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Newsletter

Tax, Estate Planning and Tax Litigation

April 2020



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Major Tax Relief for Corporations in Light of the COVID-19 Pandemic

The Canadian and Québec governments are putting into place unprecedented measures to help keep corporations afloat in these trying times. The following is a summary of the important announcements for corporations as of April 1, 2020.

Canada Emergency Wage Subsidy of 75%

The federal government announced a subsidy to eligible employers that will cover 75% of the remuneration paid to employees in most cases. This represents a maximum payment of \$847 per week per employee for up to 12 weeks. The subsidy is retroactive to March 15, 2020.

This measure applies to employers of any size including corporations, partnerships, non-profits or charities that are not publicly funded.

Eligibility:

To be eligible, employers have to attest to a decrease of at least 30% of gross revenues for each eligible period. This will be calculated by comparing the reference periods as detailed below:

	Claiming Period	Reference Period for Eligibility
Period 1	March 15 – April 11	March 2020 over March 2019
Period 2	April 12 – May 9	April 2020 over April 2019
Period 3	May 10 – June 6	May 2020 over May 2019

The revenue for this purpose will be the company's revenue from business carried on in Canada earned from arm's-length sources calculated using the employer's normal accounting method and would exclude revenues from extraordinary items and amounts on account of capital.

For non-profits and charities, more details are to come to ensure an appropriate definition of revenue to their specific circumstances.

For new corporations established after February 2019, eligibility would be determined by comparing monthly revenues to a reasonable benchmark.

Companies must also make their best efforts to top-up employees' salaries to bring them to pre-crisis levels.

Employers that are eligible for the previously announced 10% wage subsidy can also apply for the 75% subsidy. Any benefit from the 10% wage subsidy will reduce the amount available to be claimed under the Canada Emergency Wage Subsidy in that same period.

Calculation of the Subsidy:

The subsidy amount will be equal to the greater of:

- 75% of the amount of remuneration paid, up to a maximum benefit of \$847 per week; and
- the amount of remuneration paid, up to a maximum benefit of \$847 per week or 75% of the employee's pre-crisis weekly remuneration, whichever is less.

How It Works:

- You can apply through the CRA's *My Business Account* portal or on a web-based application that will be launched in three to six weeks;
- You will need to apply for each eligible period (i.e. on a monthly basis);
- You will need to keep records demonstrating your reduction in arm's-length revenues and remuneration paid to employees;
- Funds will be available in about six weeks; and
- You should make sure that you are registered with the CRA for direct deposit to accelerate the payment.

The amounts received by the employer will be considered government assistance which is to be included in the employer's taxable income for the year. The assistance received under either wage subsidy would reduce the amount of remuneration expenses eligible for other federal tax credits calculated on the same remuneration.

It should be noted that severe penalties will be applied to employers using the funds for fraudulent purposes.

Many more details are still to come. Do not hesitate to contact our Tax team to see if your company is eligible.

Various Guaranteed Loans

Both the federal and provincial governments have announced assistance by guaranteeing loans for corporations as described below.

1. Canada Emergency Business Account

Financial institutions, in cooperation with Business Development Bank of Canada ("BDC") will provide interest-free¹ loans of up to \$40,000 for small businesses or non-profits that paid between \$50,000 to \$1 million in total payroll in 2019.

The company will be eligible for a 25% forgiveness of the loan up to an amount of \$10,000, if the balance is fully repaid on or before December 31, 2022.

2. Loan Guarantee for Small and Medium Enterprises

Export Development Canada ("EDC") will guarantee new operating credit and cash flow term loans of up to \$6.25 million to small and medium-sized enterprises ("SME").

There are still more details to come.

3. Co-Lending Program for Small and Medium Enterprises

BDC will work with financial institutions to co-lend term loans of up to \$6.25 million with loan terms of ten years at commercial interest rates to SMEs for their operational cash flow requirements. BDC will finance up to \$5 million of each loan.

There are still more details to come.

4. Working Capital Financing

BDC will fund loans ranging from \$100,000 to \$2 million with flexible terms and payment postponements for up to 6 months for qualifying businesses.

5. Concerted Temporary Action Program for Businesses

Investissement Québec will guarantee or fund loans of at least \$50,000 for businesses that are in a precarious financial situation because of COVID-19.

Businesses must show that their cash flow issues are temporary and that the liquidity shortage stems from a problem involving the supply of raw materials or products (goods or services) or that they have an inability, or a substantially decreased ability, to deliver goods, products or services.

Refinancing is prohibited and applications will be reviewed on a case-by-case basis in accordance with Investissement Québec's management practices.

To apply for any of these aforementioned loans, you should contact our Financing team.

Deferral of Tax Payments**1. Federal and Provincial Income Tax**

Income tax and provisional account payments for all amounts payable after March 18th are deferred without interest or penalty until the following dates:

- August 31, 2020 for Federal tax; and
- September 1, 2020 for Québec.

The deadline to file a corporation's annual tax return is extended to June 1, 2020 if it was due after March 18, 2020 and before June 1, 2020.

2. GST, QST and Customs Duty

Remittance for GST and QST are extended until June 30, 2020 for:

- Monthly filers that have to remit amounts collected for the February, March and April 2020 reporting periods;

- Quarterly filers that have to remit amounts collected for the January 1, 2020 through March 31, 2020 reporting period; and
- Annual filers, whose GST/HST returns or instalments are due in March, April or May 2020.

Revenu Québec confirmed that this extension applies to both the filing of the QST return and its payment. On the other hand, CRA confirmed that the deadline for businesses to file their returns is unchanged, but that no penalty for late filing will be applied if the return is filed by June 30th.

Payment deadlines for customs duties for March, April, and May are also deferred to June 30, 2020.

Other Relief Measures

It should be noted that various other relief measures are in place. For example, the Fonds de solidarité FTQ and the Fondation have deferred the repayment of their existing loans, capital and interests, for respective periods of six and three months.

Conclusion

Do not hesitate to contact us if you need help understanding these measures. Our Tax team is here to help you navigate throughout these uncertain times. This is even more important as both governments are updating and changing these measures everyday.

The content of this newsletter is intended to provide general commentary only and should not be relied upon as legal advice.

For more information, contact one of the team members:

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1. For the first year.