

August 13, 2020

NEW - CEWS Eligibility & Calculation Guidelines

Along with the July 17 announcement of the updates to the Canadian Emergency Wage Subsidy program came a lot of questions from clients and others in the industry. The purpose of CEWS is to enable you to re-hire workers, help prevent further job losses, and ease you back into normal operations. Though the subsidy has been expanded to be more inclusive to employers who have seen a revenue drop under 30%, it has also developed additional complexity that may make calculations more difficult.

The following guide breaks down the different elements of the changes to the subsidy program to help you understand how to determine your eligibility and calculate your subsidy under the new rules.

Warning: this is complicated and detail-heavy! Please read this carefully, and read it more than once!

Need help? Contact us at info@youngassociates.ca.

New to CEWS?

Now that companies can apply for CEWS support for a revenue drop as small as 1%, many additional organizations will be able to apply. In order to make your application for the current and future CEWS periods, you will need to have calculated your revenues for the past 3 months.

If you have already been applying for the subsidy, you're ready to move forward with period 5 calculations.

Safe Harbour Rule

The Safe Harbour Rule for Periods 5 and 6 (July 5 - August 29) allows employers who experience at least a 30% revenue drop in Periods 5 and 6 to continue to receive a subsidy rate of no less than 75%.

The new rules also open CEWS eligibility to more companies, as you will see below.

Periods 5 and 6 have distinct rules

The CRA has just released a [calculator](#) to aid in calculating your subsidy claim for Periods 5 and 6. However, you still need to calculate your revenue drop, which is needed to determine your subsidy rate.

There are 3 potential scenarios for Periods 5 and 6:

- If an employer has seen a revenue drop of between 1%-30%, they are entitled to the CEWS for Periods 5 and 6 using the new base subsidy rate, as seen in the “Base Subsidy” section below.
- If an employer has seen a revenue drop of 30% or more, they are entitled to a wage subsidy rate of no less than 75% for Periods 5 and 6. (*Safe Harbour Rule*)
- If an employer has seen a revenue drop of 50% or more in the current month, they are entitled to the maximum base subsidy rate of 60%. If an employer has seen a revenue decline of more than 50% over the past 3 months, they are entitled to an additional top-up subsidy of up to 25% on a sliding scale, as shown in the “Top-Up Subsidy” section below.
 - Note that, according to the Safe Harbour Rule for Periods 5 and 6, if the maximum base subsidy rate plus the top-up subsidy rate equals less than 75%, you still qualify for a 75% wage subsidy rate.

Rules for Periods 7, 8, 9 and 10

Periods 7, 8 and 9 take us to November 21. The following sections on base and top-up subsidy will walk you through the rules as they currently exist.

No rules have yet been announced for Period 10, which takes us to December 19. The government has confirmed the program to December 19, but the rules announced to date cover only to the end of Period 9.

The new deadline to apply for the CEWS has been extended to the end of January 2021.

It's important to note that the rules may change again. However, for budgeting purposes, this is the best information available. See the section on budgeting below.

Base Subsidy

Once you have calculated your revenues for the past 3 months, use the [CRA's calculator](#) for Periods 5 and 6.

The CEWS has been split into a base subsidy amount and a top-up amount. The base subsidy rate decreases with each CEWS period, starting with a 60% maximum in Period 5 and decreasing to 20% maximum in Period 9. Organizations who have experienced **any** drop in revenue will be eligible for the wage subsidy under the new conditions. The CEWS rate varies in accordance with the organization's revenue drop.

The following table summarizes the key details for each period:

	Period 5: Jul 5 – Aug 1	Period 6: Aug 2 – Aug 29	Period 7: Aug 30 – Sep 26	Period 8: Sep 27 – Oct 24	Period 9: Oct 25 – Nov 21
Maximum weekly benefit per employee	Up to \$677	Up to \$677	Up to \$565	Up to \$452	Up to \$226
Revenue drop: 50% and over	60% Maximum base subsidy rate	60% Maximum base subsidy rate	50% Maximum base subsidy rate	40% Maximum base subsidy rate	20% Maximum base subsidy rate
Revenue drop: 0% to 49%	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.2 x revenue drop (e.g., 1.2 x 20% revenue drop = 24% base CEWS rate)	1.0 x revenue drop (e.g., 1.0 x 20% revenue drop = 20% base CEWS rate)	0.8 x revenue drop (e.g., 0.8 x 20% revenue drop = 16% base CEWS rate)	0.4 x revenue drop (e.g., 0.4 x 20% revenue drop = 8% base CEWS rate)

Table 1

To determine revenues, you may choose between two calculation methods. The **general method** compares one of the eligible months in a period in 2020 to its 2019 counterpart. The **alternative method** compares one of the eligible months in a period to 2020 Jan-Feb average revenue.

If you qualify for Periods 1 through 4, these methods will be familiar to you. If you are new to CEWS, you will find it to your advantage to work your way through both methods to determine which is better for your organization.

See the “Attestations” section below if you’ve previously applied to the CEWS program.

The following table outlines the calculation methods for eligibility:

Period	Eligibility Calculation Method (Base Subsidy)	
Period 5	General	July 2020 over July 2019 or June 2020 over June 2019
	Alternative	July 2020 or June 2020 over average of January and February 2020
Period 6	General	August 2020 over August 2019 or July 2020 over July 2019
	Alternative	August 2020 or July 2020 over average of January and February 2020
Period 7	General	September 2020 over September 2019 or August 2020 over August 2019
	Alternative	September 2020 or August 2020 over average of January and February 2020
Period 8	General	October 2020 over October 2019 or September 2020 over September 2019
	Alternative	October 2020 or September 2020 over average of January and February 2020
Period 9	General	November 2020 over November 2019 or October 2020 over October 2019
	Alternative	November 2020 or October 2020 over average of January and February 2020

Table 2

Ultimately, it is important to stay consistent in your calculations for Periods 5-9. **Please read the “Attestations”** section below for detail about consistency across the CEWS program.

Top-Up Subsidy

Once you have calculated your revenues for the past 3 months, use the [CRA's calculator](#) for Periods 5 and 6.

In addition to the base subsidy, there is also a top-up subsidy of a maximum of 25% for businesses experiencing a revenue drop of more than 50% over the past 3 months.

The eligibility for the top-up subsidy is calculated using a different method than the base subsidy. All eligibility calculations below use the average of the previous 3-month period as a baseline for comparison.

Revenue drop	Top-up subsidy rate
70%+	25%
50% - 70%	1.25 x (3 month revenue drop - 50%)
0% - 49%	no top-up

Table 3

Period	Eligibility Calculation Method (Top-up Subsidy)	
Period 5	General	April to June 2020 over April to June 2019
	Alternative	April to June 2020 average over January and February 2020 average*
Period 6	General	May to July 2020 over May to July 2019
	Alternative	May to July 2020 average over January and February 2020 average*
Period 7	General	June to August 2020 over June to August 2019
	Alternative	June to August 2020 average over January and February 2020 average*
Period 8	General	July to September 2020 over July to September 2019
	Alternative	July to September 2020 average over January and February 2020 average*
Period 9	General	August to October 2020 over August to October 2019
	Alternative	August to October 2020 average over January and February 2020 average*

Table 4

*The calculation would equal the average monthly revenue over the 3 months of the reference period divided by the average revenue for the months of January and February 2020.

Note that if you have a revenue drop of 70% or more, you will receive the maximum top-up rate of 25% for a total CEWS maximum rate of 85%.

CEWS for Furloughed Employees

A different rate structure applies to furloughed employees (That is: employees who are temporarily laid off with pay). For Periods 5 and 6, a 75% subsidy rate applies to furloughed employees. In order to qualify for this subsidy, employers must qualify for the CEWS for their active employees.

For Period 7 and onward, CEWS support for furloughed employees will be adjusted to align with the benefits provided through the Canada Emergency Response Benefit (CERB) and/or Employment Insurance (EI). We expect more details to be announced within the coming weeks.

Attestations

If you have applied for Periods 1-4 using either the **general method** or the **alternative method** and are now finding that a different calculation method will be more advantageous for Periods 5-9, you are now permitted to change your election for the duration of Periods 5-9 **without amending your claims for Periods 1-4**.

If you have applied for Periods 1-4 using either the **cash method** or the **accrual method** and are now finding that a different calculation method would have been more advantageous, you are now permitted to change your election for the duration of Periods 5-9 — **but you must amend** all previous claim periods to ensure consistency across every claim period. If you no longer qualify for a previous period due to this change, you may be required to repay the amount you claimed for that period.

If you are a charity who has applied for Periods 1-4 **with** or **without excluding government grants** and are now finding that a different calculation method would have been more advantageous, you are now permitted to change your election for the duration of Periods 5-9 — **but you must amend** all previous claim periods to ensure consistency across every claim period. If you no longer qualify for a previous period due to this change, you may be required to repay the amount you claimed for that period. Read more about qualifying revenue for charities and nonprofits [here](#).

Additional information about attestations can be found on the [CEWS FAQs](#) page.

Budgeting

Working out a forecast to year-end is a complex task. You need to consider the following factors:

- Anticipated revenue drop for each month
- Based on revenue drop, your eligible subsidy rates (base and top-up)

- Anticipated salary cost
- Whether you have any employees on furlough

You should use [CRA's calculator](#) to work out your CEWS subsidy for Periods 5 and 6, as it will produce an accurate result. Note that the rates change in Period 7, and CRA's calculator does not (yet) contain these rates. If you are working now on your forecast to year-end, you will need to work out Periods 7 onwards manually.

Any forecast you prepare now will be based on the assumption that the current calculation rules will pertain to future periods. We suggest that you clearly identify this assumption to your board of directors.

If your revenue forecast is inaccurate, your subsidy forecast will also be inaccurate. Referring to the tables above, there is a significant jump to subsidy rates between a 49% revenue drop and a 50% revenue drop. Given the uncertainty of revenue forecasts in these times, if your organization anticipates monthly revenue drops "in that zone," it would be prudent to base your forecasts on a revenue drop of 49% or less.

How [Young Associates](#) can assist

A consultation with us may make all the difference to your comfort level and confidence that your accounting system is up to the challenge of the pandemic.

We'd also be happy to give you [a quote for full-service bookkeeping](#).

We work on the basis of fixed price agreements, so you'll know going in how much our work will cost — and we always offer a money-back guarantee: if you're not completely delighted with our service, we will, at your option, either refund the price, or accept a portion of said price that reflects your level of satisfaction.

Contact us: info@youngassociates.ca

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