PERSONAL **Newsletter**

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COVID-19 Update for Individuals

The federal government has been continuously introducing and modifying numerous measures to support individuals throughout the COVID-19 pandemic. This article summarizes the key tax-related developments that occurred in the recent months that you should be aware of.

2020 Economic and Fiscal Snapshot

On July 8, 2020, the former Federal Finance Minister Bill Morneau delivered the 2020 Economic and Fiscal Snapshot. The deficit for 2020-2021 is projected to increase to $343.2 billion—pre-COVID-19, it was originally projected to be $34.4 billion. A large proportion of the spending is $212 billion in direct support to Canadians and businesses.

Also attributable to the increased deficit are projected declines in tax revenues. Personal income tax revenues are expected to decline to $146.3 billion in 2020-2021 from $170.9 billion in 2019-2020. Corporate income tax revenues are projected to decline to $38.3 billion in 2020-2021 from $49.2 billion in 2019-2020. Revenue from excise taxes and duties is projected to decrease to $46.4 billion in 2020-2021 from $55.6 billion in 2019-2020.

Though there are many COVID-19 response measures to contribute to the deficit, the biggest expenditures include:

- Canada Emergency Response Benefit — $80 billion;
- Canada Emergency Wage Subsidy — $82.3 billion;
- Safe Restart Agreement — $14 billion; and
- Canada Emergency Business Account — $13.75 billion.

For families with net income above the third bracket threshold, the grant is:

- $1 for every $1 on the first $1,000 of contributions.

Although the federal government's projected budget deficit has increased, the snapshot did not announce any tax changes in response to the significant change in the fiscal position; however, the snapshot reiterates the government's commitment to enhance the tax write-off for zero-emission vehicles.

Government Extends CERB, and Proposes New Benefits and Changes to EI

The federal government intends to transition from the Canada Emergency Response Benefit ("CERB") to the employment insurance ("EI") system. Three new benefits have also been announced. However, many details have yet to have been provided. Since the transition will officially happen on September 27, the CERB has been extended by an additional four weeks to a maximum of 28 weeks. This means that Canadians who expected to exhaust their CERB benefits at the end of August can access an additional month of support, after which the Government will transition them to a simplified EI program.

Changes to EI Program

The government is providing EI claimants with a one-time credit of insurable hours in recognition of the pandemic preventing many people from accumulating a sufficient number of insurable hours. As a result, EI benefits will now be available to more Canadians, including many who would not have otherwise qualified. Those receiving EI will be eligible for a taxable benefit rate of at least $400 per week, or $240 per week for extended parental benefits, and regular benefits will be accessible for a minimum duration of 26 weeks. The government will also freeze the EI insurance premium rates for two years, so Canadian workers and businesses will not face immediate increases to costs and payroll deductions due to the additional expenses resulting from the pandemic.

The government is also implementing temporary measures to support self-employed fish harvesters who rely on EI fishing benefits in the off-season. These measures will allow EI fishing benefits for these workers to be calculated using either their actual fishing earnings for their current claim, or their fishing earnings from their claim for the same season from the previous year, whichever is higher.

Canadians already receiving benefits through Service Canada will be transitioned to the EI program once they have received the maximum CERB benefits for which they are entitled, if they are EI eligible and continue to need income support. Canadians who are currently receiving the CERB from the CRA who believe they are entitled to EI will need to apply through Service Canada after September 26.

New Benefit Payments

Three new government benefits have been proposed as a part of the transition away from the CERB.

First, the Canada Recovery Benefit ("CRB") will provide $400 per week for up to 26 weeks to workers who are self-employed or are not eligible for EI and who still require income support and who are available and looking for work. This benefit will support Canadians whose income has dropped or who have not returned to work due to COVID-19. The benefit will allow Canadians to earn more income while on claim as well as include links to Job Bank, Canada's national employment service, with career planning tools for those seeking employment. In addition, the government will be working with provinces and territories to share information to ensure that Canadians have access to tools and training opportunities to successfully return to the workforce.

Second, the Canada Recovery Sickness Benefit ("CRSB") will provide $500 per week for up to two weeks, for workers who are sick or who must self-isolate for reasons related to COVID-19.

Third, the Canada Recovery Caregiving Benefit ("CRCB") will provide $500 per week for up to 26 weeks per household, for eligible Canadians unable to work because they must care for:

- a child under age 12 due to the closures of schools or daycares because of COVID-19;
- a family member with a disability or a dependent because their day program or care facility is closed due to COVID-19; and/or
- a child, a family member with a disability, or a dependant who is not attending school, daycare, or other care facilities under the advice of a medical professional due to being at high risk if they contract COVID-19.

The government will introduce legislation to enact these new benefits. The CRA will administer all three benefits, and Canadians can apply through the CRA. The CRA should soon provide more details on how and when Canadians can get ready to apply.

$500 Exemption from Taxable Benefits for Working from Home Allowances

The CRA has decided that allowances not exceeding $500 paid to employees for computer equipment will not be a taxable benefit to the employees. This is conditional upon the reimbursement being supported by an invoice, and the equipment allowing the employee to work immediately and efficiently from home.

In a new technical interpretation (2020-0845531C6), the CRA was asked if payments made by employers to employees to acquire computers to work from home were taxable to them as taxable employment benefits. The CRA's position is that if the employees received an allowance from the employer to buy a computer and did not have to submit invoices to their employer to justify the use of the allowances, they would have to be included in their income as taxable allowances.

The CRA was then asked if the answer would differ if those payments were conditional on the production of invoices by the employees. The CRA confirmed that the tax treatment would be different depending on the facts. If the employees bought a computer and then submitted invoices to their employer to be reimbursed, they would only receive a taxable employment benefit to be included in their income if it was determined that they had received a measurable economic benefit which principally benefits the employees, not their employer. Only the facts would determine if the advantage benefited mostly the employees or the employers.

However, the CRA noted that, in the particular context of national health emergency created by COVID-19, it was ready to accept that the reimbursement (supported by an invoice or other proper voucher) by an employer to an employee of an amount not exceeding $500 for the purchase of computer equipment did not have to be included in the employee's income if such an equipment allowed the employee to work immediately and efficiently from home. In this case, the advantage would be considered to benefit mostly the employer, not the employee.

Income Tax Payment Deadline Extended

On July 27, 2020, the CRA extended the payment deadline for income tax balances and instalments. The deadline with respect to current-year individual, corporate, and trust income tax returns is extended to September 30, 2020—previously this deadline had been extended to September 1, 2020. Penalties and interest will not be charged if payments are made by September 30, 2020, which includes the late-filing penalty if the return is filed by September 30, 2020. The deadline for instalment payments is also extended to September 30, 2020.

The CRA is also waiving interest on existing tax debts for individual, corporate, and trust income tax returns from April 1, 2020, to September 30, 2020. Similarly, interest on existing GST/HST debts is waived from April 1, 2020, to June 30, 2020. Therefore, interest will not apply during these periods with respect to existing balances owing, but this does not cancel interest and penalties that had been assessed prior to these periods.

To align with the federal announcement, Revenu Québec announced that the deadline for the payment of tax balances, instalments, and other tax payments will also be extended again to September 30, 2020.

Does this mean that it's good idea to file your personal tax return late? This might not necessarily be the case. The CRA encouraged filing personal returns by June 1, 2020 in order to ensure accurate federal and provincial benefits payments. However, as a temporary remedy for late-filed returns, the government will continue to pay benefits for July, August, and September, using the information from an individual's 2018 return if they have not yet filed their 2019 return. That said, the benefit and credit payments will not be the correct amounts, so filing on time would ensure that the correct payment amounts will be made. And if you're expecting a big refund, there is little reason to delay filing your return since filing sooner gets that refund money into your pocket sooner.

EI Premiums Update

Ordinarily, the employment insurance ("EI") premium is set to the forecasted seven-year break-even premium rate, which was determined to be $1.93 per $100 of insurable earnings, an increase of 35 cents. The forecasted increase is mainly attributable to a rise in unemployment resulting from the pandemic, that is the Government of Canada's response through the Canada Emergency Response Benefit (29 cents) and temporary measures to support transition back to the EI program (6 cents).

However, as a result of the economic impact of the COVID-19 pandemic, the Government of Canada used its authority under the Employment Insurance Act to temporarily limit the change in the premium rate to zero in order to freeze the EI premium rate for 2021 and 2022 at the 2020 level.

As a result, the 2021 EI premium rate is set at $1.58 per $100 of insurable earnings for employees and $2.21 for employers who pay 1.4 times the employee rate; the rate is unchanged from the 2020 premium rate. The Maximum Insurable Earnings ("MIE") for 2021 will increase to $56,300 from $54,200 in 2020. For self-employed individuals who have opted-in to the EI program, the annual earnings required in 2020 will increase to $7,555 for claims filed in 2021.

The premium rate in 2021 for residents of Quebec covered under the Quebec Parental Insurance Plan ("QPIP") will be $1.18 per $100 of insurable earnings, while their employers will pay $1.65 per $100 of insurable earnings. The maximum annual contribution for a worker in Quebec will increase by $13.94 to $664.34 (up $19.52 for employers to $930.08 per employee).