

Update on Government Relief Programs and COVID-19 Tax Implications

April 21, 2020



Outline



- Temporary Emergency Wage Subsidy (TEWS)
- Canada Emergency Wage Subsidy (CEWS)
- Other Tax Planning Considerations
- Canada Emergency Business Account (CEBA)
- Business Credit Availability Program (BCAP)
 - EDC Loan Guarantee for Small and Medium-Sized Enterprises
 - BDC Co-Lending Program for Small and Medium Enterprises
- Other Financial Relief Measures
- Commercial Rent Relief
- CFA Wins and What's Next

Temporary Emergency Wage Subsidy (TEWS)



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- Permits eligible employers to reduce income tax remittances by 10% of the remuneration paid to employees
- Eligible employers include: Individuals, Eligible CCPC's*, Partnerships*, NPO, Charity
 - *CCPC's with taxable capital under \$15M in the prior year
- The subsidy applies between the periods of March 18th and June 20th, 2020
- Subsidy permits a maximum reduction of \$1,375 per employee and \$25,000 per employer
- An employer cannot reduce its required CPP or EI
- If you do not reduce your remittances, but qualify, you can ask for the subsidy to be paid to you at the end of the year, or transferred to next year
- The subsidy is considered to be taxable and you must report it in the year received
- Keep adequate support of your calculations

TEWS – Example

- 5 employees earning \$4,100 per month for a total payroll of \$20,500
- The monthly subsidy would be 10% of \$20,500 or \$2,050
- Key Reminders:
 - Cap per employee - \$1,375
 - Cap per company - \$25,000
 - You cannot reduce your remittance of CPP or EI premiums

Canada Emergency Wage Subsidy (CEWS)



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- 75% wage subsidy paid to eligible employers for 12 weeks, retroactive to March 15th, 2020
- Eligible Employers
 - Eligible employers include the following that see a drop of at least 15% of their revenue in March 2020 and 30% for the following months (Eligible Periods):
 - Individuals
 - Taxable corporations (note the difference between the temporary wage subsidy)
 - Partnerships consisting of eligible employers
 - Non-profit organizations
 - Registered Charities
 - Public bodies are not eligible for the subsidy including municipalities and local governments, Crown corporations, wholly owned municipal corporations, public universities, colleges, schools and hospitals

CEWS – Calculating Qualifying Revenues



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- An employer's revenue for this purpose is its revenue in Canada earned from arm's length sources. Revenue is calculated using the employer's normal accounting method, and excludes revenues from extraordinary items and amounts on account of capital
 - Specifically, qualifying revenue is defined as the inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the eligible entity – generally from the sale of goods, the rendering of services and the use by others of resources of the eligible entities in Canada
- Employer's are allowed to calculate revenue under the accrual method or the cash method, but not a combination of both. You must continue to use the same method for the duration of the program
- Special rules are available for the computation of revenue to take into account certain non-arm's length transactions. For example, in a situation where an employer sells all of its output to a related company that in turn earns arm's length revenue
- Affiliated groups are able to compute revenue on a consolidated basis
- For NPO's, the calculation includes most forms of revenue, excluding revenue from non-arm's length persons and these organizations are allowed to choose whether or not to include revenue from government sources as part of the calculation

CEWS – Amount of the Subsidy



- Arm's Length Employees
- Subsidy is the greater of:
 - 75% of the amount of remuneration paid, up to a maximum benefit of \$847 per week; and the lessor of ->
 - The amount of remuneration paid, up to a maximum benefit of \$847 per week; or
 - 75% of the employee's pre-crisis weekly remuneration
- Pre-crisis remuneration:
 - Average weekly remuneration paid between January 1 – March 15th inclusively, excluding any seven day periods where the employee did not receive remuneration
- Eligible remuneration may include salary, wages and other remuneration like taxable benefits. These are amounts for which employers would generally be required to withhold or deduct remittances
 - Non-Arm's Length Employees
- Non-arm's length employees are eligible provided they were employed prior to March 15th, 2020
 - Maximum benefit is the lessor of \$847 per week and 75% of the employee's pre-crisis weekly remuneration

CEWS – Eligible Period

- Eligibility is determined by the change in an eligible employer's monthly revenues, year-over-year, for the calendar month in which the period began
- Two approaches:
 - Compare the average revenue earned in January and February 2020 vs March, April and May 2020
 - Compare revenue earned in March, April and May 2019 vs March, April and May 2020
- Once you choose an approach, you must use the same approach for the entire program
- The wage subsidy received in a given month is excluded from your revenues for that month*

- ABC Inc. is a start-up that started its operations last September. It reported revenues of \$100,000 in January and \$140,000 in February, for a monthly average of \$120,000. In March, its revenues dropped to \$90,000. Because revenues in March are 25 per cent lower than \$120,000, ABC inc. would be eligible for the CEWS for the first claiming period. To be eligible for the following claiming period, ABC Inc. revenues would have to be \$84,000 or less for the month of April (that is, 30 per cent lower than \$120,000).

CEWS – Eligible Periods



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	Claiming period	Required reduction in revenue	Reference period for eligibility
Period 1	March 15 to April 11	15%	March 2020 over: <ul style="list-style-type: none">• March 2019 or• Average of January and February 2020
Period 2	April 12 to May 9	30%	Eligible for Period 1 OR April 2020 over: <ul style="list-style-type: none">• April 2019 or• Average of January and February 2020
Period 3	May 10 to June 6	30%	Eligible for Period 2 OR May 2020 over: <ul style="list-style-type: none">• May 2019 or• Average of January and February 2020

CEWS – Eligible Employees and Application Process



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- Eligible Employees
 - Eligible employees include individuals employed in Canada
 - Available to all employees other than those who have been without remuneration for 14 or more consecutive days in the eligible period (CERB)
 - Any subsidy received from the 10% wage subsidy will reduce the amount available under the CEWS
 - Any benefits received by an employee through regular EI or the Work Sharing program will reduce the amount the employer is eligible to receive under the CEWS
- Application Process
 - Apply through CRA's My Business Account portal
 - Eligible entities must apply before October 2020 and attest to the accuracy of the application
 - Cash should be available within 2 – 5 weeks of applying
 - Significant penalties for artificial transactions including a repayment of the full subsidy received, a penalty of 25% of the subsidy, and potentially jail time

CEWS – Refund for Certain Payroll Contributions



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- 100% refund for certain employer-paid contributions to the EI, CPP, QPP, Quebec Parental Insurance Plan. This is new and over and above the actual CEWS
- Covers eligible employees for each week throughout which those employees are on leave with pay and for which the employer is eligible to claim the CEWS for these employees
- In general, an employee is considered to be on leave with pay throughout a week if that employee is remunerated by the employer for that week but does not perform any work for the employer in that week
- The refund is not available for eligible employees that are on leave with pay for only a portion of the week
- This refund is not subject to the weekly maximum benefit per employee of \$847
- There is no overall limit on this refund
- Employers are still required to collect and remit EI, CPP on time and should apply for this refund as they apply for the CEWS

Other Tax Planning Considerations

- Estate Thaw / Re-Freeze / Family Trust
 - Previous freeze value: \$75,000,000
 - Estate Tax: \$20,000,000
 - Thaw / re-freeze value: \$50,000,000
 - Estate Tax: \$13,400,000
 - Estate Tax Savings: \$ 6,600,000
- CDA Planning
- Capital Gains Strips
- Loss Utilization and Realization
- Prescribed Rate Loan Income Splitting Planning

Canada Emergency Business Account (CEBA)



- A \$40,000 interest-free, government-guaranteed loan to help pay for operating costs that can't be deferred as a result of COVID-19.
 - \$10,000 (25%) of the \$40,000 loan is eligible for complete forgiveness if \$30,000 is fully repaid on or before December 31, 2022.
 - If the loan cannot be repaid by December 31, 2022, it can be converted into a 3-year term loan at an interest rate of 5%.
- How to apply
 - Businesses apply through the financial institution that holds their primary business operating account.
- How long to get funding
 - Funding will flow within one week to allow for business processing by Government

CEBA – Eligibility



- To be eligible the borrower must
 - Be a Canadian operating business in operation as of March 1, 2020.
 - Have a federal tax registration.
 - Have total employment income paid in the 2019 calendar year was between \$20,000 and \$1,500,000
 - Based on 2019 T4SUM Summary of Remuneration Paid
 - Have an active business chequing/operating account with the Lender, which is its primary financial institution.
 - This account was opened on or prior to March 1, 2020 and was not in arrears on existing borrowing facilities, if applicable, with the Lender by 90 days or more as at March 1, 2020.
 - Have not previously used the Program and will not apply for support under the Program at any other financial institution.
 - Acknowledge their intention to continue to operate its business or to resume operations.

CEBA – Restrictions on the use of funding



- The funds from this loan shall only be used by the Borrower to pay non-deferrable operating expenses including
 - payroll, rent, utilities, insurance, property tax and regularly scheduled debt service
 - CEBA loans may not be used to fund any payments or expenses such as prepayment/refinancing of existing indebtedness, payments of dividends, distributions and increases in management compensation.

CEBA – Issues the CFA is trying to fix



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- Change the definition to allow other types of labour compensation to be eligible
 - Advocating the T4A and T5 income should be eligible types of compensation under the program
- Allow multiple loans to one corporate entity where there are multiple locations
 - Advocating that CEBA loans should be allowed for multiple locations based on business licenses, HST/GST accounts, WSIB accounts, etc. instead of by corporate entity.
- New businesses are not eligible for CEBA
 - Advocating that the program criteria be changed to allow new businesses to use a 12 month projection of their average January and February 2020 payroll to qualify for a CEBA loan.

Business Credit Availability Program



- EDC Loan Guarantee for Small and Medium-Sized Enterprises
 - This money is to be used for operational expenses, not for dividend payouts, shareholder loans, bonuses, stock buyback, option issuance, increases to executive compensation or repayment/refinancing of other debt.
- BDC Co-Lending Program for Small and Medium Enterprises
 - This program provides term loans for operational and liquidity needs of businesses, which could include interest payments on existing debt.
 - Loans would be interest-only for the first 12 months, with a 10-year repayment period.

BCAP – EDC Loan Guarantee



- Term Loans & Lines of Credit partially guaranteed by the EDC for larger enterprises
- Funding amounts of up to \$6.25M (80% guaranteed by EDC)
- Financial Institution will underwrite transactions based their own criteria – risk-sharing concept
- Market pricing to apply/insurance fee payable to EDC of 1.8% of the authorized amount
- 1-year guarantee + automatic renewal of 1-year with supporting credit information provided by your Financial Institution
- Temporary removal of “export” requirement from EDC mandate

- Apply for funding through your Financial Institution

BCAP – BDC Co-Lending Program



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- Term loans funded your bank
- Financial Institution to underwrite transactions based their own criteria – risk-sharing concept
 - up to 12-month interest-only repayment
- Standard term, amortization and market pricing to apply
- Maximum funding amounts to be determined by business revenues
 - Loans of up to \$312,500 to businesses with revenues of less than \$1 million.
 - Up to \$3.125 million for businesses with revenues between \$1 million and \$50 million.
 - Up to \$6.25 million for businesses with revenues in excess of \$50 million.
- Apply for funding through your Financial Institution

Other Financial Relief Measures



- Bank lead initiatives
 - Business loan payment deferrals
 - Increases to operating line of credit limits
 - Request a deferral of your minimum payment obligations on your credit cards
 - Credit Card Interest Relief
 - Waived setup fees for new enrollments to cash management solutions
 - Waived Stop Payments fee
 - Waived ATM mini-statement fee

Commercial Rent Relief



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- Provincial responsibility so we are working province by province
- Current Rent Relief Programs in place
 - NS – Rent Deferral Program
 - PEI – Rent Deferral Program
 - NB – Banned evictions in the State of Emergency
- Canada Emergency Commercial Rent Assistance (CECRA)
 - Federal program for small businesses that will seek to provide loans and/or forgivable loans to commercial property owners who in turn will lower or forgo the rent of small businesses for the months of April (retroactive), May, and June.
 - More details may be available this week
- CFA Advocating for
 - Governments to put rent deferral/write off programs in place across Canada
 - Governments to place a moratorium on rent payments for businesses that are closed or have seen a drop in sales by more than 25% due to the States of Emergency until two months after those States of Emergency are lifted.
 - Governments put in place a moratorium on evictions and seizure of property during the States of Emergency and for the 2 months thereafter.

CFA – Wins and What’s Next



CFA Wins



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- New Canada Emergency Wage Subsidy (75% wage subsidy)
 - Changes to the threshold to qualify (NEW)
 - 15% decline for March, 30% decline for April and May
 - [Canada Emergency Wage Subsidy Calculator](#) (NEW)
- Temporary Emergency Wage Subsidy
 - Kept 10% wage subsidy
- Workers Compensation Premium Reductions and Deferments
 - Successful in BC, AB, ON, NB
- Sales Tax Remittance Deferrals
- Electricity Rate Reductions and Deferrals
 - Relief provided in every province in Canada
 - Ontario – potential issue with Global Adjustment



What's Next – Issues

- **Commercial Rent**
 - Working province by province
 - Canada Emergency Commercial Rent Assistance (CECRA)
 - CFA Advocating for
 - Governments to put rent deferral/write off programs in place across Canada
 - Governments to place a moratorium on rent payments for businesses that are closed or have seen a drop in sales by more than 25% due to the States of Emergency until two months after those States of Emergency are lifted.
 - Governments put in place a moratorium on evictions and seizure of property during the States of Emergency and for the 2 months thereafter.
- **Canada Emergency Business Account**
 - Change the definition to allow other types of labour compensation to be eligible (T4A and T5 income)
 - Allow multi-unit owners to be eligible for more than one loan (potentially based on municipal business licenses)
 - Change the criteria to match CEWS so that new businesses are eligible
- **Canada Emergency Wage Subsidy**
 - Working to try and get the program to be self administered similar to the Temporary Wage Subsidy for Employers
- **Canada Emergency Response Benefit**
 - Working to expand it to include T5 income as eligible income instead of the current program requirement for T4 income.



What's Next – Issues

- Municipal property tax rebates/deferrals
 - Hamilton as a template
- Ontario Electricity – Global Adjustment
- Loan Payment Deferrals (Term Loans, CSBFP, etc.)
- Require rating agencies to freeze credit scores
- For the Economic Recovery
 - Create an incentive/subsidy for new hires
 - Changes to the Canada Small Business Finance Program (CSBFP)

Thank you



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