

Update on Canada's COVID-19 Economic Response Plan

January 31, 2022

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 temporary income supports for individuals who ceased working as a result of the pandemic, as well as rent and wage subsidies for Canadian businesses, although many of these original supports have now ceased. As the pandemic evolves, the Federal government is gradually phasing out many of the original support programs while introducing more targeted measures.

The following is a summary of select Federal measures released to date, with a specific focus on those measures that continue to apply in 2022.

Individual Support for Canadians

Previous Supports:^{2,3}

The **Canada Emergency Response Benefit ("CERB")** provided eligible workers (including self-employed individuals), who ceased working as a result of COVID-19, with temporary income support of \$500 per week (to a maximum of 28 weeks). It was available from March 15 to September 26, 2020.

The **Canada Emergency Student Benefit ("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 were eligible for the CESB for a maximum of 16 weeks, between May 10 and August 29, 2020, but the CESB closed to applications on September 30, 2020.

The **Canada Recovery Benefit ("CRB")** provided support to eligible workers who were not employed or self-employed for reasons related to COVID-19 or had their income reduced by at least 50% due to COVID-19 or were not eligible for Employment Insurance ("EI"). It was available from September 27, 2020 to October 23, 2021, but the deadline to apply for CRB has now closed.

Current Programs:

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 recently extended the availability of the CRCB until May 7, 2022 and the maximum duration to 44 weeks.

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 recently extended the availability of the CRSB until May 7, 2022 and the maximum duration to 6 weeks.

As noted above, only 10% of the CRCB, CRSB (and the CRB) will be withheld at source as income tax, since these payments are considered taxable income. However, further tax may be due upon filing a 2021 personal income tax return, depending on the marginal tax rate of the recipient in the year received. The Canada Revenue Agency ("CRA") will issue 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 changes to the eligibility criteria that would generally deny individuals from claiming these recovery benefits during a mandatory quarantine or isolation period upon their return to Canada following international travel (including vacation), with certain exceptions.

Canada Worker Lockdown Benefit ("CWLB") – In light of the cessation of the CRB, the Federal government recently announced a new Canada Worker Lockdown Benefit, which provides income support to workers whose employment is interrupted by specific government-imposed public health lockdown scenarios and who are unable to work due to such restrictions.

The new benefit of \$300 per week (net \$270 after 10% taxes deducted at source) is available to workers whose work interruption is a direct result of a government-imposed public health lockdown until May 7, 2022, with retroactive application to October 24, 2021, as warranted. Specifically, it would require workers to attest that they have lost 50 per cent or more of their income as a result of COVID-19-related lockdowns during the applicable period. It is available to workers who are ineligible for Employment Insurance ("EI") and those who are eligible for EI (as long as they are not paid benefits through EI for the same period), but individuals whose loss of income or employment is due to their refusal to adhere to a vaccine mandate will not be able to access the benefit.

However, in light of the new Omicron variant, the Federal government recently proposed to temporarily expand the definition of a public health lockdown for the purposes of the benefit. Specifically, the definition of a lockdown order will be broadened to also include provincial and territorial orders involving capacity restrictions of 50 per cent or more – from December 19, 2021 to February 12, 2022. Furthermore, these regulatory changes will include reducing the minimum number of days a lockdown order needs to be in place to meet the new definition to 7 consecutive days, down from 14 consecutive days.

Tax Treatment of COVID-19 Benefit Amounts – Generally, if these above benefit amounts are repaid (for example, where an individual subsequently determines that they were not eligible for the benefit in question), this amount would be deducted for income tax purposes in the year the repayment takes place.

However, changes originating from the 2021 Federal Budget now allow individuals the option to claim a deduction in respect of the repayment of a COVID-19 benefit amount in computing their income for the year in which the benefit amount was received rather than the year in which the repayment was made (available for benefit amounts repaid at any time before 2023).

Individuals may only deduct benefit amounts once they have been repaid. An individual who makes a repayment, but who has already filed their income tax return for the year in which the benefit was received, will be able to request an adjustment to the return for that year.

Flexibility/Deferrals for Taxpayers – In early 2021, the Federal government announced 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 (although late-filing penalties remain assessable for delinquent tax returns).

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.

Support for Businesses

Previous Supports:

Canada Emergency Business Account ("CEBA") – The CEBA program provided interest-free loans of up to \$60,000 to small businesses and not-for-profits, to help cover their operating costs during a period where their revenues were temporarily reduced, due to the economic impacts of the COVID-19 pandemic. Repaying the balance of the loan on, or before December 31, 2023⁴ will result in loan forgiveness (up to \$20,000). The CRA has confirmed that this forgivable portion is taxable in the year in which the loan is received. The CEBA application period has now closed (the deadline to apply was June 30, 2021).

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 extended several times, most recently until October 23, 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). However, a gradual decrease to the subsidy rate was introduced to ensure an orderly phase-out of the program as vaccination rates increased and the economy reopened. The CEWS was available to any qualifying employer which 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 provided further support for employers that were most adversely affected by the pandemic, to specifically assist employers in industries that were recovering more slowly.

Applications for the CEWS are due 180 days after the end of the claim period. Accordingly, the deadline to apply for the final period (Period 21: September 26 to October 23, 2021) is April 21, 2022. The CEWS (and the previously enacted temporary 10% wage subsidy⁵), 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. Conversely, the CERS delivered rent and mortgage support directly to qualifying organizations affected by COVID-19 without the need to work through their landlords. The CERS, which mirrored the CEWS eligibility criteria and calculations, provided a subsidy (on a sliding scale) for eligible fixed property expenses, including rent and interest on commercial mortgages as well as an additional top-up of 25% ("Lockdown Support") for organizations that were temporarily shut down by a mandatory public health order issued by a qualifying public health authority.

Following a gradual phase-out of the base subsidy rates, the CERS program ended on October 23, 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. Accordingly, the deadline to apply for the final period (Period 14: September 26 to October 23, 2021) is April 21, 2022.

Current Programs:

In conjunction with recent cessation of CEWS and CERS, and the extension of the CRHP noted below, the Federal government simultaneously announced the introduction of more targeted support to businesses that are still facing significant pandemic-related challenges. Specifically, business support (similar to CEWS and CERS) is now available from October 24, 2021 until May 7, 2022, through two new targeted streams:

Tourism and Hospitality Recovery Program – This new measure provides support targeted to organizations in selected sectors of the tourism and hospitality industry that have been deeply affected since the outset of the pandemic and that continue to struggle. Examples of eligible organizations include hotels, restaurants, bars, festivals, travel agencies, tour operators, convention centres, convention and trade show organizers, as well as many arts and cultural organizations, including museums, theatres, theme parks and casinos.

Eligible organizations are required to meet the following two conditions to qualify for this program:

- An average monthly revenue reduction of at least 40% over the first 13 qualifying periods for the CEWS (12-month revenue decline); and
- A current-month revenue loss of at least 40%.

Under this program, the maximum subsidy rate for the wage and rent subsidies is set at 75% from October 24, 2021 to March 12, 2022. The wage and rent subsidy rates will continue to be calculated based on current-month revenue losses compared to those of a prior reference period, as under the previous rules. The subsidy rates start at 40% for eligible organizations with a 40% current-month revenue decline, increasing thereafter in proportion to current-month revenue loss up to a maximum rate of 75% for those with a current-month revenue decline of 75% or higher. The rent and subsidy rates will be reduced by half from March 13 to May 7, 2022.

Lockdown Support also remains available at the fixed rate of 25%, pro-rated based on the number of days a particular location was affected by a lockdown, as under the previous CERS program.

Hardest-Hit Business Recovery Program – Hard-hit organizations that do not qualify for the Tourism and Hospitality Recovery Program and that have been deeply affected since the outset of the pandemic can qualify for rent and wage support under the Hardest-Hit Business Recovery Program, provided they meet the following two eligibility requirements:

- An average monthly revenue reduction of at least 50% over the first 13 qualifying periods for the CEWS (12-month revenue decline); and
- A current-month revenue loss of at least 50%.

Under this program, the maximum subsidy rate for the wage and rent subsidies is set at 50% for eligible entities from October 24, 2021, to March 12, 2022. The wage and rent subsidy rates continue to be calculated based on current-month revenue losses compared to those of a prior reference period, as under the previous rules. However, under this program the subsidy rates start at 10% for eligible hard-hit organizations with a 50% current-month revenue decline, increasing thereafter on a straight-line basis to a maximum rate of 50% for those with a current-month revenue decline of 75% or higher. The rent and subsidy rates will be reduced by half from March 13 to May 7, 2022.

Lockdown Support also remains available at the fixed rate of 25%, pro-rated based on the number of days a particular location was affected by a lockdown, as under the previous CERS program.

Previously, there was a monthly cap on eligible expenses claimed under the CERS of \$75,000 per business location and \$300,000 in total for all locations (including any amounts claimed by affiliated entities). To better respond to the needs of businesses, including hard hit businesses like hotels and restaurants, the Federal government introduced legislative amendments to increase the aggregate monthly cap from \$300,000 to \$1 million (including any amounts claimed by affiliated entities) starting on October 24, 2021. This new monthly cap will be available to all eligible employers and organizations that meet the new eligibility requirements for the rent subsidy under the above Tourism and Hospitality Recovery and the Hardest-Hit Business Recovery Programs.

Local Lockdown Program ("LLP") – In addition to these two new programs, the Federal government recently announced that organizations subject to a qualifying public health restriction will also be eligible for support at the subsidy rates as calculated in the Tourism and Hospitality Recovery Program, regardless of sector, if they have one or more locations subject to a public health restriction (lasting for at least seven days) that requires them to cease activities that accounted for at least approximately 25% of total revenues of the employer during the prior reference period. Applicants will not need to demonstrate the 12-month revenue decline, only a current-month decline. It is available to affected organizations, regardless of sector.

However, given the recent spread of the new Omicron variant, and the new regional public health restriction put in place to limit capacity, the Federal government is proposing to temporarily expand this Local Lockdown Program to better support workers and businesses. Under current rules, employers must face a lockdown to be eligible for the program, however the government intends to temporarily amend this requirement so employers can also qualify for the program if they are subject to a capacity-limiting public health restriction.

Specifically, a business can now also qualify for the Local Lockdown Program if:

- One or more of its locations is subject to a public health order that has the effect of reducing the entity's capacity at the location by 50% or more; and
- Activities restricted by the public health order accounted for at least 50% of the entity's total qualifying revenues during the prior reference period.

In addition, the government intends to temporarily lower the current-month revenue loss threshold from 40% to 25%. The subsidy rate would start at 25% for eligible organizations with a

25% current-month revenue decline, increasing thereafter in proportion to current-month revenue loss up to a maximum rate of 75% for those with a current-month revenue decline of 75% or higher. These temporary changes would be in effect for qualifying periods from December 19, 2021 to February 12, 2022.

Canada Recovery Hiring Program ("CRHP") – The 2021 Federal Budget introduced a new pandemic relief support measure for eligible employers that continue to experience qualifying declines in revenues relative to the timeframe before the pandemic. This new subsidy will offset a portion of the extra costs employers incur as they reopen, either by increasing wages or hours worked, or hiring more staff. As originally introduced, the CRHP provided eligible employers with a subsidy of up to 50% on the incremental remuneration paid to eligible employees beginning June 6, 2021 in comparison to a baseline period from March 14 to April 10, 2021 (based on a maximum weekly amount of \$1,129 per employee). An eligible employer is permitted to claim either the CRHP or the CEWS for a particular qualifying period, but not both.

Employers that were eligible for the CEWS are generally eligible for the CRHP. However, a for-profit corporation will be eligible for the hiring subsidy generally only if it is a Canadian-Controlled Private Corporation. Other eligible employers would include individuals, non-profit organizations, registered charities, and certain partnerships. An application for the hiring subsidy for a qualifying period is required to be made no later than 180 days after the end of the qualifying period.

The CRHP was originally set to expire on November 20, 2021, however the Federal government recently extended this hiring program for eligible employers with current revenue losses above 10% (at a reinstated subsidy rate of 50%), until May 7, 2022, with authority for a further extension through regulations until July 2, 2022.

Support for Highly Affected Sectors – In early 2021, the Federal government released further details on the Highly Affected Sectors Credit Availability Program ("HASCAP") – a new loan program for the hardest hit businesses, such as tourism and hospitality, hotels, arts and entertainment, which is being administered by the Business Development Bank of Canada ("BDC") through participating Canadian financial institutions. 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. Canadian-based businesses that were financially stable and viable pre-COVID, but 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, are eligible. The loans are intended to be used to continue or resume operations and cannot be used to pay or refinance existing debt. Originally, this HASCAP Guarantee was made available until December 31, 2021, however, this deadline was recently extended until March 31, 2022.

Immediate expensing of certain property – In addition to (temporary) income tax rate reductions for zero-emission technology manufacturers and accelerated Capital Cost Allowance (“CCA”) claims for Clean Energy Equipment, a new measure originating from the 2021 Federal Budget proposes to provide temporary immediate expensing, of up to \$1.5 million per tax year, in respect of certain capital property acquired by a Canadian-Controlled Private Corporation (“CCPC”). The immediate expensing would apply for eligible property that is acquired on or after the April 19, 2021 Federal Budget Day, and that becomes available for use before 2024. Notably, however, this proposal does not include “long lived assets” such as buildings or other intangibles in specific CCA classes, and is shared among associated corporations.

Small Businesses Air Quality Improvement Tax Credit – In its recent 2021 Economic and Fiscal Update, the Federal government proposed a new refundable Small Businesses Air Quality Improvement Tax Credit of 25 per cent on eligible air quality improvement expenses incurred by small businesses to make it more affordable for them to invest in safer and healthier ventilation and air filtration. Businesses would receive the credit on eligible expenses incurred between September 1, 2021 and December 31, 2022, related to the purchase or upgrade of mechanical heating, ventilation, and air conditioning (“HVAC”) systems and the purchase of standalone devices designed to filter air using high efficiency particulate air (“HEPA”) filters, up to a maximum of \$10,000 per location and \$50,000 in total.

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 allowed 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 in their 2020 personal tax return, without the need to track detailed expenses. The allowable amount was based on the amount of time spent working from home and generally did not require a signed form from the employer.

The Federal government announced recently that it will extend this simplified deduction for work-from-home-expenses for an additional two years, through the 2022 tax year, and increase the annual deductible amount to \$500 (from \$400). Revenue Québec is also providing parallel measures for Quebec provincial income tax.

For more information, please see our publication, *Claiming Home Office Expenses on Your 2021 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, please speak with your BMO financial professional.



¹ For a summary of the current Federal measures, 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 the current relief provided by Revenu Québec, please see the following link: https://www.revenuquebec.ca/en/covid-19-faq/?no_cache=1

² Each of the CERB, CESB and CRB are taxable and therefore are required to be reported as income when filing an income tax return. Unlike the CERB and CESB, it was possible to earn significant employment or self-employment income while receiving the CRB, as it has an income threshold of \$38,000. Specifically, 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.

³ In its recent 2021 Economic and Fiscal Update, the Federal government proposed the following assistance for certain low-income and financially vulnerable recipients of pandemic support:

- One-time payments to alleviate the financial hardship of Guaranteed Income Supplement ("GIS") and Allowance recipients who received the Canada Emergency Response Benefit ("CERB") or the Canada Recovery Benefit ("CRB") in 2020; and
- Debt relief to students who need to repay the CERB benefits they were not eligible for, by proposing to offset it with the amount they would have been eligible for under the Canada Emergency Student Benefit ("CESB").

⁴ The repayment deadline for CEBA loans to qualify for partial loan forgiveness was recently extended from December 31, 2022, to December 31, 2023, for all eligible borrowers in good standing. Otherwise, any outstanding loans would subsequently convert to two-year term loans with interest of 5% per annum commencing on January 1, 2024, with the loans fully due by December 31, 2025.

⁵ 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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