

WHERE TO START WITH THE NEW CEWS



The new Canada Emergency Wage Subsidy (CEWS) rules have been announced. A business can complete their application without an accountant, but it will take some work. You have until January 31st, 2021 to [apply](#) online with CRA and you can always amend your application if you make a mistake.

To determine if your business is eligible to use the CEWS you will have to determine the following:

Eligibility

- Am I an eligible employer? To be eligible you must have:
 - a. A CRA payroll number active before March 15, 2020, and/or
 - b. A third-party payroll provider
- Can I demonstrate a revenue drop of:
 - a. 15% in March,
 - b. 30% in April/May/June, and/or
 - c. Any amount of revenue drop in July and later months
- Are my workers eligible employees? To be eligible, your employees must:
 - a. Be employed in Canada
 - b. For Periods 1-4 (March to June), did not go without pay for 14 consecutive days or more

If yes, then you can start calculating the subsidy. To maximize your CEWS you must determine:

Subsidy

- Your preferred *accounting method* (to be used for all periods) to reflect your impacted revenues
 - a. *Cash method*– You can choose to show your revenue number by recording income as it is received and expenses as they are paid
 - b. *Accrual method* – recording income and expenses when they are billed earned
- Your preferred *approach* to reflect your impacted revenues
 - a. *General approach* – Year over year
 - b. *Alternative approach* – Year over prior referencing period (Feb/Mar)
- Which periods will you *deem* eligible
- The amount of subsidy which will be based on the wages you paid to your eligible employees.

Essentially, the calculation for the CEWS equates to the sum of eligible employee wages (known as Eligible Remuneration) multiplied by the CEWS % rate you receive based on your revenue drop.

$$CEWS = (CEWS \%) \times (\text{sum of Eligible Remuneration})$$

There is no maximum on the total amount of subsidy you receive, however, there is a limit on the amount of subsidy per employee. The maximum wages you can claim per employee is \$1129/week. Now get out your calculators, gross revenues, and payroll numbers because we are going to go for a deep dive into CEWS.

1. Am I an eligible employer?

More businesses have been included as eligible employers including certain seasonal businesses & amalgamated businesses during the pre-COVID period, etc. The program does not look at the number of employees, but at whether you have a CRA payroll number as of March 15, 2020. If you did not have a CRA payroll number because your third-party payroll provider filed it for you, you can create one now and still be considered an eligible employer. Eligible employers include:

- Individuals
- Corporations or trusts that are not tax exempt and not a public institution
- Partnerships
 - Of eligible employers, and certain Indigenous governments
 - Where at least 50% of the interests in the partnership are held by eligible employers
- Private schools or colleges, including institutions that offer specialized services, such as arts school, driving schools, language schools, or flight schools
- [Other types of non-for profits](#)

2. Calculating your gross revenue drop

A revenue drop is the percentage of gross revenues lost in a month in comparison to a pre-COVID-19 reference period (known as a prior reference period).

Accounting

To calculate your gross revenues, you can choose between two accounting methods. You can choose to record your income as it is received and expenses as they are paid (Cash method) or you can choose to record income and expenses when they are billed (Accrual method). Once you have chosen your preferred accounting method, you will have to continue to use that same accounting method for all periods from 1 to 10. You can change from one accounting method to the other, but you will then have to change the accounting methods for all previous applications as well so you are best to choose one method and stick with it for all your CEWS applications.

Approach

To calculate your amount of revenue drop you will need to choose between the General approach (compares revenue of current month to same month in 2019) or the Alternative approach (compares revenue of current month to average revenue in January and February of 2020). See below for more details.

Whatever approach you use, you will have to continue to use that same approach for Periods 1 to 4. The only time you will be allowed to switch your approach from one to the other will be in Period 5, after which you will have to use that same approach for the rest of the CEWS periods.

Revenue reduction for the old CEWS	GENERAL APPROACH	ALTERNATIVE APPROACH
	$\frac{\text{Claim month}}{\text{Same month from 2019}}$	$0.5 (\text{Jan \& Feb 2020 Revenues}) \times \left(\frac{\text{Claim month}}{\text{\# days operational in Jan \& Feb 2020}} \right)$

REVENUE REDUCTION FOR THE NEW CEWS

Revenue reduction for Base %	GENERAL APPROACH	ALTERNATIVE APPROACH
	$\frac{\text{Claim month or Prior month}}{\text{Same month 2019}}$	$\frac{\text{Claim month or Prior month}}{\text{Avg of Jan and Feb 2020}}$
Revenue reduction for Top-up %	$\frac{\text{Avg of 3 prior months to the current period 2020}}{\text{Avg of the same 3 months in 2019}}$	$\frac{\text{Avg of 3 prior months to the current period 2020}}{\text{Avg of Jan and Feb 2020}}$

As you can see, there are more calculations to make in the new periods. This is because the New CEWS percentage consists of a base CEWS percentage and a top-up CEWS percentage (if applicable).

$$\text{New CEWS \%} = \text{Base \%} + \text{Top-up \%}$$

Any revenue drop will make you eligible for the new base CEWS percentage and is based on a 1-month revenue comparison. A revenue drop of 50% or more will make you eligible for the Top-up CEWS percentage. This is based on a 3-month average revenue comparison.

Both the Base CEWS percentage and the Top-up CEWS percentage are comprised of a revenue drop calculation that is multiplied by a specific amount set by government called a multiplier. See Table 1.

$$\text{Base \%} = (\text{Base multiplier}) \times (\text{Base revenue drop})$$

$$\text{Top-up \%} = (\text{Top-up multiplier}) \times (\text{“Top-up revenue drop”} - 50\%)$$

Table 1: Subsidy multipliers by claim period

<i>Base subsidy multiplier by period</i>					
Period	5 & 6	7	8	9	10
Dates	July 5 - Aug 29	Aug 30 - Sept 26	Sept 27 - Oct 24	Oct 25 - Nov 21	Nov 22 - Dec 19
Base subsidy multiplier	1.2	1.0	0.8	0.4	TBA
Top-up subsidy multiplier	1.25				

When determining the amount of subsidy for which you are eligible, start with calculating the top-up CEWS rate for each period. If you have a revenue drop of less than 50% on average over the previous 3 months, you can save yourself some time as you will not be eligible for the top-up CEWS.

If you do have a revenue drop rate of 50% or more on average over the 3 month period prior to the period for which you are claiming, then sharpen your pencil because you qualify for both the base CEWS percentage and the top-Up CEWS percentage.

Once you determine which approach works best for your business you can add both your base CEWS revenue drop percentage and top-up CEWS revenue drop percentage (which will be zero if your revenue drop is less than 50%) to determine your new CEWS percentage.

If you are in Period 5 or 6 you can use the *Safe Harbour Rule* to use the greater of the old or new revenue reduction percentage in your CEWS. To decide which is likely more beneficial for your business, compare your new CEWS percentage with the old CEWS percentage. If your revenue reduction is greater or equal to 30 % using the old calculations AND your new CEWS percentage (the sum of Base% + Top-up%) is less or equal to 75% for the claim period, then use the old CEWS calculations. Table 2 shows the CEWS periods and the months with which you are comparing your revenues.

Table 2: CEWS Calculations by periods CEWS periods

CEWS periods	Claim period	Revenue Month to compare to Prior reference period	Required revenue drop	Base multiplier	Top-up multiplier	CEWS %	Max CEWS %
Period 1 Mar 15 - Apr 11	Mar 2020	Mar 2019*	15%	N/A		75%	75%
Period 2 Apr 12 - May 9	Apr 2020	Apr 2019*	30%			75% if revenue drop was 30% or higher if not New CEWS %	85%
Period 3 May 10 - Jun 6	May 2020	May 2019*					
Period 4 Jun 7 - Jul 4	Jun 2020	Jun 2019*					
Period 5 Jul 5 - Aug 1	Jul 2020	Jul 2019**	Any	1.2	1.25	75% if revenue drop was 30% or higher if not New CEWS %	85%
Period 6 Aug 2 - Aug 29	Aug 2020	Aug 2019**					
Period 7 Aug 30 - Sep 26	Sep 2020	Sep 2019**		1.0		New CEWS %	75%
Period 8 Sep 27 - Oct 24	Oct 2020	Oct 2019**		0.8			65%
Period 9 Oct 25 - Nov 21	Nov 2020	Nov 2019**		0.4			45%
Period 10 Nov 22 - Dec 19	Dev 2020	Dec 2019**		TBD			TBD
* Can use Alternative Approach which uses the average of Jan & Feb 2020 if used consistently for periods 1-4							
** Can use Alternative Approach which uses the average of Jan & Feb 2020 if used consistently for periods 5 & onwards.							

Deeming rule

Within the old CEWS rules, there is an option called the Deeming Rule which allows businesses to apply for CEWS without needing to show CRA proof of having met a revenue drop in the current claim period if they qualified in the previous claim period. This rule can only be applied for the first 4 CEWS periods. It is important to note, that even if you are deemed eligible for a period, you must apply for every period in order to receive funding.

This rule evolves in Period 5 and onwards as it was integrated into the revenue drop test. Instead of automatically qualifying for a future period, a business can elect to use their current OR prior month's revenue to compare with the previous year to determine which would provide them with highest amount of subsidy.

3. Determining which employees' wages are eligible for the subsidy

Eligible employees must be employed in Canada to be eligible for the wage subsidy. In addition, for periods 1 to 4 only, they cannot be without pay for 14 or more consecutive days within a CEWS period. This rule no longer applies from period 5 onwards.

You will then have to determine whether the employee is arm's length or non-arm's length (usually family members/owners), if they are on a paid leave of absence or not, and their pre-COVID-19 average weekly wage (Baseline remuneration). Chart 1 may be helpful in navigating the complexities of which types of wage subsidy calculations apply in each circumstance.

Chart 1: Calculating the Canada Emergency Wage Subsidy (CEWS) for eligible employees

CALCULATING THE CANADA EMERGENCY WAGE SUBSIDY (CEWS) FOR ELIGIBLE EMPLOYEES



Based on Bill C-20 Release July 27, 2020
<https://parl.ca/DocumentViewer/en/43-1/bill/C-20/royal-assent>

HOW TO DETERMINE IF YOUR EMPLOYEES ARE ELIGIBLE

- Your employees are eligible, if:
 - they are employed in Canada and
 - they were not without pay for 14 consecutive days or more within a CEWS period (only applicable in periods 1-4).
- If they meet both of the above requirements, determine:
 - whether they are at arm's length and
 - whether they are on a paid leave of absence.
- Use the matrix on the right to find out how to calculate the specific CEWS amount per employee.

Revenue reduction requirement	OLD CEWS		SAFE HARBOUR	NEW CEWS
	PERIOD 1	PERIODS 2-4	PERIODS 5-6	PERIODS 7-10
Not on leave	15%	30%	Any amount of revenue reduction in the current or prior claim period OR any amount of Top-up % for the current period	Any amount of revenue reduction in the current or prior claim period OR any amount of Top-up % for the current period
Arm's length (third-party)	BR > 0 Greater of: • 75% of ER up to \$847/week • 75% of BR, but no more than ER, up to \$847/week	BR = 0 75% of ER, up to \$847/week	Calculate like periods 7-10 Exception (Safe Harbour Rule): If revenue reduction ≥ 30% AND Base % + Top-up % ≤ 75% for the current period, calculate like periods 2-4	ER, up to \$1129/week × Base % + Top-up %
On paid leave	Same as "Not on leave" (see above) + Employer portion of source deductions		Calculate like periods 2-4	100% of ER, up to TBD + Employer portion of source deductions
Not on leave	75% of BR but no more than ER up to \$847/week		Calculate like periods 7-10 Exception (Safe Harbour Rule): If revenue reduction ≥ 30% AND Base % + Top-up % ≤ 75% for the current period, calculate like periods 2-4	BR > 0: Least of: • ER • BR • \$1129 × Base % + Top-up % BR = 0: Not eligible
Non-arm's length (family)	75% of BR, but no more than ER up to \$847/week + Employer portion of source deductions		Calculate like periods 2-4	BR > 0: 100% of ER, up to TBD + Employer portion of source deductions BR = 0: Not eligible
On paid leave	Same as "Not on leave" (see above) + Employer portion of source deductions		Calculate like periods 2-4	100% of ER, up to TBD + Employer portion of source deductions

GLOSSARY

Based on Bill C-20 Release July 27, 2020 <https://parl.ca/DocumentViewer/en/43-1/bill/C-20/royal-assent>

ER	Eligible Remuneration: money earned by employees in a claim period. These can be salaries, wages, and other pay like certain fees or taxable benefits. Retirement allowances and severance pay are excluded.								
BR	Baseline Remuneration: average weekly money paid in a selected period prior to COVID-19 (also known as Baseline Remuneration periods). This excludes days where an employee was not paid for seven consecutive days or more. <table border="1"> <thead> <tr> <th>BASELINE REMUNERATION PERIODS</th> <th>PERIODS 1-3</th> <th>PERIOD 4</th> <th>PERIODS 5-10</th> </tr> </thead> <tbody> <tr> <td></td> <td>• Jan1 - Mar 15, 2020, or • Mar 1 - May 31, 2019</td> <td>• Jan1 - Mar 15, 2020, • Mar 1 - May 31, 2019, or • Mar 1 - Jun 30, 2019</td> <td>• Jan1 - Mar 15, 2020, or • Jul 1 - Dec 31, 2019</td> </tr> </tbody> </table>	BASELINE REMUNERATION PERIODS	PERIODS 1-3	PERIOD 4	PERIODS 5-10		• Jan1 - Mar 15, 2020, or • Mar 1 - May 31, 2019	• Jan1 - Mar 15, 2020, • Mar 1 - May 31, 2019, or • Mar 1 - Jun 30, 2019	• Jan1 - Mar 15, 2020, or • Jul 1 - Dec 31, 2019
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	• Jan1 - Mar 15, 2020, or • Mar 1 - May 31, 2019	• Jan1 - Mar 15, 2020, • Mar 1 - May 31, 2019, or • Mar 1 - Jun 30, 2019	• Jan1 - Mar 15, 2020, or • Jul 1 - Dec 31, 2019						
Base %	Base Percentage Base revenue drop is based on a one month revenue comparison of the current month or the prior month (in 2020) with either the same month in 2019 (General approach) or the average of January and February 2020 (Alternative approach).								
Top-up %	Top-up Percentage Top-up revenue drop is based on the average of the prior 3-month revenues (in 2020) compared with either the average of the same 3 months in 2019 (General approach) or the average of January and February 2020 (Alternative approach).								
Source deductions	EI, CPP, QPP, and QPIP.								
TBD	To be determined by the regulations.								

CRA will be implementing a CEWS appeals process so those who are not sure if they are eligible should still apply and, if declined, will have an opportunity to appeal the decision. More to come.

We know that calculating your CEWS rate and Eligible Employee Remuneration will require some work. It is our understanding that CRA will create an interactive webpage to help business owners with doing the calculations. We are working with CRA to make sure any tool they develop is simple to use because if it is not, many businesses may choose not to participate or end up making unnecessary mistakes. CFIB is also here to help. If you have questions or need some assistance, please call our helpline at 1-888-234-2232.