Temporary wage subsidy for employers: Canada’s COVID-19 response plan

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Some small businesses in Canada may be particularly hard-hit by the financial fallout of COVID-19 and may experience a significant loss in revenues. On March 25, 2020, the Government of Canada passed legislation[1] to put into place a variety of measures to help individual Canadians and businesses facing hardship as a result of the COVID-19 outbreak. One of the measures was a temporary wage subsidy program for employers. This report discusses the temporary wage subsidy measures introduced in the legislation.

On March 27, 2020, Prime Minister Trudeau announced that the temporary wage subsidy will be increased from 10% to 75%, retroactive to March 15, 2020. This report will be updated once further details of this change are announced.

Source deductions

As an employer, you are required to make source deductions before paying wages (and most other forms of remuneration) to your employees. You generally must deduct and withhold amounts for income taxes, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums. You must then pay these withholdings, along with employer CPP/QPP contributions and EI premiums,[2] to the Canada Revenue Agency (CRA) (and Revenu Quebec) by the due date. If you make payments quarterly or monthly, the payments are due by the 15th of the following month. Some employers who must make accelerated remittances have to remit earlier.[3]

Temporary wage subsidy amount

Under the temporary wage subsidy program, the subsidy is equal to 10% of remuneration paid by an “eligible employer” (discussed below) between March 18, 2020 and June 19, 2020. If no remuneration was paid to employees during this period, then no subsidy is available. The maximum amount of the subsidy is $1,375 per employee and $25,000 per employer. Employers who are considered to be associated[4] for tax purposes will *not* be required to share the subsidy.

Example

Samuel owns a restaurant that has five employees and has temporarily been converted to a take-out only establishment. Total payroll for the restaurant between March 18, 2020 and June 19, 2020 will be $75,000.

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1 The draft legislation can be found on the Department of Finance website at: fin.canada.ca/drleg-apl/2020/nwmm-amvm-0320-l-bil.pdf.

2 Employers may also need to remit other amounts, such as premiums for the Ontario Employer Health Tax or the Quebec Parental Insurance Plan.

3 For federal remittance due dates, see canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/remitting-source-deductions/how-when-remit-due-dates.html.

4 The term “associated” is defined in the tax rules. Corporations are associated for tax purposes when they have common control. For instance, if two corporations are owned by the same person, they will be associated for tax purposes. Further, in many circumstances, corporations with related shareholders are associated.

Even though 10% of the payroll during this time is $7,500, the maximum available subsidy is limited to $6,875 because the maximum total subsidy per employee is $1,375 and the restaurant has five employees.

Eligible employers

Employers that qualify for the wage subsidy include individuals (sole-proprietors), certain partnerships, non-profit organizations, charities and certain Canadian-controlled private corporations (CCPCs). A CCPC is essentially a private corporation whose shares are not listed on a stock exchange, and that is owned and controlled by Canadian residents. Large CCPCs which have taxable capital of more than $15 million among their associated corporations in the previous year won’t qualify for this subsidy.

Employers are only eligible if they had a payroll program account with the CRA on March 18, 2020.

How does it work?

The subsidy is calculated manually and the employer can choose to reduce its payroll income tax remittances to the CRA by the amount of the subsidy. The reduction of tax remittances can begin on the employer’s next remittance date (April 15th if the employer is a quarterly or monthly filer.)

Although the wage subsidy is based on remuneration paid to employees between March 18 and June 19, there is no deadline for claiming the subsidy (through reduced income tax remittances.) In other words, if the amount of the wage subsidy exceeds the income tax that the employer would normally have to remit up to June 19, 2020, the employer can continue to reduce subsequent income tax remittances to claim remaining subsidies after this date.

Employers must continue to deduct all source deductions, including income taxes, CPP/QPP contributions and EI premiums from employees’ pay. *The employer can only reduce remittances of federal, provincial (other than Quebec) or territorial income taxes and cannot reduce any remittances of CPP/QPP contributions or EI premiums.* Remittances to Revenu Quebec may not be reduced.

While the CRA is currently working on the reporting requirements for the wage subsidy program, the employer should keep all information necessary to support its manual calculation of the subsidy. This will include records of all remuneration for the relevant period, as well as tax deductions and the number of employees.

If the employer chooses not to reduce current payroll remittances, it can transfer the wage subsidy to a future 2020 remittance or can request to have it paid at the end of 2020.

Example

Continuing with our earlier example, Samuel makes monthly tax remittances on behalf of his restaurant business. He can claim the first wage subsidy by reducing the restaurant’s remittance for March 2020, which is due on April 15, 2020. The subsidy would be calculated as 10% of wages paid from March 18th. Assuming the eligible wages are $25,000, Samuel will be permitted to reduce the federal and provincial tax portions of the April 15th remittance to the CRA by $2,500. He can continue to reduce subsequent remittances of income tax until the restaurant reaches the maximum wage subsidy.

Tax consequences

The amount of the wage subsidy will be included in the employer’s income and taxed in the year it is received.

Additional tax relief

Finally, a reminder that the CRA has made a variety of other tax relief measures available to business owners and individuals. For example, the CRA will allow all businesses to defer, until September 1, the payment of any income tax amounts that become owing on or after March 18, 2020 and before September 2020. This relief applies to tax balances due, as well as corporate income tax instalments. The government made it clear that no arrears interest or penalties will accumulate on these amounts during this period.

In addition, the CRA won't be contacting any small or medium businesses to initiate any post assessment GST/HST or income tax audits for the next four weeks.

Additional information about these and other changes can be found in our previous report, "Update on tax measures: Canada's COVID-19 response plan."[5]

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[5] The report "Update on tax measures: Canada's COVID-19 response plan" is available online at https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf.