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Global Tax Alert

News from EY Americas Tax

Canada introduces Federal Wage Subsidy Program

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Executive summary

In order to prevent layoffs, the Federal Government has introduced a wage subsidy program. Further details of the program were released as part of Bill C-13, *COVID-19 Emergency Response Act*, which was enacted on 25 March 2020. Under the terms of the program, eligible employers can receive a subsidy equal to 10% of eligible remuneration paid between 18 March 2020 and 19 June 2020 (the eligible period) up to a maximum of \$1,375 per employee and \$25,000 per employer.

Detailed discussion

Who is eligible?

An "eligible employer" for the wage subsidy is defined as a person or partnership who employs one or more eligible employees in Canada, is registered with the Canada Revenue Agency (CRA) for payroll remittance purposes, and meets one of the following requirements:

1. A Canadian-controlled private corporation (CCPC) that qualifies for the small-business deduction (without regard for the grind-down for passive investment income under paragraph 125(5.1)(b) of the *Income Tax Act*) for its last taxation year that ended before the eligible period

2. An individual (i.e., proprietorship and not a trust)
3. A partnership provided that all members are either CCPCs described above, individuals (other than trusts), or registered charities
4. A non-profit organization (as defined by paragraph 149(1)(l) of the Act)
5. A registered charity

What is the amount of the wage subsidy?

The amount of the subsidy will be prescribed by regulation. As currently announced, the subsidy is equal to 10% of the eligible remuneration paid by eligible employers during the eligible period. This subsidy is subject to a maximum of CA\$1,375¹ per employee and \$25,000 per employer (whichever amount is lower).

Associated CCPCs will not be required to share the maximum subsidy of \$25,000 per employer.

What is eligible remuneration?

Eligible remuneration is defined as salary, wages or other remuneration paid to an eligible employee during the eligible period.

How does the reduction in withholdings and remittances work in practice?

Assume an eligible employer is required to pay an employee \$5,000 between 18 March 2020 and 19 June 2020. The tax consequences will be as follows:

- ▶ Subsidy = \$500 (\$5,000 x 10%)
- ▶ Income tax withholding (assume 40%) = \$2,000 (Note that there are no changes to the method of calculating income tax withholding.)
- ▶ Income tax required to be remitted to the CRA = \$1,500 (\$2,000 - \$500)

Future income tax remittances can also be reduced for remuneration paid before 20 June 2020 (i.e., this includes remittances made after 20 June 2020 should the income taxes deducted in the eligible period not be sufficient to offset the value of the subsidy), but the reductions cannot exceed \$1,375 for any single employee and a maximum of \$25,000 per employer. If the subsidy is not applied in reduction of the payroll remittances during the year, eligible employers can request that the subsidy be paid to them at the end of the year or transferred to the next year's remittance.

Note that the reduction applies to income tax withholdings only and does not apply to other source deductions such as Canada Pension Plan contributions and Employment Insurance premiums.

Eligible period

As mentioned above, the eligible period goes from the start of the day on 18 March 2020 to the end of the day on 19 June 2020.

Record keeping

Employers are required to retain information to support their subsidy calculation.

According to the CRA, this information includes:

- ▶ The total remuneration paid between 18 March 2020 and 19 June 2020
- ▶ The federal, provincial or territorial income tax that was deducted from that remuneration
- ▶ The number of employees paid in that period

The CRA is currently updating reporting requirements. The CRA has stated that more information on how to report this subsidy will be released in the near future.

Treatment of the subsidy for tax purposes

The subsidy should be included in income in the taxation year in which it is received.

Endnote

1. Currency references in this Alert are to the CA\$.

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