Update on Canada's COVID-19 Economic Response Plan

Summary of Federal 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 measures have been enacted into law and additional measures proposed to boost the amount of support to Canadians and businesses.[1] The aid package includes a deferral of certain tax return filing deadlines, deferral of certain personal and corporate tax liabilities, a 25% reduction in required 2020 RRIF minimum withdrawals and wage subsidies for Canadian businesses.

The following is a summary of select measures released to date:

Individual Support for Canadians

Canada Emergency Response Benefit (CERB) – The CERB provides eligible workers (including self-employed individuals), who have ceased working as a result of COVID-19, with temporary income support of $500 per week. Originally provided for a period of up to 16 weeks, the maximum payout was recently increased to 24 weeks. Workers who are sick, quarantined or 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. Applicants are allowed to earn 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. The CERB is available from March 15 to October 3, 2020 with applications due no later than December 2, 2020 (for payments retroactive to within that period). The CERB is taxable and therefore will be reported as income when filing a 2020 income tax return.

GST Tax Credit – A one-time special payment through the Goods and Services Tax Credit (GSTC) was provided for low and modest income families. The average increase in this benefit is approximately $400 for single individuals and $600 for couples.

Canada Child Benefit (CCB) – The Federal government increased the maximum annual Canada Child Benefit (CCB) payment amounts, for the 2019-20 benefit year only, by $300 per child, which was delivered as part of the May 2020 payment.

Student Loans Relief – All student loan borrowers will automatically have their loan repayments suspended until September 30, 2020, and interest will not be charged on these loans from March 30 to September 30, 2020. This moratorium applies to the Federal portion of student loans. Borrowers should check with their provincial or territorial student loan provider to see if payment is required on the provincial or territorial portion.

Canada Emergency Student Benefit (CESB) – The Canada Emergency Student Benefit (CESB), provides income support to post-secondary students who have lost work opportunities due to COVID-19.

Through the CESB, eligible students who are not receiving the CERB would receive $1,250 per month for up to four months (May to August 2020) or up to $2,000 per month to students with disabilities or dependents. The CESB is available to students who are currently enrolled in a post-secondary education program, as well as recent graduates and high-school graduates who will begin a post-secondary program in the coming months.

The CESB is being delivered by the Canada Revenue Agency. Applicants will have to attest that, as a result of COVID-19, they are unable to work, or are actively seeking work but are unable to find employment, or are currently working but do not earn more than $1,000 (pre-tax) over the four-week period for which they are applying.

The CESB is taxable, and therefore a T4A tax slip will be issued for recipients to include in their 2020 income tax return.

RRIF Withdrawals – In recognition of volatile market conditions and their impact on many seniors' retirement savings, the required minimum Registered Retirement Income Fund (RRIF) withdrawals have been reduced by 25% for 2020. Similar rules 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 any portion of the 25% reduction to their RRIFs. In addition, tax will only be withheld if

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an individual withdraws more than their previous unreduced minimum amount for 2020.[2]

**One-time Tax-free Payment for Seniors and Disabled Individuals – ** To help seniors cover increased costs caused by COVID-19, the Federal government provided a one-time, tax-free payment of $300 for seniors eligible for the Old Age Security (OAS) pension, with an additional $200 provided for seniors eligible for the Guaranteed Income Supplement (GIS). These payments were made in early July automatically through direct deposit or cheque to seniors who were eligible to receive the OAS or GIS pensions in June 2020. The one-time payment is non-taxable, and therefore no tax slip will be issued as these amounts do not have to be reported on a 2020 tax return.

The Federal government also recently introduced a special one-time, non-taxable and non-reportable payment of $600 to persons with disabilities. This includes the following eligible individuals who:

- Are holders of a valid Disability Tax Credit certificate (eligible persons not yet in possession of such a certificate would be able to apply for one up to 60 days after Royal Assent to be considered for the one-time payment);
- Currently receive Canada Pension Plan disability benefits or Quebec Pension Plan disability benefits; or
- Are in receipt of disability supports provided by Veterans Affairs Canada.

Seniors eligible for this one-time payment to persons with disabilities who are also eligible for the above OAS pension and/or the GIS lump-sum payment will have this $600 payment reduced accordingly.

Flexibility/Deferrals for Taxpayers[3] – Deferral of tax filing due dates for tax returns of individuals, including certain trusts, as follows:

- Individuals: The 2019 individual income tax return deadline was deferred (from April 30) until June 1, 2020.[4] However, the CRA announced recently that late-filing penalties or interest will not be applied if 2019 individual (T1) income tax returns are filed and payments are made prior to September 30, 2020 (see commentary below regarding the deferral of tax balances due). 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 was deferred (from March 30) until May 1, 2020. For trusts that would otherwise have a filing due date after March 30 and before May 31, those return due dates were also extended to June 1, 2020. In addition, the deadline for the filing of trust returns has been extended to September 1, 2020, for trusts that would otherwise have a filing due date on May 31 or in June, July, or August 2020.

- *Quebec Tax Filers:* Similarly, Quebec extended the deadline for filing 2019 individual income tax returns to June 1, 2020.[4] Similar to the CRA, Quebec also recently announced that a late-filing penalty will not be charged if the personal income tax return is filed by September 30, 2020, since the deadline for paying an income tax balance has been postponed to September 30, 2020 (see below). However, individuals anticipating a refund are encouraged to file their income tax return promptly. As above, the filing deadline for the Quebec trust income tax or information return of a trust whose taxation year ended on December 31, 2019, was extended to May 1, 2020. In addition, the filing deadlines for trusts with a taxation year end within the period from January 1 to March 1, 2020, was extended to June 1, 2020, and the filing deadline for a trust with a year-end that falls between the period of March 2 to June 2, 2020, has been extended to September 1, 2020.

- Deferral of tax balances due[5]: Individuals will now be able to defer the payment of any income tax balance due on their 2019 income tax return from April 30 to September 30, 2020. Any instalment balances otherwise due on June 15, 2020 or September 15, 2020 have also been extended to September 30, 2020. 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 30, 2020, will have their payment due date effectively extended to September 30, 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 and September 15, 2020 instalment payments) for individual income tax liabilities for the 2019 tax year, to September 30, 2020. The deadlines for paying income tax related to the 2019 income tax return for trusts (otherwise due between March 17 and March 30, 2020) and for income tax related to the 2020 return for trusts (for amounts due before September 30, 2020) have also been extended to September 30, 2020, including instalment payments normally due on June 15 and September 15.

Support for Businesses

Canada Emergency Wage Subsidy (CEWS) – To support businesses facing revenue losses and to help prevent layoffs, the Federal government introduced a temporary wage subsidy for eligible employers. The CEWS was originally provided for a twelve-week period, (from March 15 to June 6, 2020), but was subsequently extended for a further twelve-week period to August 29, 2020, and was recently extended again to December 19, 2020. The original subsidy provided 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.

An eligible employer includes taxable corporations and trusts, individuals, registered charities, non-profit organizations and certain other employers, including partnerships, affected by the COVID-19 pandemic. To qualify for the subsidy as originally announced, the eligible employer was required to attest to a drop of at least 30% of their revenue over the same monthly period in 2019 or to an average of revenue earned in January and February 2020 (or 15% for March 2020, in recognition of the fact that many businesses did not begin to be affected by the crisis until partway through March).

In mid-July, the Government announced increased funding (to $83.6B) and changes to the implementation of the CEWS (for periods that begin July 5 and thereafter) that will broaden the reach of the program and provide better targeted support. In recognition of many employer's concerns that the original 30% revenue decline test is too stringent and that businesses that experience revenue drops of less than this amount may still be heavily affected by the pandemic, the subsidy will become accessible to a broader range of employers, by including employers with a revenue decline of less than 30%. Specifically, the CEWS will now be available to any qualifying employer which has experienced any level of reduction in revenue, by providing a base subsidy proportional to the employer's revenue declines experienced as a result of the COVID-19 pandemic. In addition to this base subsidy, the Federal government has also introduced a top-up subsidy of up to a further 25% for employers that have been most adversely affected by the pandemic, to specifically assist employers in industries that are recovering more slowly. As a means of phasing-out the CEWS, the amount of subsidies provided will gradually decline over time until its planned wind-up in December 2020.

The CEWS does not replace the previously enacted temporary 10% wage subsidy, which provided 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 is still 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 Canada Emergency Wage Subsidy. Unlike the CEWS, which is paid directly by the CRA once processed, this subsidy enables employers to reduce their monthly payroll income tax remittances to the Federal government. Both of these wage subsidies are considered government assistance and will therefore be included in the employer's taxable income.

Canada Emergency Commercial Rent Assistance (CECRA) – In partnership with the provinces and territories, the Federal government announced the CECRA program to provide forgivable loans to commercial property owners who, in turn, will lower or forgo the rent of small businesses. Originally introduced for the months of April, May, and June 2020, the CECRA program was recently extended to include July 2020. This program will lower rent by 75% for small businesses that have been affected by COVID-19.

Specifically, the program will provide forgivable loans to qualifying commercial property owners to cover 50% of monthly rent payments that are payable by eligible small business tenants who experience financial hardship during April, May, June, and July 2020. The loans will be forgiven if the mortgaged property owner agrees to reduce the small business tenant's rent by at least 75% under a rent forgiveness agreement, which will include a term not to evict the tenant while the agreement is in place. The small business tenant would cover the remainder, up to 25% of the rent.

Impacted small business tenants are businesses that are generating no more than $20 million in gross annual revenues (calculated on a consolidated basis), paying less than $50,000 per month in rent and who have temporarily ceased operations or have experienced at least a 70% drop from pre-COVID-19 revenues on average for April, May and June 2020. Those who qualified for the CECRA based on the original program parameters will be able to apply for the additional one month without reassessing whether they continue to have a 70% revenue decline in July. This support will also be available to non-profit and charitable organizations.

Flexibility/Deferrals for Corporate Income Taxes[5] – Corporations that would otherwise have had a corporate income tax return due date after March 18 and before May 31, 2020, were able to defer filing their return until June 1, 2020. In addition, the government extended the corporate tax return filing deadline to September 1 for corporations that would otherwise have a filing deadline on May 31, or in June, July, or August 2020. This extension (to September 1) also applies to forms T106 and T1135, and any elections, forms and schedules that must be filed with the return. The Canada Revenue Agency recently announced that it is extending until September 30, 2020, the payment of any income tax amounts that become owing or due on, or after, March 18 and before September 30, 2020. This relief would apply to tax balances due, as well as instalments.[6]

Quebec Tax Filers: Quebec 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 and May 30, 2020. If that deadline falls in the period from May 31 to August 31, 2020, those corporations have until September 1, 2020, to file the return. However, it was recently announced that Quebec corporate tax balances due (including instalments) between March 17 and September 29, 2020 will now be deferred until September 30, 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 is being implemented by eligible financial institutions in cooperation with Export Development Canada (EDC).

This $55 billion program provides interest-free loans of up to $40,000 to small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced, due to the economic impacts of the COVID-19 virus. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25% (up to $10,000).

To qualify, these organizations will need to demonstrate they paid between $20,000 to $1.5 million in total payroll in 2019. However, the program was recently extended to encompass businesses that are sole proprietors that receive income directly, businesses that rely on contractors, and family-owned corporations that pay employees through dividends rather than payroll. Specifically, applicants with $20,000 or less in total employment income paid in the 2019 calendar year can also qualify if the borrower has a CRA business number and has filed a 2018 or 2019 tax return, and has eligible non-deferrable expenses between $40,000 and $1,500,000 (such as rent, property taxes, utilities, and insurance).

The Large Employer Emergency Financing Facility (LEEFF) – This program was instituted by the Government of Canada to provide short-term liquidity assistance in the form of interest-bearing term loans to large Canadian employers who have been affected by the COVID-19 outbreak. The intent of LEEFF is to provide bridge financing to large Canadian employers to help these enterprises to preserve their employment, operations and investment activities until they can access more traditional market financing.

Companies seeking support must commit to minimizing the loss of employment and sustaining their domestic business activities, and must demonstrate that funding under LEEFF forms part of their overall plan to return to financial stability. Borrowers will be subject to certain operating requirements and affirmative covenants while the loan is outstanding, including publishing an annual climate-related financial disclosure report. Borrowers must also grant the government the option to take an ownership stake, or provide a cash equivalent.

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. The Federal government is also regularly introducing additional measures and refining or providing further details to existing measures. Accordingly, 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 measures.

Please contact your BMO financial professional for more details.

BMO Wealth Management

[1] 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

[2] Please contact your BMO financial professional for further information, including any potential reduced withdrawals and withholding tax implications applicable to your situation, and/or to take advantage of this reduced RRIF minimum withdrawal amount for 2020.

[3] 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

[4] For self-employed individuals, the filing deadline remains at June 15, 2020.

[5] On a related note, the CRA also recently announced that it is waiving interest on existing tax debts related to individual, corporate, and trust income tax returns from April 1, 2020, to September 30, 2020 and from April 1, 2020, to June 30, 2020, for goods and services tax/harmonized sales tax (GST/HST) returns. While this measure for existing tax debts does not cancel penalties and interest already assessed on a taxpayer's account prior to this period, it ensures that a taxpayer's existing tax debt does not continue to grow through interest charges during this time.

[6] Under Part I of the Income Tax Act.

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