

# NetWorth



## Canada's COVID-19 Economic Response Plan: Summary of Fiscal and Tax Measures to Support Canadians and Businesses

In response to the COVID-19 outbreak, on March 18, 2020 the federal government announced an initial economic proposal that included many significant fiscal and tax measures. Since this date, several of these measures have been enacted into law and additional measures proposed to boost the amount of support to Canadians and businesses<sup>1</sup>. The aid package includes a deferral of certain tax return filing deadlines, deferral of certain personal and corporate tax liabilities, a 25% reduction in the required 2020 RRIF minimum withdrawals and wage subsidies for Canadian businesses.

The following is a summary of select measures released to date (as of April 17, 2020):

### Individual Support for Canadians

**Canada Emergency Response Benefit ("CERB")** – The CERB replaces the previously announced Emergency Care Benefit and Emergency Support Benefit. This taxable benefit will provide eligible workers (including self-employed individuals and contract workers who would not otherwise be eligible for Employment Insurance), who have ceased working as a result of COVID-19, with \$2,000 per month for up to 4 months. Workers who are sick, quarantined or

### Let's connect

**Samuel Yau, CFP®, CIM, FCSI**  
Vice-President and Senior Investment Advisor

#300, 222 Baseline Road  
Sherwood Park, AB  
T8H 1S8

Tel: 780-417-8550  
Toll Free: 1-800-661-7423  
Fax: 780-417-8554

[samuel.yau@nbpcd.com](mailto:samuel.yau@nbpcd.com)  
[www.samuelyau.com](http://www.samuelyau.com)

taking care of family members sick with COVID-19; and working parents with children who require care due to school closures may also qualify. To be eligible under the current rules, a worker must reside in Canada; be at least 15 years old; have had income of at least \$5,000 in 2019 or in the 12 months prior to the application date; and have not quit their job voluntarily. Although applicants were originally required to be without employment or self-employment income for at least 14 consecutive days in the initial four week period, and have no employment income in the remaining benefit periods; the rules were recently relaxed to allow up to \$1,000 of income for a period of at least 14 consecutive days within the initial four week period of a claim, or \$1,000 in total for each subsequent claim.

**GST Tax Credit** – A one-time special payment by early May 2020, through the Goods and Services Tax credit (“GSTC”). This will double the maximum annual GSTC payment amounts for the 2019-20 benefit year. The average boost to income for those benefitting from this measure will be close to \$400 for single individuals and close to \$600 for couples.

**Canada Child Benefit (“CCB”)** – Proposal to increase the maximum annual Canada Child Benefit payment amounts, only for the 2019-20 benefit year, by \$300 per child. The overall increase for families receiving CCB will be approximately \$550 on average; these families will receive an extra \$300 per child as part of their May 2020 payment.

**Student Loans Relief** – A six-month, interest-free period on the repayment of Canada Student Loans for all individuals currently in the process of repaying these loans.



**RRIF Withdrawals** – In recognition of volatile market conditions and their impact on many seniors’ retirement savings, a reduction in the required minimum Registered Retirement Income Fund (“RRIF”)

withdrawals by 25% for 2020. Similar rules would apply to individuals receiving variable benefit payments under a defined contribution Registered Pension Plan. However, individuals who have already withdrawn more than the reduced 2020 minimum amount will not be permitted to re-contribute to their RRIFs an amount up to the 25% proposed reduction. In addition, tax will only be withheld if an individual withdraws more than their previous unreduced minimum amount for 2020.

**Flexibility/Deferrals for Taxpayers<sup>2</sup>** – Deferral of tax filing due dates for tax returns of individuals, including certain trusts, as follows:

- **Individuals:** The 2019 individual income tax return deadline will be deferred (from April 30) until June 1, 2020<sup>3,4</sup>. However, individuals entitled to a refund or those who expect to receive benefits under the GST or the Canada Child Benefit are encouraged not to delay the filing of their return.
- **Trusts:** For trusts having a taxation year ending on December 31, 2019 (including typical family trusts), the return filing due date will be deferred (from March 30) until May 1, 2020. For trusts that would otherwise have a filing due date in April or May, those return due dates have been extended to June 1, 2020.
- **Quebec Tax Filers:** Similarly, Quebec announced that it will extend the deadline for filing 2019 individual income tax returns to June 1, 2020<sup>3</sup>, and for trusts having a year end December 31, 2019 to May 1, 2020.
- **Deferral of Tax Balances Due:** Individuals will also be able to defer the payment of any income tax balance due on their 2019 income tax return from April 30, 2020 to September 1, 2020. Any instalment balances otherwise due on June 15, 2020 have also been extended to September 1, 2020. No interest or penalties will accumulate on these amounts during this period. Trusts that have an income tax balance due date or an income tax instalment payment due date on, or after March 18, and before September 1, 2020, will have their payment due date effectively extended to September 1, 2020.
- **Quebec Tax Filers:** To harmonize its practices with the federal measures, Quebec has also extended the deadline for final balances owing (including the June 15, 2020 instalment) for individual income tax liabilities for the 2019 tax year, to September 1, 2020. Trust tax balances owing on March 17, 2020 or later, can pay their balances by September 1, 2020.

### Support for Businesses

**Canada Emergency Wage Subsidy (“CEWS”)** – To support businesses facing revenue losses and to help prevent layoffs, the government is proposing a temporary 75% wage subsidy to eligible employers for a twelve week period, retroactive from March 15, 2020 to June 6, 2020. The subsidy would provide employers with 75% of an employee’s pre-crisis weekly earnings to a maximum of \$847 per week, with no limit on the amount that an eligible employer can claim. The employer would be expected, where possible, to maintain the employees’ full pre-crisis remuneration. In this regard, the government is also proposing that employers eligible for



the CEWS be entitled to receive a refund for certain employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan.

An eligible employer includes taxable corporations, individuals, registered charities and non-profit organizations. To qualify for the subsidy as originally announced, the eligible employer would be required to attest to a drop of at least 30% of their revenue over the same monthly period in 2019. However, the government recently proposed additional flexibility to allow employers to compare their revenue of March, April and May 2020 to that of the same month of 2019, or to an average of their revenue earned in January and February 2020. Furthermore, for March 2020 the government proposes to reduce the 30 per cent benchmark to 15 per cent, in recognition of the fact that many businesses did not begin to be affected by the crisis until partway through the month. **Note that the CEWS has not yet been formally enacted into law, so further amendments may be forthcoming. Please consult with your tax advisor for additional details.**

The CEWS does not replace the previously enacted 10% wage subsidy, which provides 10% of eligible remuneration paid during the three month period of March 18 to June 19, 2020 to a maximum of \$1,375 per employee and \$25,000 per employer. The 10% wage subsidy will still be available to those business that do not qualify for the CEWS, and where an employer is eligible for both subsidies, any amount claimed under the 10% subsidy for the period will generally reduce the amount available to the employer under the new Canada Emergency Wage Subsidy. Unlike the CEWS, which will be paid directly by the Canada Revenue Agency (“CRA”) once processed, this subsidy will enable employers to reduce their monthly payroll income tax remittances to the federal government. Both of these wage subsidies are considered government assistance and would therefore be included in the employer’s taxable income.

**Flexibility/Deferrals for Corporate Income Taxes**<sup>2</sup> – Corporations that would otherwise have a corporate income tax return due date after March 18 and before June 1, 2020, can defer filing their return until June 1, 2020. The CRA will also allow all businesses to defer, until September 1, 2020, the payment of any income tax amounts that become owing or due on, or after March 18, and before September 1, 2020. This relief would apply to tax balances due, as well as instalments<sup>5</sup>. No interest or penalties will accumulate on

these amounts in this period.

**Quebec Tax Filers:** For Quebec corporate filers, balances owing as of March 17, 2020 are deferred until September 1, 2020. Quebec has also extended the tax filing deadline (until June 1, 2020) to file the Déclaration de revenus des sociétés (CO-17) form, if the six month deadline following the corporation’s taxation year end would otherwise fall in the period between March 17, 2020 and May 31, 2020.

#### **Deferral of Sales Tax Remittance and Customs Duty Payments** –

The government is also allowing businesses, including self-employed individuals, to defer until June 30, 2020 payments of the GST/HST, as well as customs duty owing on their imports. Specifically, any GST/ HST payment that becomes owing from March 27 until the end of May can be deferred until the end of June<sup>6</sup>. For GST and customs duty payments for imported goods, deferral will include amounts owing for March, April and May. These amounts were otherwise due to be submitted as early as the end of March 2020.

**Canada Emergency Business Account** – To assist small businesses in accessing capital, the federal government also announced the launch of several new loan programs for businesses, including the new “Canada Emergency Business Account,” which will be implemented by eligible financial institutions in cooperation with Export Development Canada (“EDC”).

This \$25 billion program will provide interest-free loans of up to \$40,000 to small businesses and not-for-profits, to help cover their operating costs during a period when their revenues have been temporarily reduced, due to the economic impacts of the COVID-19 virus. To qualify, these organizations will need to demonstrate they paid between \$20,000 to \$1.5 million in total payroll in 2019. Repaying the balance of the loan on, or before, December 31, 2022 will result in loan forgiveness of 25 percent (up to \$10,000).

Note that certain measures introduced are only proposals at this stage and may be amended before receiving Royal Assent to be formally enacted into law. Readers are cautioned to consult with their tax, legal and/or other advisors for the most current and specific advice on how they may be affected by these proposals.

#### Footnotes:

<sup>1</sup> For a complete review of these measures and additional announcements released, please see the following link from the Department of Finance:

<https://www.canada.ca/en/department-finance/economic-response-plan.html>

For a summary of relief provided by Revenu Québec, please see the following link:

[https://www.revenuquebec.ca/en/covid-19-faq/?no\\_cache=1](https://www.revenuquebec.ca/en/covid-19-faq/?no_cache=1)

<sup>2</sup> For a list of updated federal tax deadlines, please see the following link to the CRA’s website: <https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-filing-payment-dates.html>

<sup>3</sup> For self-employed individuals, the filing deadline remains at June 15, 2020.

<sup>4</sup> The filing deadline for an individual’s 2019 T1135 – Foreign Income Verification Statement has also been extended to June 1, 2020.

<sup>5</sup> Under Part I of the Income Tax Act.

<sup>6</sup> A formal extension for filing GST/HST returns has not been provided. Those who are able to should file their GST/HST returns on time, however CRA has indicated it would not impose penalties where a return is filed late provided that it is filed by June 30, 2020.

# Interest Income vs. Eligible Dividends – 2020 Multipliers at Top Marginal Tax Rates

Investors often choose to earn dividend income because of the preferential tax treatment provided by the dividend tax credit.

The table below provides the **2020 top marginal tax rates** by province, and the ‘multiplier’ which equalizes interest income to eligible dividend income. The top rates apply to taxable incomes over **\$214,368**, with the exception of the following thresholds: **\$220,000** in Ontario and British Columbia; **\$314,928** in Alberta; and **\$500,000** in Yukon.

The ‘multiplier’ column calculates the additional amount of interest income that would have to be earned by an individual resident in each province (subject to tax at the top marginal rates for 2020) to

equate this after-tax interest income to the amount of after-tax income retained from earning eligible dividend income.

For example:

In 2020, for an individual resident in Alberta, eligible dividends are taxed at an effective top marginal rate of **31.71%**; whereas interest is taxed at the top individual rate of **48.00%**. Accordingly, an Alberta investor would have to earn approximately \$1.3132 of interest income for each dollar of eligible dividend income to be in the same after-tax position, calculated as follows:

- **\$1,313.27** interest income x 0.48 = \$630.37 tax, leaving \$682.90 in after tax income (i.e., \$1,313.27 – \$630.37)
- **\$1,000** eligible dividends x 0.3171 = \$317.10 tax, leaving \$682.90 in after-tax income (i.e., \$1,000 – \$317.10)

Interest Income vs. Eligible Dividends			
Province	Top Personal Marginal Tax Rates*		Multiplier
	Interest & Ordinary Income	Eligible Canadian Dividends	
Alberta	48.00%	31.71%	1.3132
British Columbia	53.50%	36.54%	1.3647
Manitoba	50.40%	37.78%	1.2544
New Brunswick	53.30%	33.51%	1.4238
Newfoundland and Labrador	51.30%	42.61%	1.1784
Northwest Territories	47.05%	28.33%	1.3535
Nova Scotia	54.00%	41.58%	1.2700
Nunavut	44.50%	33.08%	1.2058
Ontario	53.53%	39.34%	1.3054
Prince Edward Island	51.37%	34.22%	1.3527
Quebec	53.31%	40.11%	1.2827
Saskatchewan	47.50%	29.64%	1.3402
Yukon	48.00%	28.92%	1.3667

\*The table above reflects rates based on provincial budget proposals released as of March 2020.



This publication is for informational purposes only and is not and should not be construed as professional advice to any individual. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The information contained in this publication is based on material believed to be reliable, but BMO Wealth Management cannot guarantee the information is accurate or complete. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances. ® "BMO (M-bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. BMO Wealth Management is a brand name that refers to Bank of Montreal and certain of its affiliates in providing wealth management products and services. Not all products and services are offered by all legal entities within BMO Wealth Management. ® "BMO Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a wholly-owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Wealth Management. FT5/2020