CLIENT NEWS BULLETIN

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COVID-19 Update: CEWS extension

The government has announced proposed changes to the CEWS that would broaden the reach of the program and help provide better targeted support. The draft legislative proposals extend the CEWS under new rules through November 21, 2020, with a provision to revisit and allow further application until at least December 19, 2020.

The changes outlined in the draft legislative proposals would apply to Period 5 (beginning July 5) and subsequent periods. The same eligibility criteria for the initial three claim periods (March 15 to June 6, 2020) would continue to apply for Period 4 (June 7 to July 4, 2020).

Effective July 5, 2020, the CEWS would consist of two parts:

- a **base subsidy** available to all eligible employers that are experiencing a decline in revenues, with the subsidy amount varying depending on the scale of revenue decline; and
- a **top-up subsidy** of up to an additional 25 per cent for those employers that have been most adversely affected by the COVID-19 crisis.

The two-part CEWS would apply with respect to the remuneration of active employees. A separate CEWS rate structure would apply to furloughed employees (as described further below). In addition, a safe harbour would be available to ensure that, through August 29 (periods 5 and 6), employers would have access to a CEWS rate that is at least as generous as they would have had under the initial CEWS structure.

Base subsidy for all employers impacted by the crisis

The base subsidy will be a specified rate, applied to the amount of remuneration paid to the employee for the eligibility period, on remuneration of up to $1,129 per week. The rate of the base CEWS would now vary depending on the level of revenue decline, and its application would be extended to employers with a revenue decline of less than 30 per cent (see Table 1). This expansion would mean that all eligible employers with a revenue decline would now qualify for CEWS support.

The specified rate would be determined based on the change in an eligible employer's monthly revenues, as described further below (see *Reference Periods for the Drop-in-Revenues Test)*.

The maximum base CEWS rate would be provided to employers with a revenue drop of 50 per cent or more. Employers with a revenue drop of less than 50 per cent would be eligible for a lower base CEWS rate, as shown in Table 1. The decline in the base CEWS rate between a 50-per-cent revenue drop and zero provides a smooth phase-out so that businesses can grow and rehire without worrying about a sharp drop in support as economic activity returns.

The maximum base CEWS rate would be gradually reduced from 60 per cent in Periods 5 and 6 (July 5 to August 29) to 20 per cent in Period 9 (October 25 to November 21).

Table 1: Rate structure of the base CEWS

Timing	Period 5*: July 5 – August 1	Period 6*: August 2 – August 29	Period 7: August 30 – September 26	Period 8: September 27 – October 24	Period 9: October 25 – November 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%	60%	50%	40%	20%
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)
* In Periods 5 and 6, employers who would have been better off in the CEWS design in Periods 1 to 4 would be eligible for a 75% wage subsidy if they have a revenue decline of 30% or more. As described further below (see *Safe harbour rule for Periods 5 and 6*).					

Top-up subsidy for the most adversely affected employers

A top-up CEWS of up to 25 per cent would be available to employers that were the most adversely impacted by the pandemic. Generally, an eligible employer's top-up CEWS would be determined based on the revenue drop experienced when comparing revenues in the preceding 3 months to the same months in the prior year. Under the alternative approach to the calculation of baseline revenues, an eligible employer's top-up CEWS would be determined based on the revenue drop experienced when comparing average monthly revenue in the preceding 3 months to the average monthly revenue in January and February 2020.

Employers that have experienced a 3-month average revenue drop of more than 50 per cent would receive a top-up CEWS rate equal to 1.25 times the average revenue drop that exceeds 50 per cent, up to a maximum top-up CEWS rate of 25 per cent, which is attained at a 70-per-cent revenue decline. As with the base CEWS rate, the top-up CEWS rate would apply to remuneration of up to $1,129 per week. The top-up CEWS rate for selected average revenue drop levels is illustrated in the following Table 2.

Table 2: Top-up CEWS rates for selected levels of average revenue drop over the preceding three months

3-month average revenue drop	Top-up CEWS rate	Top-up calculation = 1.25 x (3 month revenue drop - 50%)
70% and over	25%	1.25 x (70%-50%) = 25%
65%	18.75%	1.25 x (65%-50%) = 18.75%
60%	12.5%	1.25 x (60%-50%) = 12.5%
55%	6.25%	1.25 x (55%-50%) = 6.25%
50% and under	0.0%	1.25 x (50%-50%) = 0.0%

The overall CEWS rate would be equal to the top-up CEWS rate plus the base CEWS rate. For the most affected companies, this would be equivalent to an 85% wage subsidy for periods 5 & 6.

Safe Harbour Rule for Periods 5 and 6

For Periods 5 and 6, an eligible employer would be entitled to a CEWS rate not lower than the rate that they would be entitled to if their entitlement were calculated under the CEWS rules that were in place for Periods 1 to 4. This means that in Periods 5 and 6, an eligible employer with a revenue decline of 30 per cent or more in the relevant reference period would receive a CEWS rate of at least 75 per cent or potentially an even higher CEWS rate using the new rules outlined above for the most adversely affected employers (up to 85 per cent).

Reference Periods for the Drop-in-Revenues Test

For the purpose of the base CEWS, eligibility would generally be determined by the change in an eligible employer's monthly revenues, year-over-year, for the applicable calendar month. For Period 5 and all subsequent periods, an eligible employer would be able to use the greater of its percentage revenue decline in the current period and that in the previous period for the purpose of determining its qualification for the base CEWS and its base CEWS rate in the current period. This would provide certainty and be a continuation of the rules for Periods 1 to 4 that allowed an employer that met the revenue test in one period to automatically qualify for the following period.

Employers that have elected to use the alternative approach for the first 4 periods would be able to either maintain that election for Period 5 and onward or revert to the general approach. Similarly, employers that have used the general approach for the first 4 periods would be able to either continue with the general approach or elect to use the alternative approach for Period 5 and onward. Whichever approach they choose would apply for Period 5 and onward and would apply to the calculation of the base CEWS and the top-up CEWS. This would provide flexibility for employers to adjust their approach in light of new circumstances they may be experiencing as the CEWS is extended.