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Memorandum

To: Clients

From: Kakkar CPA Professional Corporation

Date: May 1, 2020

Re: Canada and Quebec COVID-19 response plan – Other Emergency Measures

The Governments of Canada and Quebec announced a series of tax measures to help support those affected by the COVID-19 virus, some of which affect tax filing and payment deadlines. The memorandum lists important changes and information in respect of the emergency measures.

Note that our comments regarding Canada Emergency Wage Subsidy (CEWS) (75% Subsidy) and the National Research Council of Canada Industrial Research Assistance Program Innovation Assistance Program are now contained in a separate memo. This memo contains all other emergency measures.

We have issued a separate memo detailing the extensions available to tax filings and tax payments.

Temporary Wage Subsidy (the “10% Subsidy”)

To support businesses that are facing revenue losses and to help prevent layoffs, the government is providing eligible small employers a temporary wage subsidy for a period of three months. The 10% Subsidy will be equal to 10% of remuneration paid during the period of March 18, 2020 and June 19, 2020 (the “Period”), up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer. Businesses will be able to benefit immediately from this support by reducing their remittances of income tax withheld on their employees’ remuneration.

The following types of entities will qualify for the 10% Subsidy:

- Canadian-controlled private corporations (“CCPC”)
- Individuals (excluding trusts)
- Partnerships, provided all partners are CCPC’s, individuals (other than trusts), other partnerships, or registered charities
- Non-profit entities
- Registered charities

The 10% Subsidy is calculated in the following manner:

- For any salaries earned during the Period, the Employer may reduce the tax portion of the required payroll remittance by a maximum of 10% of each employee's salary.
- The maximum subsidy for entire Period cannot exceed \$1,375 per employee or \$25,000 per Employer
- CPP and EI deductions must still be remitted in full.
- The Employer may continue reducing the tax portion of required payroll remittances until such time as the Subsidy is claimed in full.

Employers do not need to apply for the 10% Subsidy. Employers will need to continue deducting income tax, CPP and EI premiums from salary, wages, bonuses, or other remuneration paid to the employees. The 10% Subsidy is calculated before remitting amounts to the CRA by reducing the current payroll remittance of federal, provincial, or territorial income tax that is sent to the CRA by the amount of 10% subsidy.

The 10% Subsidy only relates to remittances made to CRA; it does **NOT** apply to Revenu Quebec.

The 10% Subsidy is considered taxable income to the Employer.

A CCPC must have at least \$1 of business limit allocated to it in order to claim the 10% Subsidy. A CCPC with no business limit as a result of exceeding the \$15 million taxable capital threshold does not qualify for the Subsidy.

Employers are responsible for keeping records substantiating the amount of the 10% Subsidy.

Employers should expect that CRA will ask to review them later.

The following example was published on the CRA website:

An employer has 5 employees earning monthly salaries of \$4,100 for a total monthly payroll of \$20,500, the subsidy would be 10% of \$20,500, or \$2,050. The Employer would reduce the tax portion of its source deduction remittance by \$2,050 and would report this amount as taxable income.

Assuming that monthly payroll remains the same for each month, the total 10% Subsidy would be \$6,150 ($3 \times \$2,050 \times 10\%$).

Work-Sharing Program

The Work-Sharing Program allows for employees to reduce their normal working hours and receive EI for the difference between normal working hours and actual working hours.

The existing work-sharing program has increased its maximum possible duration from 38 weeks to 76 weeks.



Canada Emergency Response Benefit (“CERB”)

The CERB is a taxable government payment meant to temporarily help those grappling with job loss or other circumstances that have resulted in sudden loss of income due to the COVID-19 pandemic.

A benefit of \$2,000 per four-week period (equivalent to \$500 a week), up to a maximum of 16 weeks, will be provided to certain individuals, as noted below.

An application can be made for any four-week period beginning March 15, 2020 and ending October 3, 2020, provided the conditions are met. After the end of a four-week period, the individual would need to reapply, provided they are still eligible.

The application will be available electronically on April 6, 2020. Individuals should open an online CRA account if they do not already have one so that they can apply online on April 6th. Applications are available by phone as well. There will be two ways in which you can apply for the CERB:

1. Online with the CRA My account:

If you are applying online, you will see an alert banner “COVID-19: Canada Emergency Response Benefit” at the top of the page.

You will select the period you want to apply for, declare you qualify for the benefit, and confirm that the CRA has the right payment information

2. Over the phone with an automated phone service – 1-800-959-2019

If you are using the phone service, you will need your SIN and postal code available (if you are calling on behalf of someone you will need to be an authorized representative of that individual).

You will be asked the following:

- Language of preference (English or French)
- Your SIN
- Confirmation of your postal code as on your tax return
- The period you are applying for
- You will declare you qualify for the benefit.



The below table will show you when you can apply:

Month of birth	Application date for CERB	First date to apply
January, February or March	Mondays	April 6 th , 2020
April, May or June	Tuesdays	April 7 th , 2020
July, August or September	Wednesdays	April 8 th , 2020
October, November or December	Thursdays	April 9 th , 2020
Any month	Fridays, Saturdays or Sundays	NA

Payments will start within 3 business days by direct deposits and 10 business days by cheque from the date of application. There is no waiting period.

The CERB will be available to individuals (all criteria below will have to be met):

- Those that are residents of Canada
- Those that are 15 years of age or older
- Those that earned at least \$5,000 from employment, self-employment or maternity/parental benefits during the 12-month period OR during 2019 prior to applying
- Those who have ceased to work because of illness or job loss for 14 consecutive days during the four-week period and:
 - with \$1,000 or less income for those 14 consecutive days
- Those that did not quit their job voluntarily.
- CRA has indicated on its website that income from non-eligible dividends would count toward the \$5,000 income test. This has not appeared in any legislation.
- Note that CRA's pronouncements state that an individual cannot have any income in each subsequent period after the first one, but this is not consistent with the legislation
- The Government has made further announcements to expand the CERB eligibility rules so that more Canadian taxpayers qualify and can apply for the \$2,000 monthly CERB, for:
 - Individuals who are now earning less than \$1,000 per month, during an eligibility period due to reduced work hours will also qualify;
 - Seasonal workers who have exhausted their EI benefits and whose regular seasonal work has not materialized due to the COVID-19 pandemic;
 - Individuals whose EI benefits have ended and are unable to find a job or return to work due to the COVID-19 pandemic.
- These changes are retroactive to March 15, 2020. Taxpayers will need to go through this process each month that the program is available.

The deadline to apply for any period is December 2, 2020.



Those who have applied for EI for COVID-19 related benefits after March 18, 2020 but have not yet begun receiving payments will have their claim automatically transferred to CERB.

Those that are already receiving EI regular or sickness benefits should not apply for CERB until their EI has ended.

The CERB will be taxable to the individuals in 2020; there is no provision for the withholding of taxes therefore those receiving the CERB should plan to have a tax liability when they file their 2020 T1 personal income tax returns.

Individuals may be asked to provide information later.

The following are examples as to whom the benefit could apply:

- Workers who must stop working due to COVID-19 and do not have access to paid leave or other income support
- Workers who are sick, quarantined or taking care of someone who is sick with COVID-19
- Working parents who must stay home without pay to care for sick children or need additional care because of school and daycare closures
- Workers who have been temporarily laid off
- Wage earners and self-employed individuals, including contract workers, who are not eligible for Employment Insurance.

CRA has updated its Q&A section on the CERB. It is organized and contains good information for many questions: <https://www.canada.ca/en/services/benefits/ei/cerb-application/questions.html>.

Federal and Quebec audits suspended

The CRA will not contact any small or medium (SME) businesses to initiate any post assessment GST/HST or Income Tax audits for the next four weeks, effective March 31, 2020. For most businesses, the CRA will temporarily suspend audit interaction with taxpayers and representatives.

Revenu Quebec has also announced that all tax audit and collection activities are being suspended, it will show greater flexibility in respect of payment agreements for tax debts.¹

Canada Emergency Business Account (“CEBA”)

This program will provide interest-free loans to small businesses. These loans, guaranteed and funded by the Government of Canada and implemented by eligible financial institutions, will ensure that small businesses have access to the capital they need, at a zero per cent interest rate, so

¹ This information was received from reliable but unofficial sources and has not been officially confirmed by Revenu Quebec.



they can pay for rent and other important costs over the next number of months. Loans of up to \$40,000 to small businesses and not-for-profits will be available to help cover their operating costs during a period where their revenues have been temporarily reduced.

To qualify to the CEBA, these organizations will need to demonstrate that they paid between \$20,000 to \$1.5 million, based on their 2019 T4SUM Summary of Remuneration Paid. The T4SUM can be issued by the CRA, which are also available via CRA online account.

There has been no further guidance from the Government as to which organizations will qualify for this program. We are aware of unconfirmed reports that unincorporated businesses will not qualify.

Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25 percent (up to \$10,000 on a \$40,000 loan).

If the loan cannot be repaid by December 31, 2022, it can be converted into an interest-bearing term loan.

It is assumed that the forgiven amount would be considered taxable income, but the Government has been silent on this point.

Certain banks have begun accepting applications on April 9, 2020.

More details will follow in the coming days once they are released by the Government.

Canada Emergency Commercial Rent Assistance (“CECRA”)

The Federal government has reached an agreement in principle with all provinces and territories to implement the Canada Emergency Commercial Rent Assistance (“CECRA”) for small businesses. This program will lower rent by 75 per cent for small businesses that have been affected by COVID-19.

The government is also providing further details on the program:

- The program will provide forgivable loans to qualifying commercial property owners to cover 50 per cent of three-monthly rent payments that are payable by eligible small business tenants who are experiencing financial hardship during April, May, and June.
- The loans will be forgiven if the mortgaged property owner agrees to reduce the eligible small business tenants’ rent by at least 75 per cent for the three corresponding months under a rent forgiveness agreement, which will include a term not to evict the tenant while the agreement is in place. The small business tenant would cover the remainder, up to 25 per cent of the rent.
- Impacted small business tenants are businesses paying less than \$50,000 per month in rent and who have temporarily ceased operations or have experienced at least a 70 per cent drop



in pre-COVID-19 revenues. This support will also be available to non-profit and charitable organizations.

<https://pm.gc.ca/en/news/news-releases/2020/04/24/prime-minister-announces-partnerships-provinces-and-territories>

More details will follow in the coming days once they are released by the Government.

Small and Medium-sized Enterprise Loan and Guarantee program

Export Development Canada will guarantee new operating credit and cash flow term loans that financial institutions extend to small and medium sized enterprises, to a maximum of \$6.25 million per entity.

The Business Development Bank of Canada and Canadian Banks will jointly extend term loans up to a maximum of \$6.25 million per loan. This is intended for small and medium-sized companies that require greater help to meet their operational cash flow requirements.

It was not specified whether or not an entity could qualify for maximum allowed under both the above programs or is limited to one or the other.

More details will follow in the coming days once they are released by the Government.

Additional One-Time GST/HST Credit

Individuals will be provided with a one-time special payment by early May 2020 through the GSTC. This special payment is equal to the annual payments to which the recipient would otherwise be entitled for the 2019-20 benefit year.

The extra payment will be based on the same formula as the regular GSTC and is based on family net income as reported on the family's 2018 personal tax returns. As long as the family has filed its 2018 personal tax returns the special payment will be received automatically.

Canada Child Benefit

Individuals will be provided with a one-time special payment for the month of May 2020. Entitlement is based on family net income as reported on the family's 2018 personal tax returns. The maximum amount of the special payment will be \$300 per child. As long as the family has filed its 2018 personal tax returns the special payment will be received automatically.²

² This information was received from reliable but unofficial sources and has not been officially confirmed by Canada Revenue Agency.



Reduction in RRIF Minimum Withdrawal

Every taxpayer that is required to withdraw an amount from their RRIF in 2020 will be entitled to a 25% reduction in the required withdrawal for 2020.

Electronic signatures

Effective immediately, the CRA and Revenu Quebec will recognize electronic signatures in order to reduce the necessity for taxpayers (individuals and businesses) and tax preparers to meet in person during this difficult time.

Employer Health Tax (EHT) (Ontario only)

The Ontario Government is proposing a temporary increase to the EHT exemption from \$490,000 to \$1 million for 2020. The exemption would return to its current level of \$490,000 on January 1, 2021.

Further, all payments that are required by businesses with respect to provincially administered taxes, including EHT, have been deferred without interest or penalty.

This will begin for payments due on April 1, 2020, and will continue for a period of five months, up until August 31, 2020.

Temporary Aid for Workers Program (Quebec only)

This program offers financial assistance to meet the needs of workers who, because they are in isolation to counter the propagation of the COVID-19 virus, cannot earn all their work income and are not eligible for another financial assistance program.

The lump-sum amount granted to an eligible person is \$573 per week, for a period of 14 days of isolation. If justified by your state of health, the coverage period for an eligible person could be extended to a maximum of 28 days.

This program is for workers who reside in Québec and are in isolation for one of the following reasons:

- they have contracted the virus or present symptoms
- they have been in contact with an infected person
- they have returned from abroad

In addition, workers who are in isolation or likely to be under the above criteria are eligible if:



- you are not receiving compensation from your employer
- you do not have private insurance
- you are not covered by another government program

The program only applies to adult workers aged 18 or over.

The order to self-isolate must have been given by the Government of Canada, the Government of Québec or another responsible authority.

Application is through the following link:

<https://inscription.croixrouge.ca/#/0ABFBD4F-AF68-EA11-A812-000D3AF422F3>

Canada Emergency Student Benefit

For post-secondary students and recent graduates who are non-eligible for CERB or for EI and are unable to find full-time employment or to work due to COVID-19, the Government of Canada proposes to introduce the Canada Emergency Student Benefit (CESB). The CESB would provide \$1,250 per month for eligible students from May through August 2020, and \$1,750 for students with dependents and those with permanent disabilities.

This new grant would provide income support to post-secondary students who will experience financial hardship over the summer due to COVID-19. The CESB will be delivered by CRA and more details will be communicated.

More details about the specific measures taken by each government can be found at:

<https://www.canada.ca/en/departement-finance/economic-response-plan.html#business>

<https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update/frequently-asked-questions-wage-subsidy-small-businesses.html#h1>

<https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update.html>

<https://www.canada.ca/en/departement-finance/news/2020/03/additional-support-for-canadian-businesses-from-the-economic-impact-of-covid-19.html>

<https://www.canada.ca/en/departement-finance/news/2020/03/canadas-covid-19-economic-response-plan-support-for-canadians-and-businesses.html>

<https://www.revenuquebec.ca/en/press-room/press-releases/details/167313/2020-03-17/>

<https://budget.ontario.ca/2020/marchupdate/action-plan.html>



<https://www.quebec.ca/en/family-and-support-for-individuals/financial-assistance/temporary-aid-for-workers-program/>

https://www.canada.ca/en/department-finance/news/2020/04/the-canada-emergency-wage-subsidy.html?fbclid=IwAR1yDuX0gx2Eji7dZsDcE9q55ZT1QKv2kcuzT4XfoSTh_TH8GiK_65bmYq8

<https://pm.gc.ca/en/news/news-releases/2020/04/16/prime-minister-announces-additional-support-small-businesses>

