

Update on Canada's COVID-19 Economic Response Plan

March 15, 2021

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 businesses¹. The initial aid package included the deferral of certain tax return filing deadlines and personal and corporate tax liabilities in 2020, a 25% reduction in required 2020 RRIF minimum withdrawals and rent and wage subsidies for Canadian businesses.

The following is a summary of select Federal measures released to date, with a specific focus on those measures that continue to apply for 2021.

Individual Support for Canadians

Canada Emergency Response Benefit ("CERB") – The CERB provided eligible workers (including self-employed individuals²), who ceased working as a result of COVID-19, with temporary income support of \$500 per week (to a maximum of 28 weeks). Workers who were sick, quarantined or took care of family members sick with COVID-19; and working parents with children who required care due to school closures also qualified. The CERB was available from March 15 to September 26, 2020; however, applications were accepted until December 2, 2020 (for retroactive payments within the above periods). The CERB is taxable and therefore will be reported as income when filing a 2020 income tax return.

As the CERB program has now ended, the Federal government announced transitional measures for CERB recipients, including a more flexible and generous Employment Insurance ("EI") program. With these changes, EI is now available to more Canadians, including many who would not have qualified for EI in the past. As part of these enhancements, EI recipients are eligible for a taxable benefit of at least \$500 per week (or \$300 per week for extended parental benefits). The Federal government also recently proposed to increase the number of weeks of EI regular benefits available by up to 24 weeks, to a maximum of 50 weeks, for claims that are made between September 27, 2020 and September 25, 2021.

In addition, for further support required as a result of the wind-up of the CERB (particularly for those not eligible for EI benefits), the Federal government introduced the following three new benefits which became effective beginning September 27, 2020 until September 25, 2021:

i. Canada Recovery Benefit ("CRB") – The Canada Recovery Benefit provides eligible workers with \$500 per week (payable in two-week periods of \$1,000, net \$900 after 10% tax deducted at source), for those not eligible for EI and who are not employed or self-employed due to COVID-19, or had their employment/self-employment income reduced by at least 50% due to COVID-19. Although the benefit was originally provided to a maximum of 26 weeks, the Federal government has recently proposed to extend the maximum duration of the CRB to 38 weeks. Recipients must actively seek work during the period, either as an employee or in self-employment, and cannot turn down reasonable work. Unlike the CERB, it is possible to earn significant employment or self-employment income while receiving the CRB, as the CRB has an income threshold of \$38,000. Moreover, recipients will have to reimburse \$0.50 for every dollar of net income earned above \$38,000, which is (re)payable on their income tax return for that year (2020 or 2021); however, the reimbursement is limited to the benefit amount received for that year.

ii. Canada Recovery Caregiving Benefit ("CRCB") – The Canada Recovery Caregiving Benefit provides \$500 per week (payable in one-week periods of \$500, net \$450 after 10% tax deducted at source), per household for workers unable to work for at least 50% of the week because they must care (at home) for a child under the age of 12 or a family member who requires supervised care, because schools, day-cares or care facilities are closed due to COVID-19, or because the child or family member is sick and/or required to quarantine or is at high risk of serious health implications because of COVID-19. Although the benefit was originally provided to a maximum of 26 weeks, the Federal government has recently proposed to extend the maximum duration of the CRCB to 38 weeks.

iii. Canada Recovery Sickness Benefit ("CRSB") – The Canada Recovery Sickness Benefit provides \$500 per week (payable in one-week periods of \$500, net \$450 after 10% tax deducted at source), for workers who are unable to work for at least 50% of the week because they contracted COVID-19, self-isolated for reasons related to COVID-19, or have underlying conditions, are undergoing treatments or have contracted other sicknesses that, in the opinion of certain qualified authorities, would make them more susceptible to COVID-19. Although the benefit was originally provided for a maximum of 2 weeks, the Federal government has recently proposed to extend the maximum duration of the CRSB to 4 weeks.

As noted above, 10% of each of these benefits will be withheld at source as income tax, since these payments are considered taxable income. However, further tax may be due upon filing a personal income tax return, depending on the marginal tax rate of the recipient in the year received. The Canada Revenue Agency ("CRA") will provide recipients with a T4A tax slip at tax time, for the amounts received from each of these CRA-administered COVID-19 benefits.

Finally, the Federal government announced recently that it has proposed changes to the eligibility criteria that would deny individuals who travelled internationally from claiming these benefits, applicable to eligibility periods starting on, or after January 3, 2021.

Canada Emergency Student Benefit ("CESB") – The CESB provided financial support to post-secondary students and recent post-secondary and high school graduates who were unable to find work due to COVID-19. Applicants received \$1,250 for a 4-week period, for a maximum of 16 weeks, between May 10 and August 29, 2020. Applicants were also eligible to receive an extra \$750 (total benefit amount of \$2,000) for each 4-week period, if they had a disability or dependants. The CESB closed to applications on September 30, 2020.

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

Flexibility/Deferrals for Taxpayers³ – The Federal government announced recently that it will provide targeted interest relief to certain Canadians who received COVID-related income support benefits. Once qualified individuals have filed their 2020 income tax and benefit return, they will not be required to pay interest on any outstanding income tax debt for the 2020 tax year until April 30, 2022.

To qualify for targeted interest relief, individuals must have had a total taxable income of \$75,000 or less in 2020, and have received COVID-19 income support in 2020 through one or more

of the CERB, CESB, CRB, CRCB, CRSB, EI or similar provincial emergency benefits. The CRA will automatically apply the interest relief measure for individuals who meet these criteria provided they have filed their 2020 personal tax return. The Quebec government also announced similar relief for Quebec provincial income tax balances for individuals who received the aforementioned COVID-19 income supports – or the provincial Incentive Program to Retain Essential Workers ("IPREW") – and earned a total taxable income of \$75,000 or less in 2020. Despite the interest relief, individuals will need to file their 2020 personal income tax return(s) by the deadlines (generally April 30 or June 15 for self-employed individuals) to avoid potential late-filing penalties, which remain assessable.

Additionally, any CRA-administered credits and benefits normally paid monthly or quarterly, such as the Canada Child Benefit and the goods and services tax/harmonized sales tax credit, will not be applied to reduce individuals' tax debt owing for the 2020 tax year.

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 to December 19, 2020, and more recently extended to June 2021. The original subsidy provided employers with 75% of an employee's pre-crisis weekly earnings, to a maximum of \$847 per week (based on a maximum weekly benefit of \$1,129 per employee).

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 pandemic until partway through that month).

In mid-July 2020, the Federal government announced increased funding and changes to the implementation of the CEWS (for periods that began July 5, 2020 and thereafter) to broaden the reach of the program and provide better targeted support. In recognition of many employers' concerns that the original 30% revenue decline test was too stringent and that businesses that experienced revenue drops of less than this amount may still be heavily affected by the pandemic, the subsidy became accessible

to a broader range of employers, including employers with a revenue decline of less than 30%. Specifically, the CEWS is now available to any qualifying employer which has experienced any level of reduction in revenue, through 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, a top-up subsidy was introduced, providing 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 gradually phasing out the CEWS, the amount of subsidies provided were to gradually decline over time, however, the Federal government subsequently announced that the subsidy rate would remain constant until December 19, 2020 (up to a maximum base subsidy rate of 40%, and a maximum top-up subsidy rate of 25%, for an aggregate maximum of 65%). However, in light of the expected economic impact of the second wave of the pandemic, the Federal government subsequently increased the maximum subsidy rate to 75% for the period beginning December 20, 2020, and extended this rate until March 13, 2021, to provide greater certainty to employers. In early March 2021, the government further extended the CEWS under the current rates until June 5, 2021. Specifically, the maximum base subsidy will remain at 40% and the maximum top-up wage subsidy rate will remain at 35% during this timeframe, for a maximum combined wage subsidy rate of 75%.

The CEWS (and the previously enacted temporary 10% wage subsidy⁴), are both considered government assistance and will therefore be included in the employer's taxable income.

Canada Emergency Rent Subsidy ("CERS") – The Canada Emergency Rent Subsidy replaced the previous Canada Emergency Commercial Rent Assistance ("CECRA") program, which provided forgivable loans to commercial property owners who, in turn, would lower or forgo the rent of small businesses. The CERS seeks to deliver direct, targeted, and accessible rent support to qualifying organizations affected by COVID-19 without the need to work through their landlords. The CERS, which mirrors the CEWS eligibility criteria and calculations, provides a subsidy for eligible fixed property expenses, including rent and interest on commercial mortgages.

Specifically, the CERS supports businesses, charities, and non-profits that have suffered a revenue drop, by subsidizing a percentage of their expenses on a sliding scale, up to a maximum of 65% of eligible expenses. The aggregate expenses eligible for this base subsidy rate are capped at \$75,000 per location (with an overall expense cap of \$300,000 to be shared amongst affiliated entities).

A top-up of 25% (applied to a maximum of \$75,000 of expenses per location, with no overall cap) is provided for organizations temporarily shut down by a mandatory public health order issued by a qualifying public health authority, in addition to the 65% subsidy. Combined with the other support received under the CERS, this means that the most affected businesses could receive a rent subsidy of up to 90%.

As originally announced, the CERS, including the Lockdown Support, would be available until June 2021, with the 65% base subsidy and 25% top-up rates provided until December 19, 2020. However, to provide greater certainty to businesses and other organizations, the Federal government subsequently announced that it will extend these subsidy rates on eligible expenses until March 13, 2021. In early March 2021, the government further extended the CERS under the current rates (i.e., maximum rent support of 90%) until June 5, 2021. A separate application is required for each eligible claim period and must be filed no later than 180 days after the end of the claim period.

Canada Emergency Business Account ("CEBA") – To assist small businesses in accessing capital, the Federal government launched several new loan programs for businesses, including the CEBA which is being implemented by eligible financial institutions in cooperation with Export Development Canada ("EDC").

As originally introduced, the CEBA program provided 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 pandemic. Repaying the balance of the loan on, or before December 31, 2022 will result in loan forgiveness of 25% (up to \$10,000). The CRA has confirmed that this forgivable portion is taxable in the year in which the loan is received.

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 subsequently extended to encompass businesses (such as sole proprietors) with \$20,000 or less in total employment income paid in 2019, 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).

However, the Federal government subsequently announced access to a further interest-free loan of up to \$20,000, in addition to the original CEBA loan of \$40,000, which will be available to all eligible previous and new CEBA applicants. Half of this additional financing would be forgivable if repaid by

December 31, 2022. Accordingly, the aggregate amount of CEBA loans is now \$60,000 for eligible businesses, of which a total of \$20,000 will be forgiven if the balance of the loan is repaid by December 31, 2022. Applicants can apply for a \$60,000 CEBA loan or the \$20,000 expansion, until March 31, 2021.

Support for Highly Affected Sectors – In its 2020 Fall Economic Statement, the Federal government announced that it will work with financial institutions to create the Highly Affected Sectors Credit Availability Program (“HASCAP”) – a new program for the hardest hit businesses, such as tourism and hospitality, hotels, arts and entertainment.

In late January 2021, the government released further details on the HASCAP, announcing that the program will be administered by the Business Development Bank of Canada (“BDC”) through participating Canadian financial institutions. Specifically, the BDC has been mandated to provide a guarantee to participating financial institutions for 100% of the value of the HASCAP loans, to help affected businesses access additional liquidity and cover operating costs through low-interest loans ranging from \$25,000 to \$1 million to qualifying businesses, with repayment terms of up to 10 years, and up to a 12-month postponement on principal repayments at the start of the loan.

The HASCAP is available to businesses in all sectors that have been hit hard by the pandemic. Specifically, eligibility requires that Canadian-based businesses were financially stable and viable pre-COVID, but must have received payments from (or applied to) either the CEWS program or the CERS program by having demonstrated a minimum 50% revenue decline for at least three months (not necessarily consecutive) within the eight-month period prior to the date of a HASCAP Guarantee application. The loans are intended to be used to continue or resume operations and cannot be used to pay or refinance existing debt. This HASCAP Guarantee is available until June 30, 2021.

Simplifying the Home Office Expense Deduction

As a result of COVID-19, many Canadians are unexpectedly working from home. Although the existing tax legislation allows individuals working from home to deduct certain home office expenses, many first-time claimants may not be familiar with the rules, and the claim process may impose an administrative burden on employers.

To simplify the process for both taxpayers and businesses, the CRA will allow employees with modest expenses as a result of working from home in 2020 due to COVID-19, to claim an amount of up to \$400 without the need to track detailed expenses. The allowable amount will be based on the amount of time spent working from home and will generally not require a signed form from their employer. Further details were announced by the CRA in late 2020, which are outlined in our publication, *Claiming Home Office Expenses on Your 2020 Personal Income Tax Return*.

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.

For more information, speak with your BMO financial professional.



- 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 In early February 2021, the Federal government announced that self-employed individuals who applied for the CERB and would have qualified based on their gross (versus net) income will not be required to repay the benefit, provided they also met all other eligibility requirements. In addition, the government announced that those self-employed individuals whose net self-employment income was less than \$5,000 who had already voluntarily repaid the CERB, will have these amounts returned to them.
- 3 For a list of current Federal tax deadlines for the 2020 tax year, 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 This separate wage subsidy, available to businesses that did not qualify for the CEWS, 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.

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