 5 and 6. However if revenue dropped by 30% your subsidy rate will be at least 75%.
- ✓ The maximum base subsidy rate will begin to decline in claim period 7 and will decline to 20% in period 9



# Example #1 – ABC Non-essential Services Company

## FACTS:

- The Company was ordered to close in mid-March & re-opened in June.
- It experienced a 15% decline in March & over 70% each month following

## RESULTS:

- The Company qualifies for maximum subsidy rate for all periods as follows:

Maximum Basic CEWS Benefit (including top-up) per number of employees							
# Employees	Period 1 - 4 (Total)	Period 5	Period 6	Period 7	Period 8	Period 9	Total
	75%	85%	85%	75%	65%	45%	
1	\$ 13,552	\$ 3,839	\$ 3,839	\$ 3,388	\$ 2,935	\$ 2,032	\$ 29,585
5	67,760	19,193	19,193	16,940	14,677	10,161	\$ 147,924
10	135,520	38,386	38,386	33,880	29,354	20,322	\$ 295,848
25	338,800	95,965	95,965	84,700	73,385	50,805	\$ 739,620

*\* Note that the Basic CEWS amount would be reduced in periods 1 through 4 for any amounts claimed under the 10% TWS or ESDC and increased for employer's CPP/EI contributions payable for furloughed (on leave with pay) during the closure.*

# Deductions from Basic CEWS

## 10% Temporary Wage Subsidy (TWS)

- Basic CEWS is reduced by the eligible 10% TWS claimed on the pay day falling within the CEWS claim period. This deduction applied to CEWS periods 1 to 4.
- Eligible employers include eligible CCPC's & Partnerships, NFP, charities
  - Eligible CCPC's includes companies that had a small business limit in their taxation year that ended before March 18, 2020.
- The subsidy is equal to 10% of salaries paid between March 18 and June 19 up a maximum of **\$1,375** times the number of employees up to a maximum total subsidy of **\$25,000** per employer.
- TWS is reduced from income taxes remitted to CRA on your payroll account.
- All eligible employers **must file** - PD27 *10% TWS Self-ID Form for Employers*.
- You could forego the TWS as it reduces the CEWS claim by electing at 0%.

You are not too late to take advantage of this subsidy

# Example #2 – ABC Essential Business Services

## FACTS:

- The Company historically has steady revenues month over month.
- Since the pandemic, the Company experienced declines of 20% for the months of March through to August. Revenues returned to normal for September onward.
- The Company has 5 employees each earning \$60,000 annually.
- On March 15, 2020, employees salaries were reduced by 20% to \$48,000.
- The company allocated all of its small business limit to an associated company and therefore does not qualify for the 10% TWS.



# Example #2 – ABC Essential Business Services

## ANAYSIS:

- Revenue decline for March was over 15%; therefore qualified for claim period 1 & deemed to qualify for claim period 2 at 75% of *pre-crisis salary*.
- Did not qualify for claim period 3 and 4 as 30% decline test was not met.
- Qualify for claim period 5 and 6 at 24% (20% x 1.2 factor) of *actual salary*.
- The Company will also qualify for claim period 7 at 20% (20% x 1.0 Period 7 factor) due to deeming rules.

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Total
Subsidy Rate	75%	75%	0%	0%	24%	24%	20%	
Max. CEWS per employee	\$ 3,388	\$ 3,388	\$ -	\$ -	\$ 886	\$ 886	\$ 738	\$ 9,287
For 5 employees	\$ 16,940	\$ 16,940	\$ -	\$ -	\$ 4,431	\$ 4,431	\$ 3,692	\$ 46,434



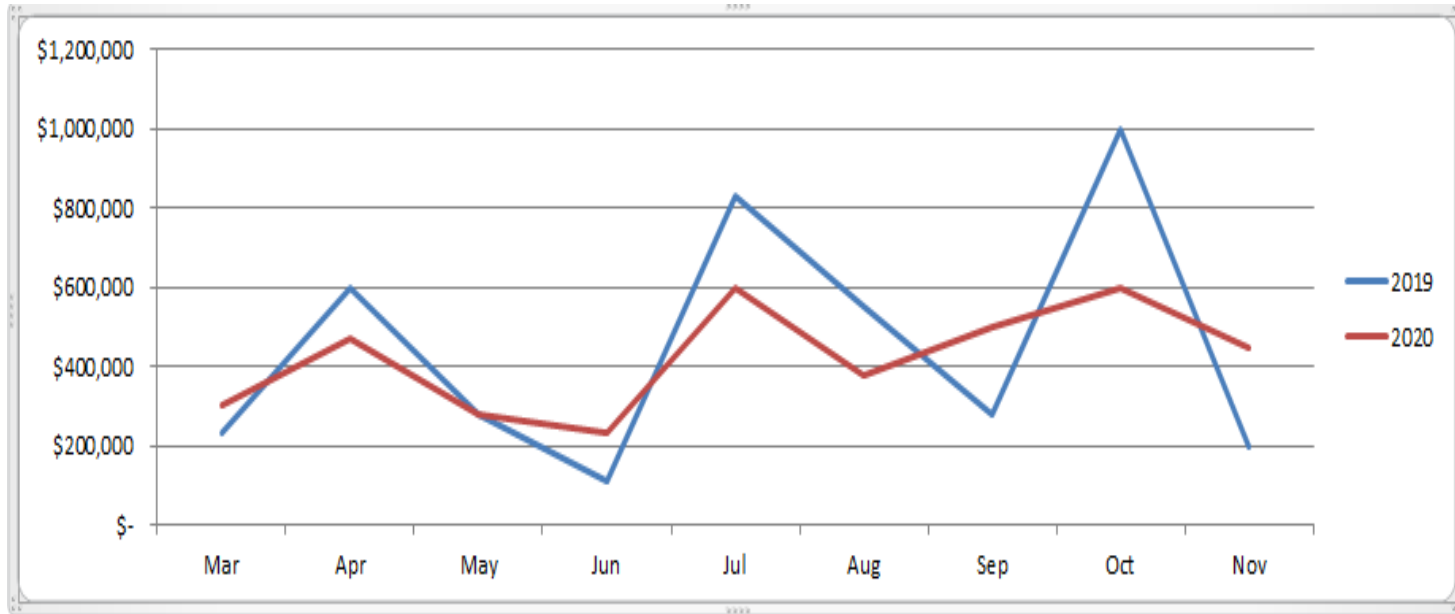
# Example #3 — ABC Construction Company

## FACTS:

- The Company has large contracts.
- Operations have continued throughout the pandemic.
- Billings vary month to month and have not experienced significant declines
- Significant WIP adjustments are made at year-end to ensure revenue is recognized in accordance with their revenue recognition policy. Therefore, to save time and effort, the Company has calculated its revenues using the cash method.
- The Company has 25 employees that all make more than \$58,700 annually.
- The Company is eligible for the 10% TWS at the maximum amount of \$25,000 but has not claimed any amounts under this program.

# Example #3 – ABC Construction Company

REVENUES (Based on the cash method):



# Example #3 – ABC Construction Company

Revenue Decline Analysis - Cash method									
Source of Inputs:		Bank statements & customer deposit listing							
Eligible period		Revenue 2020	Reference Period Revenue		% Decline		Eligibility Met?		
	Month		Avg Jan & Feb 2020	2019	Prior Year	Alternative	Prior Year	Alternative	
	January		\$ 600,000						
	February		300,000						
1	March	15%	\$ 300,000	\$ 450,000 or	\$ 230,000	0.00%	33.33%	NO	YES - 75%
2	April	30%	470,000	450,000 or	600,000	21.67%	0.00%	NO	YES - 75%
3	May	30%	280,000	450,000 or	280,000	0.00%	37.78%	NO	YES - 75%
4	June	30%	230,000	450,000 or	110,000	0.00%	48.89%	NO	YES - 75%
5	July	30%	600,000	450,000 or	830,000	27.71%	0.00%	YES	YES - 75%
6	August	30%	450,000	450,000 or	600,000	25.00%	0.00%	YES	NO
7	Sept		500,000	450,000 or	280,000	0.00%	0.00%	YES	NO
8	Oct.		600,000	450,000 or	1,000,000	40.00%	0.00%	YES	NO
9	Nov.		450,000	450,000 or	200,000	0.00%	0.00%	YES	NO

# Example #3 – ABC Construction Company

## RESULTS:

- If ABC Construction Company makes the following elections:
  - Election to use the cash method
  - Election for alternative prior reference period for claim periods 1 to 4, and
  - Does not elect to use the alternative prior reference period for claim period 5 onwards
  - In addition, elects for the TWS to be 0% on the TWS Self-Identification Form
- ABC Construction Company will qualify for the following:

	Period 1 -4	Period 5	Period 6	Period 7	Period 8	Period 9	Total
<b>Subsidy Rate</b>	75%	75%	33%	25%	32%	16%	
<b>Basic CEWS for 25 employees</b>	\$ 338,800	\$ 84,700	\$ 37,564	\$ 28,250	\$ 36,153	\$ 18,089	\$ 543,556
<b>Less: 10% TWS</b>	0						0
<b>CEWS Claim</b>	\$ 338,800	\$ 84,700	\$ 37,564	\$ 28,250	\$ 36,153	\$ 18,089	\$ 543,556

# Example #4 – ABC Annual Consulting Services

## FACTS:

- Consulting Company experienced a 30% decline each month from March – August.
- Owner's annual salary of \$150,000 is paid at year-end date of March 31 each year.
- There is one admin staff on bi-weekly salary of \$2,500 who wasn't paid for one payroll period in May because the office was closed due to COVID-19 investigation case. The Company retroactively paid the staff in August for the respective period.
- The Company is a CCPC and had a small business limit on its March 31, 2019 tax return.

## WAGE SUBSIDIES CLAIMED BY CLIENT SUBMISSION:

- Claimed the 10% TWS for \$2,750 ( $\$1,375 \times 2$ ), which was deducted from income tax remittances for March and deducted from CEWS claim period 1.
- The Company was eligible for CEWS for claim periods 1 through 6 at a 75% rate.
- Claim periods 1 through 6 were filed each month on the *following basis*:
  - The owner's salary was not included in the subsidy because the owner was not paid during the required baseline period Jan 1 – March 15, 2020.
  - The admin staff remuneration for period 3 (May 10 – June 6) was not eligible for subsidy because she was not paid for 14 consecutive days in a claim period.



# Example #4 – ABC Annual Consulting Services

## CLAIM ADJUSTMENT REQUESTS:

- 1) The rules allow for employees to be retroactively paid. Since the admin staff was paid in August with respect to the May payroll period, claim period 3 could be adjusted to claim an additional \$3,388.
- 2) The rules now allow an employer to elect an alternative baseline period. If an election is made with respect to the owner to use an alternative baseline period from March 1 to May 31, 2019, then all claim periods could be adjusted to claim an additional \$20,328.

Timing	Period 1 *	Period 2	Period 3	Period 4	Period 5	Period 6	Total
<b>CEWS Claim Originally Filed</b>	\$ 638	\$ 3,388	\$ -	\$ 3,388	\$ 3,388	\$ 3,388	\$ 14,190
<b>Eligible CEWS Claim</b>	4,026	6,776	6,776	6,776	6,776	6,776	\$ 37,906
<b>Adjustment Request</b>	\$ 3,388	\$ 3,388	\$ 6,776	\$ 3,388	\$ 3,388	\$ 3,388	\$ 23,716

\* Note that the Basic CEWS was reduced by \$2,750 in claim period 1 for the amount of the 10% TWS claimed on March 31, 2020.



# Maximizing your Claim

## Consider your alternatives:

- Alternative method for the prior reference period when calculating revenue decrease
- Alternative baseline remuneration periods, especially in cyclical businesses or where owners are paid in lump sum amounts
- Cash vs accrual method
- Consolidated vs unconsolidated elections, result can vary between periods
- Claiming TWS or not, TWS may still have value depending on CEWS period eligibility
- Retroactive payments to employees (consider impact to employees CERB)

And don't forget the deeming rules and safe harbour rules when analyzing your alternatives



# Common Errors We See

- Not reducing the CEWS claims for TWS or incorrectly applying the reduction
- Exceeding the TWS limits
- Increasing the CEWS claims for employer CPP and EI when employees are working
- Claiming subsidies for non-arm's length employees who did not have baseline remuneration
- Claiming payments made to contractors
- Calculating eligible remuneration based on payment dates instead of payroll earned during the week

Adjustments may be needed





# Applying and Adjusting CEWS

- Via CRA *My Business Account*
- Via *Represent a Client*
- January 31, 2021 deadline
- Employers should ensure that they are registered with the CRA for direct deposit on their payroll account
- Individual at employer with principal responsibility for the financial activities must attest to the application.
- Elections are filed online at time of CEWS submission.
- You can generally expect to receive your payment within **3 to 5 business days** if you are registered for direct deposit on your payroll account.
- Any excess amount of wage subsidy you received that is not returned may be subject to interest.

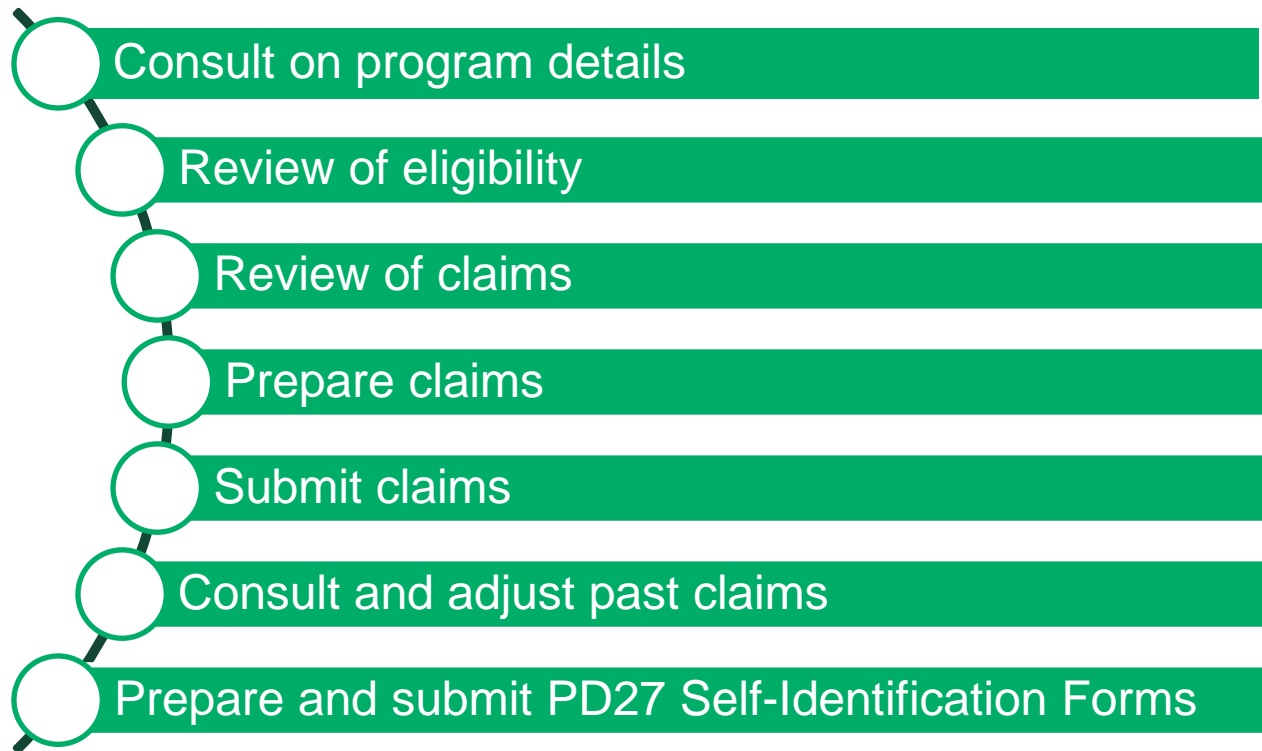


# Filing Considerations and Other Matters

- Claims must be filed no later than **January 31, 2021**.
- Amount received under CEWS is **taxable** at the end of the claim period to which the claim relates, not when it is actually claimed or cash is received.
- CRA previously stated that CEWS would be reported on T4s but now says reporting details to be released shortly.
- Income Tax Act authorizes the CRA to release the names of applicants. Process is still under consideration.
- CRA says they will not automatically withhold CEWS amounts due to outstanding tax balances or returns. However, it is at their discretion.
- **T4 reporting** by period to help the CRA reconcile wages to the support programs.



# KMSS CEWS Service Delivery



# Useful Resources

KMSS [website](#) has valuable resources for **COVID-19 Support** which include the following:

[Assistance for Alberta Residents](#)

[Assistance for Small Businesses](#)

[Benefit from the CEWS for Alberta Employers](#)

[10% Temporary Wage Subsidy Self-identification Form](#)

CRA [Frequently asked questions](#) - CEWS

Department of Finance [Backgrounder](#) – Adapting the CEWS

KMSS Revenue Decline Analysis – *Available upon request*





# Questions?

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# Thank you for Attending

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