

Legislative Costing Note

Publication Date: 2021-11-30

Short Title: Canada Emergency Rent Subsidy (CERS) - as extended by Order in Council 2021-0882 & as further extended by Bill C-2

Description: Providing a rent subsidy to employers with reduced revenues.

Version	New End date	Eligible Industries
Budget 2021	25 September 2021	All
Order in Council 2021-0882	23 October 2021	All
Bill C-2		
Hardest Hit Businesses (HH)	7 May 2022	All
Travel and Hospitality (T&H)	7 May 2022	Hotels, tour operators, travel agencies, convention centers, festivals, restaurants and bars, or other business subject to a qualifying public health restriction (for extension).

Rent assistance is calculated as a percentage of eligible expenses which is greater for businesses with greater revenue declines, as shown below.

	Period	1 to 10	11	12 to 13 ⁱ	14	15 to 19	15 to 19	20 to 21	20 to 21
	Start Date	27 Sep 2020	4 July 2021	1 Aug 2021	26 Sep 2021	24 Oct 2021	24 Oct 2021	13 Mar 2022	13 Mar 2022
	End Date	3 Jul 2021	31 Jul 2021	25 Sep 2021	23 Oct 2021	12 Mar 2022	12 Mar 2022	7 May 2022	7 May 2022
	Ind.	All	All	All	All	T&H	Other	T&H	Other
	5	4%	0%	0%	0%	0%	0%	0%	0%
	15	12%	4%	3%	1%	0%	0%	0%	0%
	25	20%	13%	9%	4%	0%	0%	0%	0%
	35	28%	22%	16%	6%	0%	0%	0%	0%
Revenue Decline (%)	45	36%	31%	22%	9%	45%	0%	23%	0%
	55	46%	41%	29%	13%	55%	18%	28%	9%
	65	59%	54%	36%	18%	65%	34%	33%	17%
	75	65%	60%	40%	20%	73%	50%	38%	25%
	85	65%	60%	40%	20%	75%	50%	38%	25%
	95	65%	60%	40%	20%	75%	50%	38%	25%

For CERS Periods 15 to 21 (24 October 2021 to 7 May 2022), businesses must demonstrate that they have a sufficient average year-over-year revenue loss across the first 13 CEWS periods. The required revenue loss is 40% for businesses in the travel and hospitality sector or subject to a qualifying public health restriction, and 50% for businesses in all other sectors.

An additional 25% subsidy is available to businesses that are forced to temporarily close certain locations or have their business activities significantly restricted by a direct mandatory public health order.

Eligible expenses include commercial rent, property taxes, property insurance, and interest on commercial mortgages (subject to conditions), less any subleasing revenues. Expenses for each qualifying period are capped at \$75,000 per month per location with an overall cap of \$300,000 per month shared among affiliated entities. For periods CERS Periods 15 to 21 (24 October 2021 to 7 May 2022), the cap across affiliated entities is increased to \$1,000,000.

The program is not cost-shared with provinces or territories.

Data Sources:

Variable	Source
Eligible expenditures	Custom tabulation based on 2017 corporate, trust, and personal income tax filings
GDP projections by industry	PBO Economic Model
GDP by industry	Statistics Canada, Table: 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly
Retail sales by industry	Statistics Canada, Table: 20-10-0008-01 Retail trade sales by province and territory
Wholesale sales by industry	Statistics Canada, Table: 20-10-0074-01 Wholesale trade
Manufacturing sales by industry	Statistics Canada, Table: 16-10-0047-01 Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry
Retail, wholesale, and manufacturing sales distribution	Custom tabulation based on retail, wholesale, and manufacturing sales surveys.
Air Transport revenues	Statistics Canada, Table: 23-10-0079-01 Operating and financial statistics for major Canadian airlines, monthly
Food service and drinking place revenues	Statistics Canada, Table 21-10-0019-01 Monthly survey of food services and drinking places
Commercial property insurance premiums	Insurance Bureau of Canada, 2020 Facts
Trends in non-residential real estate revenues	Statistics Canada, Table 21-10-0221-01 Real estate rental and leasing and property management, summary statistics (2018)
Employment losses by industry	Statistics Canada, Custom tabulation based on Labour Force Survey
Distribution of Revenue Losses	Statistics Canada, Custom tabulation based on the Retail, Wholesale and Manufacturing surveys.

Overall, the distribution of revenue declines in each industry was estimated using survey data on sales and the PBO economic model. Eligible expenditures were estimated based on income tax data. Businesses eligible for lockdown support were identified based on public health measures and revenue declines. Finally, the revenue decline distribution, eligible expenditures, and subsidy rates were used to calculate subsidies for each industry.

Distribution of revenue declines

For subsectors where monthly sales or revenue data are available (specifically retail, wholesale, manufacturing, air transport, and food service and drinking places), a linear model was fit to the relationship between each industry groups' revenue shocks and the corresponding subsector GDP shocks in the PBO economic model. Using the fitted relationship, future revenue changes relative to July 2021 for each industry group were projected based on changes in the GDP shocks in the broader sector. Using the revenue and GDP data for these industry groups from April to September of 2020, the general relation between revenue and GDP shocks arising from COVID-19 was established.

For industries without monthly sales or revenue data, an industry group GDP projection was created by indexing the July 2021 GDP shock for each industry group to projected changes in the sector GDP shocks relative to September. The general relation between revenue and GDP shocks as a result of COVID-19 was then applied to convert these GDP shocks to revenue shocks.

A custom tabulation of the distribution of April to June revenue losses in retail, wholesale, and manufacturing industry groups was used to convert industry wide revenue shocks into distributions of revenue losses within that industry.

Calculation of eligible expenditures

Using income tax data, eligible business expenditures were calculated for each industry group across corporations, trusts and individuals. This calculation included all reported non-residential real estate rental expenses, eligible interest on mortgages, property taxes, occupancy costs, condominium fees, and commercial property insurance expenses, minus real estate rental revenues. Detailed expenses were imputed for businesses without detailed expense reporting, informed by the income tax data.

Commercial property insurance expenses were imputed by allocating total commercial property insurance premiums in proportion to amortized real estate asset values of corporations.

After these pre-cap eligible expenses were calculated, a cap of \$75,000/month multiplied by the number of locations was applied at the business level, and a cap of \$300,000/month was applied at the ultimate parent level. For periods 22 to 26, the cap at the ultimate parent level was increased to \$1,000,000.

The eligible expenditures were inflated from 2017 to 2020 based on revenue trends among non-residential lessors of real estate.

Identification of businesses eligible for lockdown support

Businesses eligible for lockdown support were identified by two characteristics: first, they suffered a revenue loss of at least 50%; and second, they are in an industry subject to restrictions by a public health order in at least one region of one province at the start of November 2020.

Aggregate Results:	We expect that the extension of the Canada Emergency Rent Subsidy (CERS) by Bill C-2 will result in an additional \$676 million in subsidies being paid beyond those already approved by Order in Council 2021-0882. Of these additional subsidies, we expect \$134 million to be paid under the Tourism and Hospitality Recovery Program, and \$542 million to be paid under the Hardest-Hit Business Recovery Program. With this extension, we expect the gross cost of the CERS to be \$8.3 billion. This represents a net cost to the federal government of \$7.2 billion after accounting for corporate income tax recoveries.
Sources of Uncertainty:	The reliability of expenses reported in income tax filings is unclear due to a lack of other data sources, against which reported expenses can be validated. The impact of the cap across affiliated entities may be understated because this estimate does not account for affiliations between businesses which do not share an ultimate parent. The impact of the cap per location may be understated because this estimate does not account for variation in eligible expenses by business location. This cost estimate relies on the GDP projection in the PBO's economic model and is affected by the sources of uncertainty inherent in that model, including the assumptions regarding the impacts of COVID-19. Other sources of uncertainty include: the extent to which eligible businesses use the program, the extent to which the distribution of revenue losses may become more or less concentrated over time, and the extent to which revenue losses may be affected by the increasingly time elapse relative to the pre-COVID-19 comparison period. This estimate assumes all incremental corporate tax revenues are realized in the year the subsidy is paid, while the actual revenues arising from mitigating current corporate losses may be realized in subsequent tax years.
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Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	Total	Incremental
As approved in Budget 2021 (Updated Estimate)	4,141	2,367	-	6,508	Baseline
As extended by Order in Council 2021-0882	4,141	2,468	-	6,609	101
As extended by Bill C-2	4,141	3,008	45	7,194	585
<i>Incremental cost associated with Tourism and Hospitality Recovery Program</i>	-	108	8	116	-
<i>Incremental cost associated with Hardest-Hit Business Recovery Program</i>	-	432	37	469	-

Supplementary information

As approved in Budget 2021 (Updated Estimate)

		2020-2021	2021-2022	2022-2023	Total
Cost	Gross Subsidies	4,786	2,736	-	7,521
Cost recovery	Corporate Income Tax	645	369	-	1,013
Total cost after recovery		4,141	2,367	-	6,508

As extended by Order in Council 2021-0882

		2020-2021	2021-2022	2022-2023	Total
Cost	Gross Subsidies	4,786	2,852	-	7,638
Cost recovery	Corporate Income Tax	645	384	-	1,029
Total cost after recovery		4,141	2,468	-	6,609

As extended by Bill C-2

		2020-2021	2021-2022	2022-2023	Total
Cost	Gross Subsidies	4,786	3,476	52	8,314
Cost recovery	Corporate Income Tax	645	468	7	1,120
Total cost after recovery		4,141	3,008	45	7,194

Incremental cost associated with Tourism and Hospitality Recovery Program

		2020-2021	2021-2022	2022-2023	Total
Cost	Gross Subsidies	-	124	10	134
Cost recovery	Corporate Income Tax	-	17	1	18
Total cost after recovery		-	108	8	116

Incremental cost associated with Hardest-Hit Business Recovery Program

		2020-2021	2021-2022	2022-2023	Total
Cost	Gross Subsidies	-	499	43	542
Cost recovery	Corporate Income Tax	-	67	6	73
Total cost after recovery		-	432	37	469

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.

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ⁱ Under Budget 2021, the rate for CERS Period 13 was the rate indicated for Period 14. This rate was increased by Order in Council 2021-0882 and is reflected in Bill C-2.