CORPORATE Newsletter

Q4 2021 Issue 58

# Latest Changes to Federal COVID-19 Subsidies



Since the Canada Emergency Wage Subsidy ("CEWS") first applied in March 2020, there have been countless changes, including adding the Canada Emergency Rent Subsidy ("CERS") and Canada Recovery Hiring Program ("CRHP"), changes to subsidy rates, changes to revenue calculations, and new top-up amounts, to name a few. Most recently, the federal government passed Bill C-2, which drastically changed the eligibility criteria for the CEWS and CERS. The following is a summary of these key changes to the programs that apply in late 2021 and into 2022.

Note that the government effectively rebranded the CEWS and CERS by replacing them with three new programs that are discussed below. The government now generally refers to the CEWS and CERS as the wage and rent subsidies, respectively. However, the mechanics of the CEWS and CERS remain mostly unchanged, but the programs can only be accessed by qualifying for one of the three new programs.

## Eligibility Changes

After October 23, 2021, both the wage and rent subsidies are accessible only to organizations that fall under one of three possible streams. These are as follows:

1. the Tourism and Hospitality Recovery Program,
2. the Hardest-Hit Business Recovery Program, and
3. the Local Lockdown Program.

After October 23, 2021, if an organization does not qualify under one of these programs, it cannot access the wage or rent subsidies—but it can still potentially qualify for the Canada Recovery Hiring Program.

The base subsidy rate depends on the program under which the entity qualifies (and the "revenue reduction percentage"). Once you determine under which program you qualify and the applicable subsidy rate, your wage or rent subsidy is calculated the same as in prior periods.

## Extension to 2022

Bill C-2 extends the wage subsidy, rent subsidy, and CRHP to May 7, 2022. It also allows the government to further extend the subsidies up to July 2, 2022. The new qualifying periods (plus the reference periods for the purpose of calculating the revenue reduction percentage) are listed below.

| Period Number | Qualifying Period | Current Revenue Reference Period | Prior Revenue Reference Period | Alternative Prior Revenue Reference Period |
|---|---|---|---|---|
| 22 | Oct. 24/21 to Nov. 20/21 | November 2021 | November 2019 | Average of January and February 2020 |
| 23 | Nov. 21/21 to Dec. 18/21 | December 2021 | December 2019 | Average of January and February 2020 |
| 24 | Dec. 19/21 to Jan. 15/22 | January 2022 | January 2020 | Average of January and February 2020 |
| 25 | Jan. 16/22 to Feb. 12/22 | February 2022 | February 2020 | Average of January and February 2020 |
| 26 | Feb. 13/22 to Mar. 12/22 | March 2022 | March 2019 | Average of January and February 2020 |
| 27 | Mar. 13/22 to Apr. 9/22 | April 2022 | April 2019 | Average of January and February 2020 |
| 28 | Apr. 10/22 to May 7/22 | May 2022 | May 2019 | Average of January and February 2020 |

## Tourism and Hospitality Recovery Program

To qualify under the Tourism and Hospitality Program, the entity must be a "qualifying tourism or hospitality entity". First, to meet this definition, the entity must have experienced an average monthly revenue reduction of at least 40% over the first 13 qualifying periods of the CEWS—this is the "prior year revenue decline". The prior year revenue decline is the average of the percentage revenue declines for the first thirteen qualifying periods (either the tenth of eleventh period is omitted from the calculation since they are identical amounts).

Second, the entity's revenue for these periods must have been earned primarily from carrying on one or more prescribed activities. There are too many eligible activities to list here, but the government casted a very wide net to ensure that many types of activities will qualify. See Types of Business Eligible for the Tourism and Hospitality Recovery Program at [https://www.canada.ca/en/department-finance/news/2021/11/types-of-business-eligible-for-the-tourism-and-hospitality-recovery-program.html](https://www.canada.ca/en/department-finance/news/2021/11/types-of-business-eligible-for-the-tourism-and-hospitality-recovery-program.html).

Last, even if the entity is a qualifying tourism or hospitality entity, it must have a sufficient revenue reduction percentage in respect of the qualifying period in order to qualify for that particular period. More specifically, the entity must have a revenue reduction percentage of at least 40% for the qualifying period.

Once it has been ascertained that an entity qualifies under this program, its base subsidy rate should be determined. The base subsidy rates for this stream are summarized in the table below.

## Wage Subsidy Base Rates under the Tourism and Hospitality Recovery Program

| Current-month revenue decline | Periods 22-26 (Oct. 24, 2021 – Mar. 12, 2022) | Periods 27-28 (Mar. 13 – May 7, 2022) |
|---|---|---|
| **75% and over** | 75% | 37.5% |
| **40-74%** | revenue reduction percentage e.g., 60% revenue decline = 60% subsidy rate | revenue reduction percentage ÷ 2 e.g., 60% revenue decline ÷ 2 = 30% subsidy rate |
| **0-39%** | 0% | 0% |

## Hardest-Hit Business Recovery Program

Organizations that experienced a severe decline in revenue since the pandemic began may be eligible for the Hardest-Hit Business Recovery Program. To qualify for under this program, the entity must have experienced an average monthly revenue reduction of at least 50% over the first 13 qualifying periods of the CEWS—this is called the "prior year revenue decline". The prior year revenue decline is the average of the percentage revenue declines for the first thirteen qualifying periods (either the 10th or 11th period is omitted from the calculation since they are identical amounts).

Second, to be eligible in a given qualifying period, the entity must experience a revenue reduction percentage in that period of at least 50%.

Once it has been ascertained that an entity qualifies under this program, its base subsidy rate can be determined. The base subsidy rates for this stream are summarized in the table below.

## Wage Subsidy Base Rates under the Hardest-Hit Business Recovery Program

| Current-month revenue decline | Periods 22-26 (Oct. 24, 2021 – Mar. 12, 2022) | Periods 27-28 (Mar. 13 – May 7, 2022) |
|---|---|---|
| **75% and over** | 50% | 25% |
| **50-74%** | 10% + (revenue decline – 50%) x 1.6 e.g., 10% + (60% revenue decline – 50%) x 1.6 = 26% subsidy rate | 5% + (revenue decline – 50%) x 0.8 e.g., 5% + (60% revenue decline – 50%) x 0.8 = 13% subsidy rate |
| **0-49%** | 0% | 0% |

## Local Lockdown Program

If an organization does not qualify for the wage and rent subsidies under the two programs discussed above, it still may qualify if it is subject to a local lockdown due to public health measures. On December 22, 2021, the federal government announced temporary changes to the program, but they had not been implemented at the time of writing. Accordingly, the discussion below reflects these proposed changes.

To qualify under this program, the entity must experience a "qualifying public health restriction" in the qualifying period. For this to be the case, one or more qualifying properties of the eligible entity — or of one or more specified tenants of the eligible entity — is subject to a "public health restriction" for at least seven days in the qualifying period. Also, it must be reasonable to conclude that at least approximately 25% of the qualifying revenues of the eligible entity — together with the qualifying revenues of any specified tenants of the eligible entity — for the prior reference period were derived from the restricted activities.

Generally, a capacity-limiting health restriction would not meet the criteria under the definition of a "public health restriction". Given the evolving Omicron variant situation, the government will expand the Local Lockdown Program such that an organization can qualify if:

- one or more of its locations is subject to a public health order that has the effect of reducing the entity's capacity at the location by 50 per cent or more, and
- activities restricted by the public health order accounted for at least 50 per cent of the entity's total qualifying revenues during the prior reference period.

If an entity qualifies for the wage and rent subsidies under the Local Lockdown Program, it is eligible for the same base rates as the previously discussed Tourism and Hospitality Recovery Program. However, for Periods 24 and 25 (December 19, 2021 – February 12, 2022), the proposed wage and rent subsidy rates under the Local Lockdown Program are slightly different and are outlined in the table below.

| Current-month revenue decline | Base Subsidy Rate |
|---|---|
| 75% and over | 75% |
| 25-74% | Revenue reduction percentage (e.g., 50% revenue decline = 50% subsidy rate) |
| 0-24% | 0% |

This proposed change to the rate structure effectively means that the minimum revenue decline required to access the Local Lockdown Program is temporarily reduced from 40% to 25%.

## New Wage Subsidy Restrictions

Bill C-2, which was recently enacted by Parliament, implemented most of the changes discussed in this article. However, before the bill was passed, the House of Commons Standing Committee on Finance made two notable amendments to the bill that will restrict access to the CEWS for publicly traded organizations.

First, a publicly traded company or a subsidiary of such a company is prohibited from receiving a payment under the wage subsidy, if in the qualifying period it paid taxable dividends to an individual who is a common shareholder of that company or the subsidiary.

Second, a rule that restricts executive compensation was amended. Initially, this rule effectively required a publicly traded entity to repay the wage subsidy to the extent that its executive compensation in the current year exceeded that of 2019. Now an entity must repay the wage subsidy to the extent of the amount of taxable dividends paid by the publicly traded company or its subsidiary to an individual who is a common shareholder. This amendment applies in respect of the twenty-fourth and subsequent qualifying periods.

## Rent Subsidy Eligibility and Rates

Bill C-2 extended the rent subsidy by adding the following qualifying periods:

- Period 15 (October 24, 2021 to November 20, 2021);
- Period 16 (November 21, 2021 to December 18, 2021);
- Period 17 (December 19, 2021 to January 15, 2022);
- Period 18 (January 16, 2022 to February 12, 2022);
- Period 19 (February 13, 2022 to March 12, 2022);
- Period 20 (March 13, 2022 to April 9, 2022); and
- Period 21 (April 10, 2022 to May 7, 2022).

As discussed previously, to access the rent subsidy in any of these periods, an entity must qualify under the Tourism and Hospitality Recovery Program, Hardest-Hit Business Recovery Program, or the Local Lockdown Program. The base subsidy rate continues to depend on the entity's revenue reduction percentage for the period. However, in Periods 15-21, the subsidy rate calculation also depends on the eligibility stream under which the entity qualified for the subsidy. The rate calculations are summarized in the tables below.

### Rent Subsidy Rates under the Tourism and Hospitality Recovery Program

| Current-month revenue decline | Periods 15-19 (Oct. 24, 2021 – Mar. 12, 2022) | Periods 20-21 (Mar. 13 – May 7, 2022) |
|---|---|---|
| **75% and over** | 75% | 37.5% |
| **40-74%** | revenue reduction percentage e.g., 60% revenue decline = 60% subsidy rate | revenue decline ÷ 2 e.g., 60% revenue decline ÷ 2 = 30% subsidy rate |
| **0-39%** | 0% | 0% |

### Rent Subsidy Rates under the Hardest-Hit Business Recovery Program

| Current-month revenue decline | Periods 15-19 (Oct. 24, 2021 – Mar. 12, 2022) | Periods 20-21 (Mar. 13 – May 7, 2022) |
|---|---|---|
| **75% and over** | 50% | 25% |
| **50-74%** | 10% + (revenue decline – 50%) x 1.6 e.g., 10% + (60% revenue decline – 50%) x 1.6 = 26% subsidy rate | 5% + (revenue decline – 50%) x 0.8 e.g., 5% + (60% revenue decline – 50%) x 0.8 = 13% subsidy rate |
| **0-49%** | 0% | 0% |

The Lockdown Support top-up percentage rate remains at 25% in Periods 15-21.

## Rent Expense Cap

When calculating the rent subsidy amount for a given period, an entity (plus any affiliated entities) cannot claim more than $300,000 in total qualifying rent expenses. Bill C-2 increased this limit to $1 million, effective October 24, 2021.

## CRHP Rate Increase

Bill C-2 increases the subsidy rate to 50%, effective from October 24 until the expiration of the program. The rate started at 50% when the program was introduced, but it has since declined to 30% in the period that ended on October 23.