Grant Thornton

Visit our COVID-19 Hub for information and resources

Temporary Wage Subsidy

A new program in response to COVID-19 that provides savings to employers by reducing the amount of income tax remittance on workers' wages.

Employers can reduce these income tax remittances by a Temporary Wage Subsidy (TWS) of 10 percent for up to three months, up to a maximum of $1,375 per employee. The maximum aggregate amount an employer can save is $25,000.

Who is eligible?

Several types of organizations have been specifically identified as eligible:

1. Canadian-controlled private corporations (CCPC) that are eligible for the small business deduction in the prior year*
2. Individuals, other than trusts (i.e., sole proprietorships)
3. Partnerships whose partners are all individuals, corporations or a registered charity
4. Non-profit organizations
5. Registered charities

* More specifically, the CCPC must have had a business limit allocated to it in the prior year. It may be possible to amend a tax return that has already been filed to allocate a business limit in order to ensure the CCPC will qualify for the TWS.

Important

- With the new Canada Emergency Wage Subsidy (CEWS) being introduced on March 27, 2020, there are now two potential wage subsidies that an employer can apply for. Although the types of organizations that may apply for the CEWS is broader, only those organizations that experience a minimum percentage decrease in revenues would be eligible to claim it. If an employer is eligible for both, it does not necessarily have to claim both. However, if the employer plans to claim the CEWS, it will be required to reduce the amount of its CEWS claim by the amount of the TWS it is *eligible* to claim, regardless of whether it actually claims the TWS (through a reduction in its payroll remittances). This is an important rule to note as the application process for the CEWS opened on April 27 and some employers who are eligible for both subsidies may not yet have reduced remittances, as per the TWS; however, they would still be required to reduce their CEWS claim by the amount of the TWS they would have been eligible for in the same 4-week period.
- CCPCs that are not eligible for the small business deduction in the prior year due to the recently introduced rules that grind down the business limit when passive income exceeds $50,000 would still be eligible for the TWS.
- CCPCs that do not have a taxation year that ends prior to March 18, 2020 (e.g., a corporation in its first year after incorporation or amalgamation) would still be entitled to the TWS if they would have been eligible for the small business deduction had their taxation year ended immediately prior to March 18, 2020.
- CCPCs must have taxable capital employed in Canada for the preceding taxation year, calculated on an associated group basis, less than $15 million.

Note: associated companies are NOT required to share the $25,000 per employer limit.

How it works

- The employer (or third-party payroll service provider) would calculate the income tax remittance, as usual.
- 10 percent of employee remuneration is manually calculated, up to a maximum of $1,375 for each employee and $25,000 total for the employer. The total of all these amounts is the TWS for that period.
  - The TWS is only the federal and provincial income taxes.
- The employer still withholds from the employee the full amount of the required income tax remittance (along with CPP and EI).
- The employer remits the income tax remittance less the TWS (CPP and EI must also be remitted).
  - There is no relief for the EI/CPP portions as this is deemed to be held in trust by the employer.
- When the employer files its tax return for the taxation year in which the TWS was claimed, the employer must include the amount of the TWS for that year in its income (i.e., the TWS is taxable).

Eligible remittances

- Employers can start reducing remittances of federal, provincial or territorial income tax in the first remittance period that includes remuneration paid between March 18, 2020, and June 20, 2020.
- If the employer chooses not to reduce remittances during the year, they can still calculate the TWS that they would have been entitled to between March 18, 2020 and June 20, 2020 and can either:
  - Request payment of the TWS at the end of the year, or
  - Transfer the TWS to next year's remittance.

Other items to note

- The TWS applies to remuneration paid on or after March 18, 2020. Therefore, even if the pay accrued prior to March 18 but was paid on or after March 18 up to June 19, 2020, it still qualifies for the TWS.
- Supporting documentation of the calculations should be kept (by either the employer or third-party payroll service provider). CRA is updating reporting requirements and more information will be provided in the near future.
- The organization must have an existing business number in respect of which they are registered to make remittances required as of March 18, 2020 (i.e., the date the measure was announced).
- The organization must employ one or more employees in Canada.

Additional information

For further details on this program please see the Government of Canada's official news release with all the measures or their TWS FAQ page.

Grant Thornton LLP wants to caution that these rules are still new and continue to evolve as the government continues to re-evaluate the economic impact caused by the COVID-19 pandemic. We may still see changes to these measures—as well as new measures—as the government attempts to address the issues that have been raised by us and the tax community. Therefore, any analysis included herein, reflects our knowledge as of the date of this publication and may no longer be applicable if changes do occur and you should proceed with caution before making any decisions.

Visit our COVID-19 Hub for timely information and resources and connect with your Grant Thornton advisor to learn more.

Grant Thornton

grantthornton.ca

Audit | Tax | Advisory

About Grant Thornton LLP in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member and correspondent firms operate in over 100 countries worldwide.