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## Highlights of the Fall Economic Update

This week, Finance Minister Chrystia Freeland presented an economic update for the federal government. The government projects that the deficit for the year ending March 31, 2021 will reach \$381.6 billion.

We have included some highlights that were included in the 237 page update.

### COVID PROGRAM EXTENSIONS

#### Canada Emergency Wage Subsidy

The Canada Emergency Wage Subsidy for the period which ends on December 19, 2020, has a maximum combined base subsidy and top-up wage subsidy rate of 65 per cent.

The Government announced an increase to the maximum wage subsidy to 75 per cent for the three payroll periods from December 20, 2020 to March 13, 2021. The maximum base subsidy will remain at 40 per cent and the maximum top-up wage subsidy rate will increase to 35 per cent, as set out in the table below.

<b>Canada Emergency Wage Subsidy Rate Structure, Periods 11 to 13</b> (December 20, 2020 to March 13, 2021)		
<b>Revenue decline</b>	<b>Base subsidy</b>	<b>Top-up wage subsidy</b>
70% and over	40%	35%
50-69%	40%	(Revenue decline - 50%) x 1.75
1-49%	Revenue decline x 0.8	0%

## Canada Emergency Rent Subsidy

The Canada Emergency Rent Subsidy provides a direct subsidy for qualifying organizations that have experienced a decline in revenues.

The government proposes to extend, until March 13, 2021, the current rate structure for the base rent subsidy, as shown below:

<b>Canada Emergency Rent Subsidy Rate Structure, Periods 11 to 13</b> (December 20, 2020 to March 13, 2021)	
<b>Revenue decline</b>	<b>Base subsidy</b>
70% and over	65%
50-69%	$40\% + (\text{revenue decline} - 50\%) \times 1.25$
1-49%	$\text{Revenue decline} \times 0.8$

Period 11 of the Canada Emergency Wage Subsidy is the fourth period of the Canada Emergency Rent Subsidy. Period identifiers have been aligned for simplicity.

### Revenue decline calculation

Both the rent subsidy and the wage subsidy use the same calculation to determine an organization's revenue decline. As a result, the same reference periods are used to calculate an organization's decline in revenues for the wage subsidy and the rent subsidy. Likewise, if an entity elects to use an alternative method for computing its revenue decline under the wage subsidy, it must use that alternate method for the rent subsidy.

The Government also confirmed its intention to proceed with the proposed change to the rent subsidy, details of which were announced on November 19, 2020, that would allow amounts to be considered to have been paid when they become due, provided certain conditions are met.

### Reference periods

For the purposes of the wage subsidy (and the rent subsidy, as discussed below), an employer's decline in revenues is generally determined by comparing the change in the employer's monthly revenues, year-over-year. An employer may also elect to use an alternative approach, which compares the change in the employer's monthly revenues relative to the average of its January 2020 and February 2020 revenues. A deeming rule provides that an employer's decline in revenues for any particular qualifying period is the greater of its decline in revenues for the particular qualifying period and the immediately preceding qualifying period.

The chart below outlines the proposed reference periods for determining an eligible employer's decline in revenues from December 20, 2020 to March 13, 2021.

<b>Canada Emergency Wage Subsidy Reference Periods, Periods 11 to 13</b> (December 20, 2020 to March 13, 2021)			
<b>Timing</b>	<b>Period 11 December 20, 2020 – January 16, 2021</b>	<b>Period 12 January 17, 2021 – February 13, 2021</b>	<b>Period 13 February 14, 2021 – March 13, 2021</b>
<b>General approach</b>	December 2020 over December 2019  or November 2020 over November 2019	January 2021 over January 2020 or December 2020 over December 2019	February 2021 over February 2020 or January 2021 over January 2020
<b>Alternative approach</b>	December 2020 or November 2020 over average of January and February 2020	January 2021 or December 2020 over average of January and February 2020	February 2021 or January 2021 over average of January and February 2020

Employers that had chosen to use the general approach for prior periods would continue to use that approach. Similarly, employers that had chosen to use the alternative approach would continue to use the alternative approach.

All the other parameters of the program would remain unchanged. Details for the wage subsidy for any periods beyond March 13, 2021 will be proposed at a later date.

Details for the rent subsidy for any period beyond March 13, 2021 will be proposed at a later date.

### **Lockdown Support Extension**

For locations that must cease operations or significantly limit their activities under a public health order issued under the laws of Canada, a province or territory, the Government introduced the Lockdown Support through the Canada Emergency Rent Subsidy program to provide additional help. In order to qualify for the Lockdown Support, an applicant must qualify for the base rent subsidy.

The Government proposes to extend, until March 13, 2021, the current 25-per-cent rate for the Lockdown Support. Details for the Lockdown Support for any period beyond March 13, 2021 will be proposed at a later date.

## **New Tax Measures**

Several tax measures were introduced in the economic update.

### **Simplified Home Office Deduction**

To simplify the process for both taxpayers and businesses, the CRA will allow employees working from home in 2020 due to COVID-19 with modest expenses to claim up to \$400, based on the amount of time working from home, without the need to track detailed expenses, and will generally not request that people provide a signed form from their employers. This measure will help taxpayers access deductions they are entitled to receive and simplify the tax filing process. Further detail will be communicated by the CRA in the coming weeks.

### **Employee Stock Option \$200,000 Limit**

It is proposal to limit availability of the one-half deduction for employee stock option gains if the value of shares granted under options exceeds \$200,000 per vesting year. For example, if an employee receives options, exercisable immediately, to acquire 200,000 shares for \$1.00 per share at a time when they are worth \$1.00 per share, the new rules do not apply no matter how much the shares go up in value. However, if an employee receives options to acquire 201,000 shares for \$1.00 per share, the ultimate benefit relating to 1,000 of those options generally will be fully taxed under the new rules unless an exception applies.

To the extent an employee is denied access to the stock option deduction relating to a stock option benefit, the employer generally is permitted a corresponding deduction in computing its taxable income.

The rules will not apply when the employer is a Canadian-controlled private corporation. As well, all other employers are exempt if financial statement revenue (or consolidated group revenue if applicable) for the latest fiscal year is \$500 million or less.

The new rules apply to options granted on or after July 1, 2021.

## **Sales Tax Measures**

### **GST/HST Relief on Face Masks and Face Shields**

In order to support public health during the COVID-19 pandemic, the Government proposes to temporarily relieve (i.e., zero rate) supplies of certain face masks and face shields from the Goods and Services Tax/Harmonized Sales Tax (GST/HST).

The zero-rating of the GST/HST would apply to face masks (medical and non-medical) and face shields designed for human use that meet certain specifications.

This measure would apply to supplies of these items made after December 6, 2020, and is proposed to only be in effect until their use is no longer broadly recommended by public health officials for the COVID-19 pandemic.

## **Application of the GST/HST in Relation to E-commerce and the Digital Economy**

The GST/HST is a broad-based consumption tax intended to apply to most goods and services consumed in Canada. Applying the tax to the consumption of most goods and services helps ensure that the GST/HST system is fair, efficient and simple.

The current rules can often result in the GST/HST not being collected on online purchases from non-resident vendors in the digital economy.

New rules were announced to require suppliers to be registered so GST/HST is charged and collected on the following transactions:

- Cross-Border Digital Products and Cross-Border Services
- Goods Supplied through Fulfillment Warehouses
- GST/HST on Platform-based Short-Term Accommodation

The proposed new rules would apply to extent that the consideration for the supply becomes due on or after July 1, 2021.

We will continue to watch for details of these and other tax issues related to the evolving pandemic and will provide further information as it becomes available.

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