



Fiscal and Monetary Stimulus Overview — March 30, 2020

Federal and Ontario COVID-19 Relief Measures

The implications for your business



An unprecedented challenge

It's already being called the defining economic and social crisis of our generation.

The coronavirus pandemic has wreaked havoc on the global economy. In Canada, organizations and their leaders are scrambling to make payroll, retain clients and employees, and remain operational, as revenue plummets and uncertainty impacts strategic decision-making.

The federal and provincial governments have taken swift action to limit the damage. After committing a staggering \$107 billion to its COVID-19 Economic Response Plan—both in direct supports and tax deferrals—Ottawa has already been forced to enhance that package with direct wage subsidies for business. Ontario followed with its own support package. This update summarizes the most significant government relief measures announced to date.

Groups representing small- to medium-sized businesses have generally hailed governments' ever-expanding stimulus packages. But they caution that more will be needed to help protect balance sheets and the wider economy from an eventual tsunami-like wave of layoffs and bankruptcies.

The worst is not over. The closure of the Canada-U.S. border to all but essential supply-chain trade sent stock markets into a state of unprecedented volatility. Many Canadian CEOs worry for the viability of their organizations. Escalating social-distancing measures are forcing expanded, and likely protracted, closures across industries. These are challenging times.

If you're struggling to understand the magnitude of this disruption and what it means for your businesses, rest assured the KRP team will be with you every step of the way. In the coming days and weeks, we'll be sharing regular updates and summaries such as this one. Count on us to provide actionable insights and expertise to help you make the strategic decisions necessary to stabilize your bottom line, ensure business continuity, restore full operations and eventually emerge from this crisis in a position to resume growth.

George Grignano and Armando Iannuzzi
Co-Managing Partners

KRP Contacts

Armando Iannuzzi

Co-Managing Partner
aiannuzzi@krp.ca
905-946-1300 x 239

George Grignano

Co-Managing Partner
ggrignano@krp.ca
905-946-1300 x 248

Marshall Egelnick

Partner
megegnick@krp.ca
905-946-1300 x 226

Hartley Cohen

Partner
hcohen@krp.ca
905-946-1300 x 223

Jenny Lian

Partner
jlian@krp.ca
905-946-1300 x 238

Adriano Romeo

Partner
aromeo@krp.ca
905-946-1300 x 276

Federal Relief Measures

Wage Subsidy

The federal government will offer wage subsidies of up to 75 per cent for qualifying businesses and not-for-profits for up to three months, retroactive to March 15, 2020. The subsidy will cover three-quarters of the first \$58,700 in wages earned per employee, or up to \$847 per week. What we know so far is that to be eligible, an employer must be able to demonstrate a decline in revenue of 30 per cent due to COVID-19. What isn't clear is how the subsidy will be distributed to employers, but it seems that all employers—large or small—will be covered under the temporary program. The government was quick to point out that there would be consequences for any organization that tries to 'game' the subsidy by taking funds when their business hasn't experienced a decline in revenue. Further clarification and details are required and are expected in the days ahead. Our team will provide a full overview and summary of the program as soon as complete qualifying criteria is announced.

The increased subsidy represents a sharp increase from the previous 10 per cent wage subsidy announced on March 18th—a seeming lifetime ago, given the swift pace of stimulus announcements over the past two weeks. It aligns Canada with countries such as Denmark, which have also introduced major wage subsidy programs.

Canada Emergency Response Benefit

One of the most significant programs announced thus far is the Canada Emergency Response Benefit (CERB). The program will merge and enhance the previously announced Emergency Care Benefit and the Emergency Support Benefit.

According to the federal government, the CERB will provide a taxable benefit of \$2,000 a month for up to four months to:

- Workers who must stop working due to COVID-19 and do not have access to paid leave or other income support
- Workers who are sick, quarantined, or taking care of someone who is sick with COVID-19
- Working parents who must stay home without pay to care for children that are sick or need additional care because of school and daycare closures
- Workers who still have their employment, but are not being paid because there is currently not sufficient work and their employer has asked them not to come to work
- Wage earners and self-employed individuals, including contract workers

The CERB is designed to help SMEs maintain employee headcount and manage fast-growing operating expenses as their revenue declines. It's important to note that the program will be available to any Canadian who has been forced to stop working due to COVID-19, whether or not they qualify for Employment Insurance.

The portal to access the CERB is projected to go live in early April. Canadians have been told to expect payments within 10 days of application. The CERB will be paid every four weeks and would be available from March 15, 2020 until October 3, 2020.

Tax Measures

Businesses (including self-employed individuals) will be allowed to defer GST/HST payments, as well as custom duties on imports, until June 30, 2020. The deferral generally applies to remittances that would be due between March and the end of May, 2020. Monthly, quarterly and annual GST/HST filers will qualify for the deferral. The measure—which is projected to provide up to \$30 billion in cash flow assistance to businesses—is designed to help organizations cover payroll and manage other operating expenses until the economy eventually rebounds.

In addition:

- Tax filings due after March 18, 2020, have been extended until June 1, 2020. This includes T1134 and T2 filings. As the CRA confirmed in a release:

“These administrative income tax actions include the filing of returns, forms, elections, designations, and responses to information requests. Payment and remitting requirements are not covered by this announcement.”

- Trust (T3), partnership filings and NR4 Information Returns due March 31, 2020, have been extended to May 1, 2020
- Federal income tax payments for businesses that would be due between now and before September 2020, can be deferred until August 31, 2020. Both tax balances and installments owing are covered by the deferral, while no interest or penalties will be assessed on balances owing during this time
- The filing due date for 2019 individual tax returns has been extended until June 1, 2020. Canadians will be allowed to defer income tax payments owing until after August 31, 2020, including installments, without interest or penalties
- The return filing date for trusts with a tax year ending on December 31, 2019, will now be May 1, 2020
- The federal government has announced a moratorium on post-assessment GST/HST or income tax audits by the Canada Revenue Agency for the next four weeks, while the agency will also temporarily suspend ongoing audit activities for most businesses

Canadians are being encouraged to file individual returns promptly to ensure they receive GST/HST, child benefit or other credits, which are calculated based on the prior year’s income.

Canada Emergency Business Account

To inject liquidity and credit into the system, the government has introduced a new Canada Emergency Business Account. The fund will make up to \$25 billion available to banks and credit unions to provide interest-free loans of up to \$40,000 each to small businesses that can demonstrate they paid between \$50,000 and \$1 million in total payroll in 2019. As much as

\$10,000 of each loan is eligible for forgiveness if companies repay the balance before December 31, 2022. The loans will be guaranteed and funded by Ottawa.

Small and Medium-sized Enterprise Loan and Guarantee Program

A new Small and Medium-sized Enterprise Loan and Guarantee program will provide up to \$40 billion in credit through Export Development Canada and the Business Development Bank of Canada. The guaranteed loans are intended to help SMEs struggling to meet operating cash flow requirements. As the government noted:

“Export Development Canada will provide guarantees to financial institutions so that they can issue new operating credit and cash flow term loans of up to \$6.25 million to small and medium-sized businesses. These loans will be 80 per cent guaranteed by Export Development Canada, to be repaid within one year.”

Co-Lending Program for Small and Medium-Sized Enterprises

Qualifying businesses will have access to a co-lending program through BDC and financial institutions, providing eligible businesses with loans of up to \$6.25 million to fund operating cash flow requirements.

Bank of Canada

The Bank of Canada has lowered its key overnight lending rate to 0.25 per cent from 0.75 per cent, and has committed to purchasing up to \$5 billion in government bonds per week.

Additional Measures

Other federal relief measures for businesses announced to date include:

- Changes to the Export Development Canada-administered Canada Account to provide additional support to Canadian exporters through loans, guarantees or insurance policies
- An additional \$5 billion in lending capacity available to farmers, agribusinesses and food processors through Farm Credit Canada
- The introduction of the Insured Mortgage Purchase Program to purchase up to \$150 billion of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC)

Other federal relief measures for individuals announced to date include:

- A waiver of the one-week waiting period and medical certificate requirements to claim Employment Insurance sickness benefits
- Support for low-income earners in the form of a one-time doubling of the Goods and Services Tax credit for the 2019-20 benefit year, equating to nearly \$600 for couples and \$400 for single individuals

- An increase in Canada Child Benefit payments by \$300 per child for the 2019-20 benefit year, or approximately \$550 on average for families
- \$305 million for a new Indigenous Community Support Fund
- An interest-free moratorium on Canada Student Loan repayments
- A 25 per cent reduction in minimum withdrawals from Registered Retirement Income Funds for 2020
- \$50 million in support for women’s shelters and sexual assault centres
- An expansion of the EI Work Sharing Program for workers who agree to reduce their normal working hours “as a result of developments beyond the control of their employers.” The eligibility of these agreements will be extended to 76 weeks from the current 38 weeks

Ontario Government Relief Measures

The economic situation in Ontario—like every other Canadian province, as well as at the federal level—is precarious.

Queen's Park is predicting zero growth in real GDP for 2020. As a result of the response to the coronavirus outbreak, the government is forecasting a deficit of \$20.5 billion for 2020–21, up from a projected \$9.2 billion in 2019–20.

The Ford government's \$17 billion COVID-19 action plan includes \$3.3 billion in additional funding for healthcare—everything from increased hospital capacity to long-term investments in public health and a dedicated \$1 billion COVID-19 contingency fund—\$3.7 billion to support individual Ontarians and businesses affected by the pandemic and a further \$10 billion in tax and other deferrals.

Ontario is proposing to:

- Introduce a temporary, retroactive increase to the Employer Health Tax exemption from \$490,000 to \$1 million for 2020, providing relief of up to \$9,945 per eligible employer. The measure would cut taxes by about \$355 million for roughly 57,000 employers across the province
- Extend payment deadlines by five months for most provincially-administered taxes (interest and penalties would be waived in that period), providing an estimated \$6 billion in liquidity for cash-strapped businesses
- Introduce a new 10 per cent refundable Corporate Income Tax credit—the Regional Opportunities Investment Tax Credit—for capital investments made by eligible Canadian-controlled private corporations in specified areas of the province
- Allow employers to defer Workplace Safety and Insurance Board premiums for up to six months
- Reduce electricity bills for residential, farm and small business consumers through a \$1.5 billion increase in electricity cost relief (as compared to the 2019 budget), while offering off-peak electricity pricing to consumers for 45 days
- Provide a one-time \$200 payment per child up to 12 years of age, and \$250 for those with special needs
- Defer the upcoming quarterly remittance of education property tax to school boards by 90 days. The government says the move will allow municipalities to provide property tax deferrals of more than \$1.8 billion, while still funding school boards
- Double the Guaranteed Annual Income System maximum payment to \$166 per month for individuals and \$332 per month for couples for six months, starting in April 2020. The \$75 million in support would benefit more than 194,000 low-income seniors
- Defer Ontario Student Assistance Program loan and interest accrual for six months
- Provide \$26 million in funding for Indigenous people and communities
- Expand eligibility for the Low-income Energy Assistance Program to help families pay their home energy bills, providing \$9 million in support



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