

TAX UPDATE

Response to COVID-19

March 26, 2020

On March 18, 2020, federal Finance Minister Bill Morneau announced new tax measures to support Canadians through the COVID-19 crisis. Following the federal announcements, the Canada Revenue Agency (CRA) provided administrative information with respect to the measures announced. On Wednesday, March 25, 2020, legislation was introduced and enacted. The following table highlights key changes:

As announced on March 18, 2020	CRA Administrative Information (March 19/20, 2020)	Legislation March 25, 2020
Filing Deadlines	As announced	No legislation announced
Income Tax Amounts Owing	As announced	No legislation announced
Temporary Wage Subsidy	<ul style="list-style-type: none"> • Lesser of i) \$1,375 per employee and ii) 10% remuneration paid (to employee to a maximum \$25,000 per employer) • Eligible employer includes: Canadian Controlled Private Corporation (CCPC) (taxable capital employed in Canada <\$15M on an associated group), non-profit organizations (NPO), Registered Charities • Associated CCPCs not required to share maximum subsidy of \$25,000 per employer 	<ul style="list-style-type: none"> • Does not define the percentage of remuneration, nor the employee and employer limits • Eligible employer to also include partnerships (all members of which are eligible individuals) and individuals (other than a trust) • For CCPC to be considered an eligible employer must have a business limit > NIL (notwithstanding the reduction imposed by the passive income rules)
Employment Insurance		
<ul style="list-style-type: none"> • Emergency Care Benefit (ECB) • Emergency Support Benefit (ESB) 	As announced	ECB and ESB replaced with Canada Emergency Response Benefit (CERB)
Goods and Services Tax (GST)	As announced	As announced
Canada Child Benefit (CCB)	As announced	As announced
Registered Retirement Income Funds (RRIFs)	As announced	As announced

Temporary Wage Subsidy for Employers

The Temporary Wage Subsidy for Employers is a three-month measure to help prevent layoffs and support businesses by reducing the amount of payroll deductions required to be remitted.

Eligibility for the Temporary Wage Subsidy is limited to the following employers:

1. A CCPC that is entitled to a portion of the business limit for the small business deduction in its last taxation year ending prior to March 18, 2020. The business limit available would be calculated without a reduction that otherwise occurs when passive income exceeds \$50,000 (in the CCPC or in the associated group). CCPCs are only eligible for the subsidy if their taxable capital employed in Canada for the preceding taxation year, calculated on an associated group basis, is less than \$15M.
2. An individual (other than a trust)
3. A partnership, all members of which are: eligible CCPCs, individuals, partnerships and registered charities
4. A non-profit organization exempt from tax
5. A registered charity

Eligible employers qualify provided they:

- Employ one or more individuals in Canada;
- 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 an employee.

The subsidy is taxable income to the employer.

Calculation of the Subsidy

The subsidy is a manual calculation, equal to 10 percent of the remuneration paid between March 18, 2020, and June 20, 2020. There is a maximum subsidy amount of \$1,375 per employee, to a maximum of \$25,000 total per employer. These limits were announced by the CRA on March 20, 2020. The new legislation does not define the percentage of remuneration, nor the employee and employer limits; however, it is anticipated that these will be enacted when the prescribing regulations are released.

MNP Insights: It is likely that the numerical limits were not included in the legislation in order to allow the government flexibility to change the amounts if additional support is required by Canadian businesses.

The administrative information provided by the CRA indicated that associated corporations did not have to share the subsidy among its associated group. However, the legislation requires a CCPC to have a business limit greater than nil (not withstanding the reduction imposed by the passive income rules) to be considered an eligible employer.

MNP Insights: In a situation where there is an associated group of companies consisting of, for example, three flower shops (Shop 1, 2, 3): if in the December 31 year end the entire business limit was allocated to Shop 1 and no amount was allocated to Shop 2 and 3, only Shop 1 would be an eligible employer and would benefit from the Temporary Wage Subsidy for Employers. The legislation as it currently reads would suggest that if Shop 2 and 3 were each entitled to even \$1 of the business limit, they would have access to the to the subsidy up to a maximum of \$25,000. There appears to be a disconnect between the information provided by the CRA and this legislation. We are working with the government to provide greater clarity.



Receiving the Subsidy

To receive the subsidy, employers can reduce their current remittance of federal, provincial, or territorial income tax that would otherwise be remitted to the CRA by the amount of subsidy calculated. Quebec income tax withheld cannot be reduced and must continue to be remitted to Revenu Québec.

Remittance reductions can begin in the first remittance period that includes remuneration paid between March 18, 2020, and June 20, 2020. If income taxes deducted are not sufficient to offset the value of the subsidy in a specific period, future remittances can be reduced; this includes remittances that may fall outside of the application period for the wage subsidy (after June 20, 2020).

Eligible employers who choose not to reduce payroll remittances during the year can calculate the temporary wage subsidy on remuneration paid between March 18, 2020, and June 20, 2020, and request that the subsidy be paid to them at the end of the year or transferred to the next year's remittance.

Employers should continue to deduct income tax, Canada Pension Plan contributions and Employment Insurance premiums from salary, wages, bonus or other remuneration paid to employees. The subsidy is only deducted when income tax amounts are to be remitted to the CRA by employers.

Important: There is no reduction to the remittance of Canada Pension Plan contributions or Employment Insurance premiums.

Canada Emergency Response Benefit Act (CERB)

The CERB replaces previously announced EI programs, ECB and ESB, and is intended to be simpler and more accessible to Canadians.

The CERB is a support for workers who have lost income due to reasons related to COVID-19. It is a temporary program that provides \$2,000 per month to a maximum of 16 weeks. The program is set to expire on October 3, 2020. The amount of the benefit is subject to change by government regulation.

Payments received under the CERB will be included in the recipient's taxable income.

Who is eligible for CERB?

A person who is at least 15 years of age, who was a resident of Canada in 2019 and had total income of at least \$5,000 from employment or self-employment in either 2019 or in the 12 months immediately preceding their application.

A person will be eligible, if work has ceased for at least 14 consecutive days within the four-week application period, due to reasons related to COVID-19. The reasons for ceasing work would include not only a lay-off but, sickness, quarantine, closure of business, taking care of an ill family member or taking care of children due to closure of schools and daycares. This program applies to wage earners, contract workers and self-employed individuals who would not otherwise be eligible for EI. In addition, people who are still employed but are not receiving income due to disruption of their work situation due to COVID-19, would also qualify.

A person cannot receive EI benefits (or other income) and the CERB for the same period. As described in the March 25, 2020 Press Release, those who are already receiving EI regular and sickness benefits as of today should not apply for the CERB and will continue to receive their EI benefits. Such person would apply for the CERB once their EI benefits cease and they are unable to return to work due to COVID-19, if prior to October 3, 2020.



Where a person has applied for EI benefits but, their application has not been processed, an application for the CERB should be made. If eligible for EI benefits, these would be received after the 16 weeks of CERB benefits.

How and when to apply?

A person must make an application, if eligible, for every four-week period. CERB payments will be made within 10 days of the application. The application must be made no later than December 2, 2020. The portal for accessing the CERB will be available in early April.

Other Measures

Goods and Services Tax

The legislation confirmed a one-time special payment by early May 2020 through the Goods and Services Tax credit (GSTC). This will double the maximum annual GSTC payment amounts for the 2019-20 benefit year. The average amount received by those benefitting from this measure will be close to \$400 for single individuals and close to \$600 for couples.

Canada Child Benefit (CCB)

The legislation confirmed that the maximum annual CCB payment amounts will increase by \$300 per child (only for the 2019-20 benefit year).

Registered Retirement Income Funds (RRIFs)

The legislation confirmed that for 2020 only, the required minimum withdrawals from RRIFs has been reduced by 25 per cent, in recognition of volatile market conditions and the impact on many seniors' retirement savings. Similar rules would apply to individuals receiving variable benefit payments under a defined contribution Registered Pension Plan.

What Does This Mean?

We are encouraged by the government's increase in their initial promise of emergency support, through the introduction of the CERB, as it affirms their commitment to supporting Canadians during this challenging period.

While we appreciate the timeliness of the new legislation, we are hopeful that additional guidance will soon follow, particularly around the Temporary Wage Subsidy Program for Employers. We are happy to see that employers, such as proprietorships and partnerships can qualify for this program; however, we hope the government amends legislation to ensure more small businesses are eligible.

We will continue to provide you with updates as new information becomes available.

MNP is committed to sending regular email updates on government programs to address the pandemic. For more insights, visit [MNP COVID-19 Business Advice Centre](#) – a dedicated microsite to providing information and practical solutions on how to manage through the impact of COVID-19.

For more information, contact your local MNP Advisor or visit [MNP.ca](#).

