Compliance Briefing: The 12 Things You Need to Know about the New 10% Temporary Wage Subsidy

On March 18, the federal government announced that it would give a 10% wage subsidy to help companies avoid staff cuts in response to COVID-19. When it became clear that the 10% Temporary Wage Subsidy (TWS) wasn't going to be nearly enough, the government rolled out the more generous 75% Canada Emergency Wage Subsidy (CEWS). However, it didn't pull back the TWS which remains very much available either in lieu of perhaps even in addition to the CEWS. Here are the 12 things HR directors need to know to help their companies take advantage of the TWS.

1. What the TWS Is

Like the CEWS, the TWS incentivizes employers to keep employees on the payroll and bring back employees already on layoff due to COVID-19 by providing a wage subsidy equal to 10% of the remuneration you pay over the 3-month period from March 18 to June 19, 2020 (which we'll refer to as the "TWS period"), up to $1,375 per eligible employee to a maximum total of $25,000 per employer.

The size of the subsidy—75% vs. 10%—isn't the only difference between the programs. Unlike the CEWS, which is a direct payment that you must apply for, the TWS is something you help yourself to by reducing regular payroll deductions and CRA remittances to the CRA, as we'll explain below.

2. Which Employers Are Eligible for the TWS

Employers eligible for the TWS include small businesses, specifically Canadian-controlled private corporations (CCPCs) with less than $15 million in taxable capital that are owned and controlled by Canadian residents and whose shares aren't listed on a stock exchange. Other eligible employers include individuals (other than trusts), partnerships between eligible employers, non-profit organizations and registered charities. To qualify for the TWS, the employer must also:

- Have an existing business number and payroll program account with the CRA

on March 18, 2020; and
- Pay salary, wages, bonuses, or other remuneration to one or more eligible employee during the TWS period.

3. Which Employees Are Eligible for the TWS

“Eligible employees” means individuals employed in Canada.

4. How the TWS Works

Remember that the TWS isn’t a payment you apply for like the CEWS but rather a savings you take from the regular payroll remittances you make to the CRA over the TWS period. <u>The way it works</u>: You continue deducting income tax, CPP and EI from employees the way you normally do. The subsidy comes from the remittances you make to the CRA. More precisely, you calculate the amount of the subsidy for the remittance period and subtract that amount from the remittance you make on the particular employee for the period. **Caveat:** The money subtracted can only come out of federal, provincial or territorial income tax remittances. **You must keep remitting the full amount of CPP contributions and EI premiums.**

5. When You Can Start Reducing Your Payroll Remittances

You can start reducing payroll remittances of income tax in the first remittance period that includes remuneration paid from the March 18 to June 19, 2020 TWS period, e.g., remittances due on April 15, 2020, if you’re a regular remitter. **Caveat:** The TWS isn’t a remittance deferral and you must continue remitting payroll deductions by your remittance due date.

6. How to Calculate the TWS Subsidy

The person responsible for calculating your company’s payroll remittances must manually calculate the how much to withhold from regular CRA income tax remittances per employees over the TWS period; the CRA won’t do the calculations for you. The calculation is based on the total number of employees employed at any time during the TWS period and subject to the $1,375 per employee and $25,000 per employer maximums. The CRA lists 3 calculation examples:

Example 1

- Number of eligible employees: 5
- Monthly salary per employee: $4,100
- Total monthly payroll: $20,500 (5 x $4,100)
- Monthly wage subsidy: $2,050 (10% x $20,500)

Assume nothing changes and you continue to pay each of the 5 employees the same monthly payment for all 3 months of the TWS period:

- Total remuneration for period: $61,500 (3 x $20,500)
- Total subsidy amount for period: $6,150 (10% x $61,500)

Remember that the maximum TWS amount is $1,375 per eligible employee. And since there are 5 eligible employees, the maximum total TWS amount for the period is $6,875 ($1,375 x 5). But because 10% of your total actual average subsidy of $6,150 is below that maximum, that’s the amount of your total wage subsidy for the TWS period.

Example 2

- Number of eligible employees: 8
- Monthly salary per employee: $4,750
- Total monthly payroll: $38,000 (8 x $4,750)
- Monthly wage subsidy: $3,800 (10% x $38,000)

Again, assume no changes in payroll from the TWS period of March 18 to June 19, 2020:

- Total remuneration for period: $114,000 (8 x $38,000)
- Total subsidy amount for period: $11,400 (10% x $114,000)
- Maximum wage subsidy for period: $11,000 (8 x $1,375)

Because $11,400 is over the $11,000 maximum, your subsidy will be capped at the latter amount.

Example 3

The first 2 examples assume no changes in monthly payroll during the TWS period. Here's an example of how the calculation works if payroll does actually change.

Payroll for month 1:

- Number of eligible employees: 5
- Monthly salary per employee: $4,100
- Total monthly payroll: $20,500 (5 x $4,100)
- Monthly wage subsidy: $2,050 (10% x $20,500)

Payroll for month 2:

- Number of eligible employees: 7
- Monthly salary per employee: $4,100
- Total monthly payroll: $28,700 (7 x $4,100)
- Monthly wage subsidy: $2,870 (10% x $28,700)

Assume payroll for month 3 is exactly the same as for month 2:

- Total remuneration for 3-month period: $77,900
- Total subsidy amount for period: $7,790 (10% x $77,900)
- Maximum wage subsidy for period: $9,625 (7 x $1,375)

Because $7,790 is below the $9,625 maximum, that's the total amount of subsidy you get for the TWS period.

6. Potential for Reducing Future Payroll Remittances

If the income taxes you deduct aren't enough to offset the value of the subsidy in a specific period, you can subtract the shortfall amount from future remittances, including remittances that come due after the TWS period ends on June 19, 2020. Example:

You calculated a subsidy of $2,050 on remuneration paid from March 18, 2020 to June 19, 2020, but only deducted $1,050 of federal, provincial, or territorial income tax from your employees. You're allowed to reduce a future payroll remittance by $1,000, even if that remittance is for remuneration paid after June 19, 2020.

7. Potential to Get the TWS Later

If you decide not to reduce your payroll remittances during the year, you can still calculate the 10% subsidy on remuneration paid from March 18 to June 19, 2020. At the end of the year, the CRA will pay you the TWS amount or transfer it to your 2021 remittance.

8. Whether the TWS Applies to Revenu Québec Remittances

The TWS applies only to CRA and not Revenu Québec remittances.

9. The Documentation Requirements

Although the record keeping rules haven't been finalized, CRA has stated that employers must keep information to support their subsidy calculation, including documentation of:

- Total remuneration paid from March 18 to June 19, 2020;
- Federal, provincial or territorial income tax deducted from that remuneration; and
- Number of eligible employees employed in that period.

10. The Interplay between the TWS and CEWS

Employers may be eligible for both the 10% TWS and 75% CEWS. But companies applying for CEWS need to understand that all TWS benefits they claim for a specific period will reduce the CEWS payment amounts they can claim for that same period. In other words, there's no double-dipping and the maximum total benefit from both programs is 75%, not 85%.

11. The Interplay between the TWS and CERB

Employees should be getting *either* the benefit of being able to keep their jobs because their employer is getting TWS and/or CEWS *or* the $500 per week Canada Emergency Relief Benefit (CERB) because they're unemployed as a result of COVID-19. They should not be getting both. Accordingly, the government is currently working on rules to avoid duplication, which is likely to require that employees who are rehired under CEWS and/or TWS to:

- Formally withdraw their CERB claim; and
- Repay any CERB benefits they received after being rehired.

12. The Taxation of TWS Funds

Like the CEWS, the TWS is considered taxable income that you must report in the year you receive the subsidy.