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Canada Emergency Wage Subsidy

Created in response to COVID-19, the Canada Emergency Wage Subsidy (CEWS) provides a subsidy to employers to cover part of employee wages, as of March 15, 2020.

Sections at a glance

Program extended to
October 23,2021

Who is eligible?

The CEWS is available to employers that meet the definition of an "eligible entity":

1. An individual other than a trust (e.g., sole proprietorships)
2. A taxable corporation
3. A taxable trust
4. A registered charity, other than a public institution
5. A non-profit organization, other than a public institution[1]
6. A partnership, all of the members of which are described in points 1 through 5[2]
7. A prescribed organization[3]

The term "public institution" is also defined and would include municipalities, local governments, Crown corporations (both federal and provincial), public universities or colleges, schools, school boards, hospitals and health authorities, among others.

Since the start of the pandemic, additional types of entities have been designated as prescribed organizations such that they are now eligible for the CEWS. These are:

- Indigenous businesses that meet certain criteria
- Partnerships where no more than 50% of the members are non-eligible entities
- Registered Canadian amateur athletic associations
- Registered journalism organizations
- Non-public education and training institutions, such as private colleges and private schools (e.g., arts schools, driving schools and culinary schools)

1 Specifically, the definition includes NPOs that are exempt from income tax due to paragraph 149(1)(e), (j), (k) or (l) of the Income Tax Act. Generally, this would include non-profit organizations, agricultural organizations, labour organizations, as well as others.
2 Members of the partnership can also include other partnerships all of whose members are those noted in points 1-4, above.
3 This gives the government the flexibility to include other organizations that may have been unintentionally omitted.

How does an eligible entity qualify?

Application

An eligible entity is required to file an application on CRA's website (see application process details below). The application must include an attestation by the individual who has principal responsibility for the financial activities of the eligible entity that the application is complete and accurate in all material respects (this can also be done through a representative).

The application must be made by the later of:

- January 31, 2021, or
- 180 days after the end of the qualifying period.

Payroll account

When the rules were first introduced, they required an employer to have a payroll account set up as of March 15, 2020. However, changes were introduced that now allow an employer using third-party payroll providers (paymaster arrangements) to also qualify, provided the employer employed one or more individuals in Canada on March 15, 2020 and certain other criteria are met.

Decrease in revenues

When the CEWS was first introduced, it required a decrease in monthly revenues of at least 15% (March 2020) or 30% (April and May 2020) as compared to a prior reference period, either the same month of the prior year or an average of January and February 2020. Since then, the government has made key changes to this requirement.

From June 2020 (Period 4) to June 2021 (Period 17) any decrease in revenue will qualify an employer for the subsidy. However, as of Period 18 (July 4 - 31, 2021) an employer must have a revenue decline of at least 10% to qualify.

Depending on the choices made by the employer with respect to revenues, it could impact their ability to qualify for the subsidy.

Considerations need to be made in the following areas:

- Revenue comparison: deciding which prior reference period to use for purposes of determining the drop in revenue
- Revenue calculation: entity-by-entity basis or consolidated
- Revenue calculation: cash method vs. accrual
- Revenue calculation: the effect of revenues from related parties
- Subsidy calculation: deciding which baseline remuneration period to use in the calculation of the wage subsidy

When is the subsidy available?

Qualifying periods

If an employer determines it qualifies for the subsidy, it would apply that subsidy against eligible remuneration (discussed further, below) paid in respect of a particular qualifying period. Each qualifying period pertains to a specific current reference period and prior reference period. For example, the revenue decline for March 2020 vs. March 2019 is used to calculate the subsidy available for remuneration paid in respect of a week in the qualifying period from March 15, 2020 to April 11, 2020.

An eligible entity can use the standard prior reference period, i.e., the same month of the previous year, or it can elect to choose January and February 2020, taking the average revenue for those two months. The table below outlines the applicable qualifying periods and other relevant periods.

Table 1: Qualifying periods and other corresponding information

<table>
<tr><th colspan="2">Qualifying period</th><th>Current reference period</th><th colspan="2">Prior reference period either:</th><th colspan="2">Baseline remuneration period** either:</th></tr>
<tr><td>1</td><td>Mar 15 – Apr 11, 2020</td><td>Mar 2020</td><td>Mar 2019</td><td rowspan="21">$\frac{\text{Jan. + Feb. 2020*}}{2}$</td><td rowspan="21">Jan. 1 – Mar. 15, 2020</td><td rowspan="3">Mar. 1 – May 31, 2019</td></tr>
<tr><td>2</td><td>Apr 12 – May 9, 2020</td><td>Apr 2020</td><td>Apr 2019</td></tr>
<tr><td>3</td><td>May 10 – Jun 6, 2020</td><td>May 2020</td><td>May 2019</td></tr>
<tr><td>4</td><td>Jun 7 – Jul 4, 2020</td><td>Jun 2020</td><td>Jun 2019</td><td>Mar. 1 – May 31, 2019
or
Mar. 1 – Jun. 30, 2019</td></tr>
<tr><td>5</td><td>Jul 5 - Aug 1, 2020</td><td>Jul 2020</td><td>Jul 2019</td><td rowspan="9">Jul. 1 – Dec. 31, 2019</td></tr>
<tr><td>6</td><td>Aug 2 - Aug 29, 2020</td><td>Aug 2020</td><td>Aug 2019</td></tr>
<tr><td>7</td><td>Aug 30 - Sep 26, 2020</td><td>Sep 2020</td><td>Sep 2019</td></tr>
<tr><td>8</td><td>Sep 27 - Oct 24, 2020</td><td>Oct 2020</td><td>Oct 2019</td></tr>
<tr><td>9</td><td>Oct 25 - Nov 21, 2020</td><td>Nov 2020</td><td>Nov 2019</td></tr>
<tr><td>10</td><td>Nov 22 – Dec 19, 2020</td><td>Dec 2020</td><td>Dec 2019</td></tr>
<tr><td>11</td><td>Dec 20, 2020 – Jan 16, 2021</td><td>Dec 2020</td><td>Dec 2019</td></tr>
<tr><td>12</td><td>Jan 17 – Feb 13, 2021</td><td>Jan 2021</td><td>Jan 2020</td></tr>
<tr><td>13</td><td>Feb 14 – Mar 13, 2021</td><td>Feb 2021</td><td>Feb 2020</td></tr>
<tr><td>14</td><td>Mar 14 – Apr 10, 2021</td><td>Mar 2021</td><td>Mar 2019*****</td><td rowspan="4">Mar. 1 – Jun. 30, 2019 **or** Jul. 1 – Dec. 31, 2019</td></tr>
<tr><td>15</td><td>Apr 11 – May 8, 2021</td><td>Apr 2021</td><td>Apr 2019*****</td></tr>
<tr><td>16</td><td>May 9 – Jun 5, 2021</td><td>May 2021</td><td>May 2019*****</td></tr>
<tr><td>17***</td><td>Jun 6 – Jul 3, 2021</td><td>Jun 2021</td><td>Jun 2019*****</td></tr>
<tr><td>18***</td><td>Jul 4 – Jul 31, 2021</td><td>Jul 2021</td><td>Jul 2019</td><td rowspan="4">Jul 1 – Dec 31, 2019</td></tr>
<tr><td>19***</td><td>Aug 1 – Aug 28, 2021</td><td>Aug 2021</td><td>Aug 2019</td></tr>
<tr><td>20***</td><td>Aug 29 – Sep 25, 2021</td><td>Sep 2021</td><td>Sep 2019</td></tr>
<tr><td>21****</td><td>Sep 26 – Oct 23, 2021</td><td>Oct 2021</td><td>Oct 2019</td></tr>
</table>

* Separate elections are required for Periods 1-3 vs Periods 5-21. The election for Periods 1-3 automatically applies to Period 4.

** Baseline remuneration is relevant for purposes of calculating the wage subsidy, itself, discussed below. For Periods 7-21, baseline remuneration is only applicable for NAL employees.

*** Introduced in the federal government's 2021 budget plan, the CEWS has been extended to September 25, 2021.

**** Announced on July 30, 2021

***** An eligible organization that chooses the the standard prior reference period for other qualifying periods, can elect to use the average of January and February 2020 to calculate its revenue decline for Periods 14-17 if it was not carrying business or otherwise carrying on ordinary activities on March 1, 2019.

How is the subsidy calculated?

The amount of the subsidy is based on the eligible remuneration paid to an eligible employee in respect of a qualifying period. The subsidy calculation depends on what periods you are applying for.

The CEWS is made up of four main components:

(1) The wages paid per employee
(2) The amount of employer-paid premiums on Employment Insurance (EI), the Canada Pension Plan (CPP), the Quebec Pension Plan (QPP) or the Quebec Parental Insurance Plan (QPIP) related only to employees who are on paid leave.[4]

less:

(3) Any amounts of deemed payroll remittances under the Temporary Wage Subsidy program that the employer claimed in the qualifying period, or
(4) Amounts received by an eligible employee as a work-sharing benefit under the *Employment Insurance Act*

The subsidy is considered to be government assistance; therefore, any amount received would be taxable. For tax purposes, the amount of the subsidy is deemed to be received at the end of the qualifying period to which it pertains. This is important for tax return filing purposes as the receipt of the subsidy may come much later than the end of the corresponding qualifying period and taxpayers should be aware of their tax obligations related to the CEWS.

The wage subsidy

The wage subsidy is the most significant component of the CEWS, as well as the most complicated. This portion of the CEWS relies on determining the decrease in revenue from the prior reference period to the current reference period. However, the calculation of the subsidy differs depending on the qualifying period for which the claim is being made.

The following two sections cover the CEWS rules as follows:

- CEWS 1.0 – The original rules for qualifying periods 1-4, and 5 and 6 where applicable
- CEWS 2.0 – The revised rules for qualifying periods 5-21

CEWS 1.0

The CEWS 1.0 rules apply to qualifying periods 1-4 and may also apply to qualifying periods 5 and 6 if the (first) safe harbour rule applies (discussed below).

Minimum threshold

These rules require a decrease in revenue that meets a specific required threshold, as follows:

- Period 1: 15%
- Periods 2, 3, 4 (5, 6 if applicable): 30%

The decrease in revenue is determined by comparing the qualifying revenue in the current reference period (applicable to the qualifying period) to the qualifying revenue in the prior reference period. If an eligible entity's revenue decrease meets the required threshold, then it would be entitled to the wage subsidy.

Deeming rule – CEWS 1.0

If an eligible entity does not meet the required threshold in a qualifying period, it can still qualify for the CEWS for that period if it met the required threshold in the previous period.

Table 2: Example of deeming rule for CEWS 1.0

Qualifying period	Revenue in prior reference period	Revenue in current reference period	% revenue drop threshold required	Actual % revenue drop	Threshold met?	Deeming rule applies?	Qualify for CEWS this period?
Mar. 15 – Apr. 11, 2020	$50,000	$42,000	15%	16%	Yes	n/a	Yes
Apr. 12 – May 9, 2020	$50,000	$38,000	30%	24%	No	Yes	Yes

4 For periods 5 onwards, the employer can only claim the CEWS on these amounts if there is a revenue reduction greater than nil.

In the example above, the required revenue drop for the qualifying period March 15 – April 11, 2020 is 15%. Since the revenue drop is 16%, the threshold would be met, and the eligible entity would qualify for the wage subsidy for that qualifying period.

In the qualifying period April 12 – May 9, 2020 the revenue drop is 24%, which is less than the required threshold for that period. Therefore, based on the current period's revenue drop, the eligible entity would not qualify for that qualifying period. However, since the entity qualified for the immediately preceding qualifying period, it is deemed to qualify for the current period as well.

Wage subsidy calculation

Once the eligible entity has determined it qualifies, it would calculate its wage subsidy as follows:

The greater of two amounts:

(1) The least of

- 75% of the eligible remuneration paid in respect of the week, and
- $847/week (i.e., 75% of $1,129),
- if non-arm's length (NAL) employee, $nil, or

(2) The least of

- the amount of eligible remuneration paid in respect of a week,
- 75% of baseline remuneration, and
- $847/week.

Baseline remuneration

The baseline remuneration is the average weekly remuneration paid to an employee during a specified period of time. Any period of seven or more consecutive days during which the employee was not remunerated would be excluded from the baseline remuneration period.

When the CEWS 1.0 rules were originally introduced, the baseline remuneration period was January 1 – March 15, 2020. However, with the introduction of CEWS 2.0, employers were able to elect to choose a different baseline remuneration period, depending on the qualifying period. For qualifying periods 1-4, employers can elect to use March 1 – May 31, 2019 as their baseline remuneration period. In addition, only for qualifying period 4, an employer can elect to use March 1 – June 30, 2019 as its baseline remuneration period as well. The applicable baseline remuneration periods and their corresponding qualifying periods are summarized above in Table 1.

Baseline remuneration is based on amounts paid during the relevant baseline period. This is different from "eligible remuneration" (used in the wage subsidy calculation), which is based on when the remuneration was earned.

Any employee who was receiving EI special benefits (e.g., maternity leave) while on leave throughout July 1, 2019 – March 15, 2020 may use the 90-day period prior to when they went on leave as their baseline remuneration period.

CEWS 2.0

For periods 5 onwards, the government changed the rules to allow any employer suffering a drop in revenues to take advantage of the CEWS. The qualifying periods are still four-week periods and the rules applicable for the current and prior reference period are, more or less, the same; however, the calculation of the subsidy is quite different.

The government introduced Canada Recovery Hiring Program (CRHP), which provides eligible employers with a wage subsidy of up to 50 percent on the incremental remuneration paid to employees between June 6, 2021 and November 20, 2021. Eligible employers will be able to claim the higher of the CEWS or CRHP for periods 17 to 21. Please refer to our CRHP page for more details.

Revenue drop requirement

An eligible entity can qualify with any percentage decrease in revenue up to Period 17. For periods 18-21, a revenue drop of at least 10% is required to qualify. The extent of the decrease in revenue will have a direct impact on the amount of the subsidy.

The total wage subsidy is determined by adding the *base percentage* and *top-up percentage* and multiplying it by the eligible remuneration paid up to $1,129.[5]

Base percentage

An eligible entity that experiences at least a 50% revenue decrease from the prior reference period to the current reference period will get the maximum base percentage for that qualifying period. Anything less than 50% would get a base percentage equal to a factor multiplied by that percentage revenue drop. For example, the factor in qualifying period 5 is 1.2. If an eligible entity has a revenue drop of 40%, the base percentage would be calculated as:

1.2 x 40% = 48%

5 To compare to the old rules, a qualifying entity would generally calculate its wage subsidy by multiplying 75% by the eligible remuneration paid up to $1,129, which would yield a maximum subsidy of $847/week.

Table 3: Summary of base percentages applicable for qualifying periods 5-21 (adapted from CRA's backgrounder)

Timing	QP5*: Jul 5 – Aug 1, 2020	QP6*: Aug 2 – Aug 29, 2020	QP7: Aug 30 – Sep 26, 2020	QP8: Sep 27 – Oct 24, 2020	QP9: Oct 25 – Nov 21, 2020	QP10: Nov 22 – Dec 19, 2020	QP11: Dec 20 – Jan 16, 2021	QP12: Jan 17 – Feb 13, 2021
Max. weekly benefit per employee	Up to $677	Up to $677	Up to $565	Up to $452	Up to $452	Up to $452	Up to $452	Up to $452
Revenue drop (RD)								
50% and over	60%	60%	50%	40%	40%	40%	40%	40%
0% to 49%	1.2 × RD	1.2 × RD	1.0 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD

Timing	QP13: Feb 14 – Mar 13, 2021	QP14: Mar 14 – Apr 10, 2021	QP15: Apr 11 – May 8, 2021	QP16: May 9 – Jun 5, 2021	QP17: Jun 6 – Jul 3, 2021	QP18: Jul 4 – Jul 31, 2021	QP19: Aug 1 – Aug 28, 2021	QP20: Aug 29 – Sep 25, 2021	QP21: Sep 26 – Oct 23, 2021
Max week-ly benefit per em-ployee	Up to $452	Up to $452	Up to $452	Up to $452	Up to $452	Up to $395	Up to $282	Up to $282	Up to $113
Revenue drop (RD)									
50% and over	40%	40%	40%	40%	40%	35%	25%	25%	10%
>10% - 50%	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0.875 × (RD – 10%)	0.625 × (RD – 10%)	0.625 × (RD – 10%)	0.25 × (RD – 10%)
0 - 10%	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0.8 × RD	0%	0%	0%	0%

* 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.

Top-up percentage

For qualifying periods 5-7, the top-up percentage is determined by first comparing average revenue for the last three months revenues to either:

- average revenue for the same three months in the prior year, or
- average revenue for January and February 2020.

Once the eligible entity has determined this average revenue drop, this percentage is inserted as "A" in the formula:

1.25 x (A – 50%)

If the average revenue drop is greater than 50%, there will be an amount for the top-up percentage added to the base percentage to determine the wage subsidy. The top-up percentage maxes out at 25%.

Example 1: Calculation of base percentage and top-up percentage

The calculation of the base percentage and top-up percentage can be illustrated by the following example.

ABC Ltd is calculating its base percentage and top-up percentage for qualifying period 7 (Aug 30 – Sept 26, 2020), based on the following amounts:

	June	July	August	September
2020 revenue	$30,000	$40,000	$50,000	$45,000
2019 revenue	$100,000	$100,000	$100,000	$100,000
% revenue drop	70%	60%	50%	55%

The base percentage for qualifying period 7 is based on the revenue drop for September: 55%.

Base percentage: 50% (since revenue drop is greater than 50%)

The top-up percentage for qualifying period 7 is based on the average revenue drop for the prior three months, 2020 vs. 2019 (assuming the entity did not elect January and February 2020 as the prior reference period).

Average revenue drop for June to August, 2020: 60%

Top-up percentage: 1.25 x (60 – 50%) = 12.5%

Base percentage + top-up percentage: 50% + 12.5% = 62.5%

Deeming rule – CEWS 2.0

A second deeming rule has been introduced for the CEWS 2.0 rules. This deeming rule attempts to apply the same concept as the CEWS 1.0 deeming rule to fit into the mechanics of the CEWS 2.0 rules. If the revenue drop for the current month is less than it was for the prior month, the eligible entity can use the revenue drop for that prior month to calculate its base percentage.

Example 2: Deeming rule CEWS 2.0

The deeming rule is illustrated in the following example:

ABC Ltd is calculating its base percentage and top-up percentage for qualifying period 8 (Sept 27 – Oct 24, 2020), based on the following amounts:

	July	August	September	October
2020 revenue	$30,000	$40,000	$50,000	$70,000
2019 revenue	$100,000	$100,000	$100,000	$100,000
% revenue drop	70%	60%	50%	30%

Since the revenue drop for October 2020 (30%) is less than it was for September 2020 (50%), the eligible entity is deemed to have the same revenue drop for October 2020 as it did for September 2020, i.e., 50%, for purposes of determining its base percentage.

Base percentage: 40% (since revenue drop deemed equal to 50%)

Top-up percentage: 1.25 x (60 – 50%) = 12.5%

Base percentage + top-up percentage: 40 + 12.5% = 52.5%

Safe harbour rules

The CEWS rules include two safe harbour rules:

- Periods 5 and 6: higher subsidy between CEWS 1.0 vs. 2.0 will apply
- Period 8, 9 and 10: top-up percentage is based on greater of revenue drop for three-month average or for current month

Deeming rule for period 11

For claim period 11 (December 20, 2020 - January 16, 2021), the immediately preceding claim period is deemed to be claim period 9 (October 25 - November 21, 2020).

The reason for this is that for claim period 11, the current reference period is December 2020 and the prior reference period, if using the same month in the prior year, is December 2019. Since the current reference period and prior reference period for the immediately preceding claim period 10 are also December 2020 and December 2019, respectively, the deeming rule would provide the same result when determining the revenue drop for the immediately preceding claim period. Therefore, this additional rule has been introduced so that the revenue drop for December 2020 vs 2019 is compared to the revenue drop for November 2020 vs 2019.

Safe harbour rule – CEWS 1.0 vs. CEWS 2.0

The first safe harbour rule was introduced to provide an easier transition from CEWS 1.0 to CEWS 2.0. This safe harbour allowed employers who were seeing their revenues improve to continue calculating CEWS under the *old* rules (i.e., 75% wage subsidy) if the calculated weekly subsidy under the *new* rules was lower. This safe harbour rule applies for qualifying periods 5 and 6, for an employer that has a revenue decline of at least 30%.

Example 3: Safe harbour rule – CEWS 1.0 vs. CEWS 2.0

The application of the first safe harbour rule can be illustrated with the following example:

ABC Ltd pays its (arm's length) employees $1,500 per week. It is calculating its wage subsidy for qualifying period 5 (July 5 – Aug 1, 2020), based on the following amounts:

	April	May	June	July
2020 revenue	$30,000	$40,000	$50,000	$50,000
2019 revenue	$100,000	$100,000	$100,000	$100,000
% revenue drop	70%	60%	50%	50%

Since the revenue drop for July is at least 30%, the eligible entity can take advantage of the safe harbour rule to calculate its wage subsidy under the CEWS 1.0 rules (i.e., 75% of remuneration).

CEWS 1.0 wage subsidy per employee per week equal to the greater of:

(1) The least of:

- 75% x $1,500 = $1,125
- $847
- If NAL employee (not applicable)

(2) The least of:

- $1,500
- 75% x $1,500 = $1,125
- $847

CEWS 1.0 subsidy = $847/week (per employee)

CEWS 2.0 wage subsidy per employee per week equal to the sum of the base percentage and top-up percentage, multiplied by $1,129:

Base percentage: 60% (since base percentage equal to 50%)

Top-up percentage: 1.25 x (60 – 50%) = 12.5%

Base percentage + top-up percentage: 60 + 12.5% = 72.5%

72.5% x $1,129 = $819

CEWS 2.0 subsidy = $819/week (per employee)

The wage subsidy for qualifying period 5 for each employee per week is **$847** (i.e., the greater of the subsidy under CEWS 1.0, $847 vs. CEWS 2.0, $819)

Safe harbour rule – top-up percentage

The second safe harbour rule applies for qualifying periods 8 to 10. With the pandemic entering its second wave, the government is introducing this second safe harbour rule to provide employers with greater support if there is a sudden downturn in revenues.[6]

6 Under the original top-up rules, since the average is based on the previous three months' revenue drop, a sudden economic downturn would not be reflected in the top-up percentage versus using the most current single month's revenue drop.

Under this second safe harbour rule, the top-up percentage would be equal to the greater of two amounts:

(1) Revenue drop percentage for current three-month average revenue vs. either:
   - Prior year three-month average revenue or
   - Jan-Feb 2020 average revenue

(2) Revenue drop percentage for current month's revenue vs. either:
   - Same month in prior year average revenue or
   - Jan-Feb 2020 average revenue

Example 4: Safe harbour rule – top-up percentage

The safe harbour rule applicable to the top-up percentage can be illustrated with the following example:

ABC Ltd is calculating its base percentage and top-up percentage for qualifying period 8 (Sept 27 – Oct 24, 2020), based on the following amounts:

	July	August	September	October
2020 revenue	$30,000	$40,000	$50,000	$30,000
2019 revenue	$100,000	$100,000	$100,000	$100,000
% revenue drop	70%	60%	50%	70%

Assume ABC Ltd uses the same month in the prior year as its prior reference period:

Base percentage: 40% (maximum, since revenue drop for October 2020 is greater than 50%)

Top-up percentage:

(1) Average revenue drop of July, August and September 2020 vs. 2019: **60%**
(2) Revenue drop in current month (October 2020): **70%**

Higher amount = 70%

Top-up percentage: 1.25 × (70% - 50%) = 25%

Base percentage + top-up percentage: 40% + 25% = 65%

Qualifying periods 11-21

For qualifying periods 11 to 21, the top-up percentage is based on the revenue drop comparing the current reference period to the prior reference period (i.e., a one-month comparison rather than three-month comparison).

Once the eligible entity has determined this average revenue drop, this percentage is inserted as "A" in the formula:

Period 11 – 17: 1.75 x (A - 50%)
Period 18: 1.25 x (A - 50%)
Period 19: 0.75 x (A - 50%)
Period 20: 0.5 x (A - 50%)

If the average revenue drop is greater than 50%, there will be a top-up percentage. For qualifying periods 11 to 17, the top-up percentage maxes out at 35%. For qualifying periods 18 to 21, the maximum top-up percentage gradually declines from 25% to 10%.

Table 4: Summary of wage subsidy calculation rules

	CEWS 1.0	CEWS 2.0	
Period	Periods 1 to 4[7]	Periods 5 and 6	Periods 7 to 21
Required revenue drop to qualify	Period 1: 15% Periods 2, 3 and 4: 30%	Any revenue drop, but if > 30%, can get subsidy calculated per CEWS 1.0, if higher	Periods 7-17: any revenue drop Period 18-21: at least 10% revenue drop
Subsidy calculation (per week)	The greater of two amounts: The lesser of: – 75% of remuneration – $847, – If NAL employee, $nil, or The least of: – Remuneration for that week, – 75% of baseline remuneration – $847	Safe harbour rule applies: Subsidy calculation based on CEWS 2.0 calculation for periods 7-21. However, if revenue drop > 30%, subsidy calculation based on CEWS 1.0, if subsidy calculated is higher.	Based on calculation: (E + F) x G E: Base percentage F: Top-up percentage G: least of: – Remuneration for that week – $1,129 – If NAL employee, baseline remuneration Safe harbour rule applies (periods 8-10 only): Top-up percentage is based on greater of: – Revenue drop using three-month average, or – Revenue drop for current month
Maximum percentage	75%	Period 5: 85% Period 6: 85%	Period 7: 75% Period 8-10: 65% Period 11 -17: 75% Period 18: 60% Period 19 - 20: 40% Period 21: 20%
Maximum subsidy	$847/week	Period 5: $960/week Period 6: $960/week	Period 7: $847/week Period 8-10: $734/week Period 11-17: $847/week Period 18: $677/week Period 19-20: $452/week Period 21: $226/week
Deeming rule	Periods 1-3: if you qualify for current period, you automatically qualify for next period	Same as periods 7-21	Periods 7-21: if revenue reduction percentage in current period less than prior period, deemed same as prior period.

7 For periods 5 and 6, a safe harbour rule is introduced to ensure that the wage subsidy available to the employer under the new rules is not less than what it would have been under the original rules.

How are revenues determined?

For purposes of the CEWS, "qualifying revenue" for either a prior or current reference period is based on the inflow of cash, receivables or other consideration arising from the sale of goods, rendering of services or use by others of resources of the employer in the course of ordinary activities of the eligible entity in Canada. The starting point for calculating qualifying revenue is the employer's revenue calculated in accordance with its normal accounting practices. Specifically excluded are extraordinary items as well as revenues from NAL persons[8] or partnerships (subject to the rule below).

The rules surrounding the calculation of revenues are quite complex. Further exacerbating the complexity is the number of decisions that an eligible entity may potentially have to make to determine its qualifying revenue.

Cash or accrual method

For purposes of determining revenues for the prior and current period, employers can elect to use either the cash method or accrual method per GAAP for all qualifying periods.[9] The election must apply to all qualifying periods.

Revenues on per-entity basis

For employers that normally report consolidated revenues, if all consolidating entities choose to determine their qualifying revenues separately, then they may do so. Under the original rules, this would allow specific entities to take advantage of the subsidy, even if the entire consolidated group did not meet the required decrease in revenues. Under the revamped rules, this would allow some entities to benefit from a higher subsidy if their revenue drop on a per-entity basis would be higher than if all entities would have consolidated their revenues.

Consolidated revenues for affiliated companies

Eligible entities that are affiliated[10] are able to jointly elect to determine their qualifying revenue on a consolidated basis if all of them do so. If the election is made, then all eligible entities would use the revenues of the consolidated group to determine if they qualify for the subsidy. Under the old rules, this would be beneficial in scenarios where the revenues of the overall group have declined but specific entities within the group have not met the required specified percentage. Under the new rules, this would allow entities with a lower revenue drop (or no revenue drop) to take advantage of a larger revenue drop in a consolidated group, which leads to a higher overall subsidy.

Non-arm's length revenues

An entity that has at least 90% of its revenues from one or more persons or partnerships that are NAL can factor in its NAL revenues in determining its decrease in revenues from the prior reference period to the current reference period. All NAL persons or partnerships must jointly elect with the organization in order for this rule to apply.

An organization that meets the criteria above would determine if it qualifies for the subsidy by factoring in the change in revenues of the NAL persons from which it receives its revenues, on a pro-rated basis. This would allow, for example, an organization that has a centralized payroll company to potentially qualify for the subsidy, even if that payroll company only earns fees from NAL companies. If the NAL companies have suffered a decline in revenues as required (see discussion above), then the payroll company would likely qualify for the subsidy.

There is a specific formula provided in the legislation that pro-rates the decline in revenues of each NAL person or partnership. This decline in revenues is then applied to the eligible entity; in the example above, the payroll company.

Joint ventures

If an eligible entity has all of its interests owned by participants in a joint venture and at least 90% of the eligible entity's revenues in a qualifying period are in respect of the joint venture, the eligible entity can use the qualifying revenues of the joint venture, instead, in determining if it qualifies for the subsidy.

Charities and NPOs

The same rules, above, would apply for charities and non-profit organizations. In addition, both charities and NPOs are able to choose whether or not to include revenues from government sources for purposes of determining eligibility for the subsidy.

Amalgamations and windups

Under the new rules enacted on July 27, 2020, employers that have undergone amalgamations or windups can also qualify for CEWS, as the new corporation is deemed to be the same corporation as its predecessor corporations for CEWS purposes.

Asset acquisitions

Employers that have acquired another business through the purchase of assets are also able to qualify by factoring in the revenues of the acquired business to determine the amount of the subsidy. The purchaser is required to purchase assets worth at least 90% of the fair market value of the assets that the seller used in its business. In the case of an arm's length asset acquisition, the purchaser is only required to purchase 90% of the fair market value of assets that can reasonably be regarded as necessary to carry on the business of the seller or part of the business of the seller.

8 For tax purposes, the term "person" includes individuals, corporations and trusts.
9 Specifically, the cash method as determined under subsection 28(1) of the ITA.
10 "Affiliated" would generally refer to a person and their spouse/common-law partner as well as any corporations controlled by any combination of those same individuals and/or other affiliated corporations.

A joint election would be required to be filed by both the purchaser and seller of the business, and the seller would also have to exclude the revenues from that business in determining its own qualifying revenue for CEWS purposes.

Which employees are eligible for the subsidy?

Eligible employees

An employer can only claim the wage subsidy on amounts paid to an "eligible employee". When the rules were first introduced, an employee was required to be employed in Canada in a qualifying period to be eligible. The rules have changed slightly to state that an eligible employee must be employed *primarily* in Canada *throughout* the qualifying period during which they are employed. The word "primarily" means that the employee must be employed in Canada more than 50% of the time, and the word "throughout" means that this >50% employment in Canada must be during the entire qualifying period (during which they are employed).

For periods 1 to 4, an employee that had no remuneration for a period of 14 or more consecutive days did not meet the definition of an eligible employee. However, for periods 5 to 20, this exclusion no longer exists.[11]

Furloughed employees

Employees that are furloughed (i.e., on paid leave) are also entitled to the wage subsidy as well as a reimbursement of premiums paid for EI, CPP/QPP or QPIP; however, the rules vary, depending on which period the subsidy is being calculated for.

It is expected that the wage subsidy for furloughed employees would not be available after August 28,2021.

Change for furloughed employees period 9 onward

For qualifying periods 9 onwards, the government has aligned the subsidy received by furloughed employees with the amount that they would receive under the Employment Insurance program.[12] The purpose of doing so appears to be to encourage employees to maintain their connection with their employer rather than going onto EI (and potentially overburdening the system) since the amount the employer would receive for the furloughed employee would be equal to what the employee would receive through EI.

The amount of the subsidy is equal to the lesser of:

1 The amount of remuneration paid and,

2 The greater of:

- $500 per week, or
- 55% of the employee's baseline remuneration, up to $573/week for qualifying periods 9 and 10 ($595/week for qualifying periods 11 onwards)

Rehiring furloughed employees

The CRA has stated that employees who have been laid off or furloughed can become eligible retroactively as long as they are rehired, and their retroactive pay and status meet the eligibility criteria for the claim period. The employer must rehire and pay these employees to include them in the calculation for the subsidy.

An employer cannot claim the CEWS for remuneration paid during a four-week period if the employee has claimed the Canada Emergency Response Benefit (CERB) during that same period (applicable up to qualifying period 7). If an employer wishes to claim the CEWS for remuneration paid to employees who have been rehired, any employee who has received the CERB during the same four-week period will be required to repay it. Any person required to repay the CERB due to having been rehired by their employer (or for any other reason which results in them no longer qualifying for the CERB) will be required to do so at the earliest possible time. Repayment can be made by cheque or via CRA's My Account portal. The process is outlined on CRA's website.

Table 5: Summary of rules applicable to furloughed employees

	Qualifying periods 1 – 4	Qualifying periods 5 – 6	Qualifying periods 7 – 19
Wage subsidy	Equal to wage subsidy per normal CEWS 1.0 rules	Equal to wage subsidy per normal CEWS 1.0 rules, provided either base percentage or top-up percentage is greater than nil	Periods 7 and 8: equal to wage subsidy per normal CEWS 1.0 rules, provided either base percentage or top-up percentage is greater than nil Periods 9 onwards: equal to lesser of (1) remuneration paid and (2) amount entitled under EI, up to $573 (or $595) max
EI, CPP/QPP, QPIP	Reimbursed, provided minimum revenue drop met	Reimbursed, provided either base percentage or top-up percentage is greater than nil	Reimbursed, provided either base percentage or top-up percentage is greater than nil

11 In other words, even if an employee only received one day of pay during the entire qualifying period, the remuneration paid to that employee would still qualify for the subsidy, provided the other necessary criteria are met.

12 The federal government has changed the EI system such that payments out of EI will be equal to a minimum of $500 per week, up to a maximum of $573 (55% of the employee's average weekly earnings for the year).

Non-arm's length employees

Non-arm's length employees, which include the owner-manager and related family, are also eligible for the wage subsidy. However, to be eligible for the subsidy in any qualifying period, the NAL employee must have baseline remuneration. This is the case regardless of whether the NAL employee is working during the qualifying period or furloughed. This means that a NAL employee would qualify if they are paid remuneration on a regular basis throughout the year and/or if they received remuneration during the baseline remuneration period applicable to the qualifying period they are applying for.

As summarized in Table 1, employers are able to choose the baseline remuneration period for an eligible employee. Therefore, the employer can decide which baseline remuneration period would allow for the subsidy on remuneration to a NAL employee.

Requirement to repay the CEWS for public companies

Publicly listed corporations are now required to repay wage subsidy amounts for a qualifying period that begins after June 5, 2021 (i.e., Period 17 onward). This requirement would also apply to corporations that are controlled by a public company.

The rule would generally apply if the executive pay is greater in 2021 than it was in 2019.[13] The rule attempts to prevent public companies from collecting CEWS at the same time it has paid out bonuses or increased its executive remuneration. Any excess amount would be required to be repaid, up to the amount of the subsidy received for the period. This requirement is computed on a group level and applies to any CEWS received by any entity in the group.

How to apply

The application process is as follows:

- An employer would first be required to pay its employees. It must also ensure it collects any applicable CPP, QPP, QPIP or EI from the employee and remits both the employee and employer portions.
- Eligible employers who did not have their own payroll program account with the CRA on or before March 15, 2020, but on March 15, 2020 employed one or more individuals in Canada and allowed a third party with a business number to make payroll remittances on their behalf, through the third party's account, will need to register for their own payroll number if they did not previously have one. The CRA will request information from the third party to verify that remittances were previously made on behalf of the eligible employer. CEWS applications can be submitted once the CRA transfers the applicable remittances from the third party to the eligible employer's new account.
- After the employees are paid, the employer would apply for the CEWS using one of three methods:
  - CRA's My Business Account portal
  - Through their representative who will use the Represent a Client portal
  - Using a separate online application portal created for the CEWS called the WebForms application. An online web access code will be required, which is explained in greater detail on CRA's website.
- An employer will have to file a separate application for each RP (payroll account).
- The CEWS, up to the limits mentioned above, would be received through direct deposit, for those employers that are set up for direct deposit. An employer not set up through direct deposit with the CRA will be mailed a cheque, which would likely take longer. Furthermore, any payments of $25 million or more will be paid through the large value transfer system, which will require employers to be enrolled in direct deposit for the corresponding RP account and be registered for the LVTS. An employer will have to contact CRA to get this set up, so it should be done in advance of the application.
- As part of the application process, the employer will be required to complete Form RC661, which must be completed and signed by the person with primary financial responsibility. The form also includes the statements that must be attested to, as well as the elections that are being filed, if any.
- The application for a particular qualifying period is due on the later of:
  - January 31, 2021, or
  - 180 days after the end of the qualifying period.

Potential penalties

The government has announced that any entity that is not entitled to the subsidy will be required to repay it (or the portion they are not entitled to, based on the positions taken, supporting documentation and calculations). If an employer entered into an anti-avoidance transaction that would cause its CEWS subsidy to be higher than it should be, it will be required to repay the subsidy received. Furthermore, penalties may also apply, which can be substantial.

The CRA has already begun to send requests for supporting information for earlier periods and has even started some CEWS audits. Employers should ensure they have all proper documentation needed to support their claim

13 If the corporation's "Aggregate Compensation for Specified Executives" (ACSE), a defined term, during the 2021 calendar year exceeds its ACSE during the 2019 calendar year they will be required to pay back some or all of the CEWS. Generally, ACSE refers to the amount of executive compensation noted in publicly disclosed documents.

Should I apply for the CEWS?

If you are an employer that meets the eligibility criteria, the subsidy could provide you with significant help to retain your employees.

The subsidy may also allow you to rehire employees that were laid off and avoid any further layoffs. It is important to understand that, if you qualify for the subsidy, it is available for all employees who qualify, not only those that may be subject to layoffs. Furthermore, if you do recall employees who were previously laid off, there is no requirement for them to report to work.

Table 6: Illustration of potential total wage subsidy at various employee numbers and revenue declines

# of employees	Percentage revenue decline for first 10 periods			
	10%	30%	50%	70%
5	$13,000	$125,000	$140,000	$167,000
10	$27,000	$249,000	$280,000	$333,000
25	$65,000	$623,000	$700,000	$835,000
50	$131,000	$1,246,000	$1,400,000	$1,670,000
100	$262,000	$2,492,000	$2,800,000	$3,343,000

Notes:
1. The illustration assumes all employees are paid at least $1,129 per week, including during the baseline period.
2. All amounts are rounded to the nearest thousand dollars.
3. Total subsidies shown are for all 10 periods currently available, except as per the next note.
4. At a revenue drop of 10%, the employer would not qualify for periods 1-4. However, periods 5-10 still yield a subsidy.
5. These values are based on a business qualifying for CEWS and the actual amounts may vary depending on the facts of each scenario.

The challenge some businesses may face is uncertainty of qualifying. Grant Thornton can help in analyzing revenues on a consolidated or entity-by-entity basis, whether using the cash or accrual method, as well as navigating through the complicated rules and requirements that may apply to your business.

Since for periods 17 to 20, eligible employers can choose to apply for either CEWS or CRHP, Grant Thornton can help you to determine which measure will be more beneficial for your business in each period.

Additional information

For further details on this program, please see the following government websites:

Canada Revenue Agency CEWS webpage

CEWS - FAQ

Federal Budget 2021 - CEWS extension

We're here to help

We understand that you want to be agile and responsive as the situation unfolds. Having access to experts, insights and accurate information as quickly as possible is critical—but your resources may be stretched at this time.

We're here to support you as you navigate through the impacts of COVID-19 on your business and your investments.

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 and time of this email 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.

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