COVID-19 Relief: Does Your Firm Qualify for CEWS Wage Payments?

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SITUATION

XYZ Inc., a Canadian company that began operations in July 2019, reported the following revenues in the first 3 months of 2020:

- January: $100,000
- February: $140,000
- March: $90,000.

QUESTION

For which Canada Emergency Wage Subsidy (CEWS) claim period(s) is/are XYZ eligible?

A. The first claim period which begins March 15, 2020
B. The second claim period which begins April 12, 2020
C. The third claim period which begins May 10, 2020

ANSWER

A and B. XYZ is eligible for the first 2 CEWS claims periods, but not the third.

EXPLANATION: THE CEWS EMPLOYER ELIGIBILITY RULES

The new CEWS pays companies with significant COVID-19 revenue losses that retain or recall employees subsidies of up to 75% of eligible remuneration per employee up to $847 per week. The above scenario, which is based on an example provided by the CRA, illustrates how the CEWS employer eligibility rules work.

The Qualifying Periods

Eligible employers can apply for the CEWS for one or more of 3 claim periods, each of which lasts 4 weeks:

- Period 1, which begins on March 15, 2020 and ends on April 11, 2020;
- Period 2, which begins on April 12, 2020 and ends on May 9, 2020; and
- Period 3 that begins on May 10, 2020 and ends on June 6, 2020.

The Current Period Revenue Loss Threshold

To qualify for the CEWS, you must demonstrate that your "qualifying revenues" dropped by a certain percentage in the "current period," i.e., the period for which you're applying. The required revenue loss varies by period:

- Period 1: 15%;
- Period 2: 30%; and
- Period 3: 30%.

The Current Period Revenue Loss Threshold

There are 2 different reference periods you can use to demonstrate the necessary revenue drop:

- A year-over-year comparator, i.e., March 2020 compared to March 2019, April 2020 vs. April 2019, and May 2020 vs. May 2019; or
- An average of revenue earned in January and February 2020.

EXPLANATION—WHY XYZ IS ELIGIBLE FOR PERIOD 1

Okay, let's return to the scenario. Because XYZ only began operating in July 2019, it doesn't have revenues from March through May 2019 that it can use as a comparator. So, it has to use the January to February 2020 average reference period. During that period, XYZ's monthly revenues averaged $120,000 ($100,000 in January + $140,000 in February). At $90,000, its March 2020 revenues were 25% below that average.

Result: XYZ would meet the 15% revenue loss threshold for period 1, but not the 30% thresholds for periods 2 and 3.

EXPLANATION—WHY XYZ IS ELIGIBLE FOR PERIOD 2

QUESTIONSo, why are A and B—*both* the first *and* second claim periods—rather than just A—the first period only—the right answer to the Quiz?

Companies that qualify for the current claim period automatically qualify for the subsequent claim period, assuming there is one, without having to reapply. Thus, because its 25% revenue losses met the 15% threshold for period one, XYZ is automatically eligible for period 2.

EXPLANATION—WHY XYZ MAY OR MAY NOT BE ELIGIBLE FOR PERIOD 3

However, the so called "deeming" rule is good for only one subsequent period. Like any other company that was accepted for period 1, XYZ would have to reapply to get the CEWS for period 3. And to be accepted, it would have to show that its revenues for that period were $84,000 or less, i.e., at least 30% below its January-February $120,000 monthly average.

By the same token, if XYZ's revenue for period 2 are $84,000 or less, it would qualify for CEWS during that period. And, thanks to the deeming rule, it would then also automatically qualify for period 3.

TAKEAWAY

The moral of this scenario and analysis is that timing is crucial to CEWS eligibility. Specifically, getting accepted for Period 1, March 15 to April 11, is

crucial because:

- You get the money faster—at least presumably, but the mechanics, timing and even form of payment have yet to be clarified;
- The income threshold is 15% rather than 30%; and
- It automatically secures your eligibility for period 2 payments.

The flipside is that many companies may find Period 1 the toughest to qualify for. Explanation: The COVID-19 financial storm really hit home in the middle of March after what for many businesses were 2 weeks of relative normalcy. It’s for that reason that Period 1 has a lower revenue loss threshold. But even employers that don’t qualify for Period 1 would be well advised to apply for Period 2 to get the benefit of the “deeming” rule for Period 3.