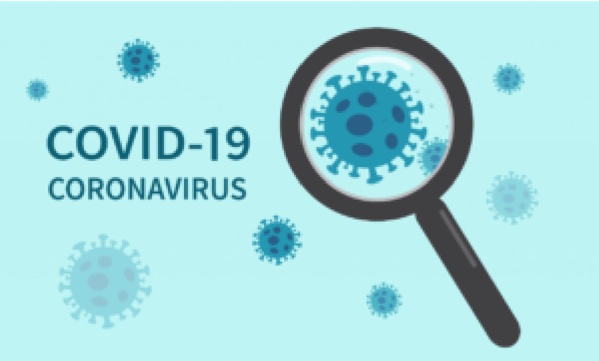
Federal Government Totally Revamps CEWS Benefits



The 7 changes HR directors need to know about:

For the second time in a month, the federal government is making significant changes to the Canada Emergency Wage Subsidy (CEWS) adopted at the start of the pandemic to save jobs by paying companies impacted by COVID-19 subsidies covering 75% of the wages of each eligible employee rehired from temporary layoff. Originally, the CEWS was supposed to last for 12 weeks from March 15 to June 6, 2020. In May, the government extended the CEWS for 12 additional weeks until August 29. And on July 17, the government announced it was extending the program still again, this time until December 19, 2020.

But the big changes, which take effect on July 5, are the technical revisions designed to open up the CEWS and make it available to more employers suffering COVID-19 revenue losses, tailor subsidy amounts to actual revenue losses and align eligibility requirements with existing CERB, EI, CPP and QPP benefits calculations. If your organization is receiving or considering seeking CEWS assistance, here are the 8 changes you need to know about.

1. Elimination of 30% Revenue Loss Threshold

To qualify for the CEWS, employers had to experience a 30% COVID-19-related drop in revenues over a 3-month period. But while it worked for the onset of the crisis, the “all or nothing” 30% loss threshold isn’t suited for the current period in which businesses have re-opened but are still making less than normal due to COVID-19. As a result, effective July 5, the CEWS is being split up into 2 parts:

- A base subsidy available to employers experiencing **any decline in revenues** with the subsidy amount to vary depending on the size of the revenue decline; and
- A top-up subsidy up to an additional 25% for employers that have suffered revenue losses of employers most adversely affected by the COVID-19 crisis.

2. How the New Base Subsidy Works

The base subsidy will be subject to an initial maximum of $677 per week on remuneration of up to $1,129 per week (as opposed to the $847 per week maximum that applies to current CEWS eligibility calculation). Employers with revenue declines of 50% or more would get the maximum base subsidy (with the maximum to decline gradually over time), but employers with lower losses would still qualify for a lower subsidy. The maximum base rate will be gradually reduced over time, as illustrated by Table 1:

Table 1. Rate Structure of Base CEWS

	Period 5 (July 5 – Aug 1)	**Period 6 (Aug 2 – Aug 29)**	**Period 7 (Aug 30 – Sept 26)**	**Period 8 (Sept 27 – Oct 24)**	**Period 9 (Oct 25 – Nov 21)**
Max weekly benefit per employee	$677	$677	$565	$452	$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% drop = 24% base CEWS)	1.2 x revenue drop (e.g., 1.2 x 20% drop = 24% base CEWS)	1.0 x revenue drop (e.g., 1.0 x 20% drop = 20% base CEWS)	0.8 x revenue drop (e.g., 0.8 x 20% drop = 16% base CEWS)	0.4 x revenue drop (e.g., 0.4 x 20% drop = 8% base CEWS)

3. How the New Top-Up Subsidy Works

In addition to the base rate subsidy, employers with an average 3-month revenue drop of over 50% (compared to a corresponding previous 3-month period not affected by COVID-19) will get a top-up CEWS of up to 25%, depending on the revenue decline. Like the base rate, the top-up rate applies to remuneration of up to $1,129 per week, as illustrated by Table 2:

Table 2. Top-Up CEWS Rates

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 x (70% – 50%) = 25%
65%	18.75%	1.25 x (65% – 50%) = 18.75%
60%	12.5%	1.25 x (60% – 50%) = 12.5%
55%	6.25%	1.25 x (55% – 50%) = 6.25%
50% and under	0%	1.25 x (50% – 50%) = 0%

4. How the Overall CEWS Rate Works

The overall CEWS rate will be the base rate + top-up rate. Table 3 illustrates how it will work for the most adversely affected employers over the remaining CEWS periods.

Table 3. Rate Structure of Combined Base & Top-Up CEWS for Most Adversely Affected Employers (i.e., 70% or more average 3-month revenue drop)

	Period 5 (July 5 – Aug 1)	**Period 6 (Aug 2 – Aug 29)**	**Period 7 (Aug 30 – Sept 26)**	**Period 8 (Sept 27 – Oct 24)**	**Period 9 (Oct 25 – Nov 21)**
Max weekly benefit per employee	$960	$960	$847	$734	$508
<u>Revenue drop in current 1-month reference period</u>					
50% and over	85% (60% base + 25% top-up)	85% (60% base + 25% top-up)	75% (50% base + 25% top-up)	65% (40% base + 25% top-up)	45% (20% base + 25% top-up)
0 to 49%	Base of 1.2 x revenue drop + Top-up of 25% (e.g., 1.2 x 20% drop = 24% + 25% = 49%)	Base of 1.2 x revenue drop + Top-up of 25% (e.g., 1.2 x 20% drop = 24% + 25% = 49%)	Base of 1.0 x revenue drop + Top-up of 25% (e.g., 1.0 x 20% drop = 20% + 25% = 45%)	Base of 0.8 x revenue drop + Top-up of 25% (e.g., 1.2 x 20% drop = 16% + 25% = 41%)	Base of 0.4 x revenue drop + Top-up of 25% (e.g., 0.4 x 20% drop = 8% + 25% = 33%)

5. The July and August Safe Harbour

You might be feeling a bit bummed out that the new rules would take effect on July 5 *after* you had already made your business plans for July and August. But fear not. For those 2 months (CEWS Periods 5 and 6), employers will get the benefit of a safe harbour entitling them to either the new rate or the previous rate, whichever one is higher.

6. New Calculation Formula for Furloughed Employees

Under current rules, the subsidy calculation for furloughed employees is whichever of the following is higher:

- For arm’s length employees, 75% of remuneration paid up to a maximum benefit of $847 per week; and
- 75% of the employee’s pre-crisis weekly remuneration up to a maximum up to a maximum benefit of $847 per week or the amount of remuneration paid, whichever is less.

On August 30 (the start of CEWS Period 6), changes take effect designed to align the subsidy calculation for furloughed employees with the rules for calculating

CERB and EI benefits and CPP, EI, QPP and QPIP employer contributions.

7. The Other Technical Changes

The proposal includes other potentially significant changes that might affect your organization, including:

- Elimination of the exclusion of employees without remuneration for 14 or more consecutive days from eligibility;
- Adjustments to the rules for calculating an employer’s drop in revenues in certain circumstances where an employer purchased all of the assets used by a seller to conduct business making it easier for the purchaser to qualify for CEWS payments for that business;
- Establishment of a process allowing employers to appeal CEWS determinations to the Tax Court of Canada;
- Allowing registered charities or non-profits to elect whether to include government-source revenue in calculating their reductions in qualifying revenue;
- Allowing entities that use the cash method of accounting to elect to use accrual accounting methods to calculate their revenues for CEWS purposes.