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CHARTERED PROFESSIONAL ACCOUNTANTS

In the early morning hours of March 25, 2020, Bill C-13 “**An Act respecting certain measures in response to COVID-19**” was introduced, and received **Royal Assent** by the afternoon. Details on a number of measures previously announced (see Canada’s COVID-19 Economic Response Plan) were disclosed. One common theme throughout the legislation is the ability to change **specific amounts and rules by updating regulations** rather than law, which means the government has **more flexibility** in making changes as events unfold. The key items discussed in this document include:

- Emergency Response Benefit;
- GST tax credit special payment;
- Canada child benefit special payment;
- RRIF minimum withdrawal changes; and
- Temporary wage subsidy for employers.

EMERGENCY RESPONSE BENEFIT

The Emergency Response Benefit legislation combines the previously announced “**Emergency Care Benefit**” and the “**Emergency Support Benefits**” as described in the March 18, 2020 COVID-19 Economic Response Plan (ERP). While continuing to focus on those not eligible for traditional employment insurance (EI) the actual legislation now provides coverage to a broader group of people than originally announced.

Eligibility

While the ERP describes the payments as support for those who are infected, in isolation, are caring for a family member who is sick, or are required to care for

children due to school closures but are not eligible for EI sickness benefits, a March 25, 2020 Department of Finance update notes that it is **also now available for**: workers who still have their employment but are **not being paid** because there is currently **not sufficient work** and their **employer has asked them not to come to work**; and wage earners and self-employed individuals, including contract workers, who are not eligible for conventional EI benefits.

The legislation requires the applicant to be an “**eligible worker**”, which means that they must be:

- • at least **15 years** of age;
- • **resident in Canada**; and
- for 2019 or in the 12-month period preceding the day on which they make an application had a **total income** of at least **\$5,000** from
 - employment;
 - self-employment;
 - certain EI benefits (maternity and parental benefits); and
 - allowances, money or other benefits paid to the person under a provincial plan because of pregnancy or in respect of the care by the person of one or more of their new-born children or one or more children placed with them for the purpose of adoption.

The worker, whether employed or self-employed, must **cease to work** for **reasons related to COVID-19** for **at least 14 consecutive days** within the four-week period in respect of which they apply for the payment.

For the period of cessation of work, the applicant **cannot receive income** from the **sources listed above**, and cannot receive **any other EI benefits**. Further, **workers that quit** voluntarily are **not eligible**.

Benefits

These income support payments can be made for a maximum of 16 weeks (previously noted as 15 weeks in the ERP). Amounts are determined by the Minister. Further, **up to \$2,000** would be provided per month (previously announced as up to \$900 biweekly). These payments are **not subject** to law relating to **bankruptcy** or **insolvency** and are not **garnishable**.

Application process

A worker may apply for an income support payment for any four-week period falling within the period beginning on **March 15, 2020 and ending on October 3, 2020** (payments are made every four weeks). Canadians would begin to receive their payments **within 3-5 days of application, if registered for direct deposit**. Applications start on April 6 through CRA's My Account and recipients are to confirm once a month that they are still out of work.

Other notes

The legislation does not exclude shareholders or their family members as long as they meet the income requirements.

GOODS AND SERVICES TAX CREDIT (GSTC)

Eligibility

Any individual eligible for the **quarterly GSTC based on their 2018** personal income tax filings will be eligible for an **additional payment in May, 2020**. Some others may be entitled to a one-time payment, even if their income is too high to receive quarterly payments.

Benefits

As is the case with the regular GSTC, the one-time payment will **depend on family composition** (whether the recipient is married or single; number of children in the household). As well, the benefit is **income-tested**, and is reduced when "adjusted income" exceeds \$37,789.

The mathematical formulas in the legislation will result in individuals or families with 2018 "adjusted income" less than \$37,789 receiving a single payment equal to four quarterly GSTC payments (for example, \$886 for a family of four).

For higher-income recipients, the mathematical formulas result in the reduction for "adjusted income" in excess of \$37,789 being only half as large as it would be for the usual computation, so some individuals or families would receive a payment greater than four quarterly GSTC payments.

As well, **some individuals or families** whose "adjusted **income**" was **too high** to qualify for any **quarterly GSTC payments** will be **eligible for this one-time payment**. For example, a family of four would be ineligible for quarterly payments if their "adjusted income" exceeded about \$55,500. However, a family of four with income under \$73,000 would still qualify for a modest one-time payment.

Application process

Like the quarterly GSTC, this benefit is managed under the income tax system. **No special application** is required as the payment will be calculated by CRA based on **income tax returns filed for 2018**.

Other notes

The legislation provides that this shall be paid in May, 2020, or such earlier month as may be designated by the Finance Minister, so it is possible that these payments will be released in April, 2020.

Families not presently receiving the GSTC may wish to **confirm** that **CRA** has a **record of all minor children** in their custody to ensure the calculations reflect these individuals.

Taxpayers registered with CRA's MyAccount service can view the children CRA shows under their custody online through that service.

CANADA CHILD BENEFIT (CCB)

Eligibility

All families eligible for **monthly CCB benefits** based on their 2018 personal income tax returns will receive an **extra benefit** as part of their **May, 2020** benefit payment. Some other families with children under age 18 who do not receive monthly benefits will be eligible for a one-time benefit in May.

Benefits

For families receiving monthly benefits, the **May benefit** will be **enhanced by \$300 per child** under age 18. Families receiving **no monthly benefits may receive a portion** of this enhancement, depending on their income levels.

As an example, a family with two children aged 6 to 17, with an "adjusted income" of \$180,000 in 2018 would not qualify for monthly CCB benefits. However, they would qualify for a one-time benefit of approximately \$590 in May, 2020.

Application process

Like the monthly CCB, this benefit is managed under the income tax system. **No special application** is required as it will be **based on income tax returns filed for 2018**.

Other notes

Individuals or families with children under age 18 who are not presently receiving the CCB may want to **confirm** that **all** of the **children** in their custody are **reflected on CRA's records**, to ensure the appropriate payment is computed. Taxpayers registered with CRA's MyAccount service can view the children CRA shows under their custody online through that service.

REGISTERED RETIREMENT INCOME FUND (RRIF) MINIMUM WITHDRAWAL

In recognition of the substantial recent **value declines** in the investment markets, the **minimum withdrawal** from a RRIF or a money purchase pension plan **for 2020** (computed as a percentage of its value on January 1, 2020) will be **reduced by 25%**. No similar reduction is available for defined benefit individual pension plans.

This reduction will not be considered in determining whether withdrawals from a spousal RRIF attribute back to the other spouse, or for purposes of certain benefits available to non-residents of Canada under income tax treaties.

TEMPORARY WAGE SUBSIDY

This measure, initially announced as part of the March 18, 2020 Economic Response Plan (ERP), provides eligible employers with a temporary wage subsidy for a period of **three months**. The subsidy was announced to be **10% of remuneration paid** during that period, up to certain **per employee and per employer maximums**. Businesses were to benefit immediately from this support by **reducing their remittances of income tax** withheld from their employees' remuneration. Remittances for **CPP and EI cannot be offset** by the subsidy. While the legislation fine-tunes the subsidy, it is largely consistent with the initial announcement.

Eligibility

In order to be **eligible**, the **employer** must meet three criteria:

- employ one or more individuals in Canada ("eligible employees");
- was registered, with a business number and a payroll remittance account, on March 18, 2020; and
- be any of the following:
 - **most Canadian-controlled private corporations (CCPCs)**, based on eligibility for the small business deduction (see below);
 - an **individual** (other than a trust);

- a **partnership**, all members of which are entities described in (i), (ii), (iii) or (v) (it is not clear why (iv) is excluded);
- a **non-profit organization** (exempt from income tax pursuant to Subsection 149(1)(l)); or
- a **registered charity**.

Eligibility for a **CCPC requires** that the CCPC had a **business limit**, for purposes of the small business deduction, **greater than nil** for its most recent tax year ended prior to March 18, 2020 (or, if it has no taxation year ended before that date, would have a business limit greater than nil if its taxation year ended on March 17, 2020).

For this purpose, the **reduction** to the business limit caused by **passive income** (“Adjusted Aggregate Investment Income”) is **not considered**. However, a CCPC which had **no business limit for other reasons** (for example, its taxable capital, in combination with other associated corporations exceeded \$15 million; it was a member of an associated group of corporations and was not assigned any portion of the business limit; or it assigned its entire business limit to one or more other CCPCs under the specific corporate income rules) **would not qualify** for the subsidy.

Benefits

A portion of **remuneration** (e.g. wages, salaries) **paid** to employees from **March 18, 2020 to June 19, 2020**, inclusive, will be recoverable by the employer. The legislation indicates that several amounts determining the available subsidy will be prescribed by regulation, and those regulations are not in the draft legislation. The **amounts in italics** below are amounts that were announced in the ERP, and are expected **to be formally set by regulations** yet to be released.

The subsidy will be equal to the **least of three amounts**, as follows:

- a fixed **maximum for each employer of \$25,000**. CRA has indicated that this amount is per employer, and is not required to be shared between related or associated employers;
- a fixed percentage, being **10%, of remuneration paid** to eligible employees during the period from March 18, 2020 to June 19, 2020; or
- the **number of eligible employees** employed during the period from March 18, 2020 to June 19, 2020, **multiplied by** a fixed amount, **\$1,375**.

Therefore, to get the maximum benefit of \$25,000, the employer must have more than 18 employees with total wages no less than \$250,000 during the period.

Application process

No formal application process has been released. Any subsidy to which the employer is entitled is deemed to have been remitted as a payroll remittance for income taxes withheld from the employees' remuneration. In other words, **source deduction remittances for income tax**, but **not for CPP or EI**, can be reduced for the available subsidy, providing an **immediate cash flow** benefit to the employer.

Presumably, there will be an eventual requirement to account for the subsidy claimed, possibly when T4 slips are prepared and filed in early 2021. However, no additional filings have been implemented to date.

Other notes

The initial announcements did not include individuals or partnerships as employers eligible for this benefit, an exclusion which was the subject of considerable commentary. They are included in the legislation.

The legislation does not provide any exclusion for **owners of the employer or persons related to the employer**, so their remuneration **should be eligible**. Note, however, that a **proprietor or partner** is not an employee of their unincorporated business, so **no subsidy** would be available for their work.

75% WAGE SUBSIDY FOR BUSINESSES

- The 75% subsidy will be available to non-publicly funded companies, charities, and not for profits.
- Entities must have a 30% decline in revenue since this time last year. This is determined by comparing revenues to the same month last year for March, April or May. Employers must reapply each month.
- Employers must attest that they are doing everything that they can to pay the remaining 25%.
- Application may be made online on a CRA portal to be launched soon.
- Funds will be available in approximately 6 weeks.
- Stiff and severe penalties for those that take advantage of the system.
- Employers are encouraged to rehire recently laid-off employees.

Small businesses can continue to claim the 10 per cent benefit, however if they also qualify for the larger 75 per cent subsidy, then the money will be decreased to account for any benefits received from the 10 per cent subsidy program. The 10 per cent subsidy does not require a drop in revenue.