

# Legislative Costing Note

Announcement date:	2020-03-27 (C-13)
Publication date:	2020-06-30
Short title:	Introduction of the Canada Emergency Business Account (CEBA)
Description:	<p>The Canada Emergency Business Account provides interest-free loans of up to \$40,000 to small businesses and not-for-profits, to help them cover their operating costs during a period where their revenues have been temporarily reduced, due to the economic impacts of the COVID-19 virus.</p> <p>To qualify for this program, these organizations will need to demonstrate they paid between \$20,000 to \$1.5 million in total payroll in 2019. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25%. The program will be implemented by banks and credit unions in collaboration with Export Development Canada.</p> <p>Sole proprietors receiving income directly from their businesses, businesses that rely on contractors, and family-owned corporations that pay employees through dividends rather than payroll are also eligible for the CEBA after the expansion of the eligibility criteria in May 19, 2020. To qualify under the expanded eligibility criteria, applicants must have payroll lower than \$20,000 and will need to demonstrate that they have:</p> <ul style="list-style-type: none"><li>• a business operating account at a participating financial institution</li><li>• a Canada Revenue Agency business number and have filed a 2018 or 2019 tax return.</li><li>• eligible non-deferrable expenses between \$40,000 and \$1.5 million.</li></ul> <p>Eligible non-deferrable expenses could include costs such as rent, property taxes, utilities, and insurance.</p>

Data sources:	<table><tr><th><u>Variable</u></th><th><u>Source</u></th></tr><tr><td>Number of eligible businesses</td><td>Statistics Canada</td></tr><tr><td>Interest rate</td><td>PBO economic model</td></tr><tr><td>The default rate on payment</td><td>Business Development Bank of Canada</td></tr><tr><td>Maximum amount of the loan</td><td>Department of Finance</td></tr></table>	<u>Variable</u>	<u>Source</u>	Number of eligible businesses	Statistics Canada	Interest rate	PBO economic model	The default rate on payment	Business Development Bank of Canada	Maximum amount of the loan	Department of Finance
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Estimation and projection method:

The program was assumed to become available as of mid-April 2020. The number of eligible businesses was estimated using Statistics Canada data. All eligible companies are assumed to take advantage of the program. The interest rate estimate was based on projections in the PBO economic model, consistent with the Economic and Fiscal Scenario published on June 18, 2020. The default rate on payment was calculated using the historical data on loans in default of the Business Development Bank of Canada. The entire amount of loan was assumed to be granted in 2020-2021 and all businesses, except those in default, as assumed to pay back their loan on or before December 31, 2022.

The government interest cost was equal to the total amount of the loan times the interest rate. The provision for default was equal to the total amount of the loan times the estimated default rate on payment. The loan forgiveness cost was calculated as 25% of the amount of the loan repaid. The total cost for the government was the sum of the interest cost, the provision for default and the loan forgiveness cost.

Aggregate Results:

PBO estimates this program to cost \$9.335 billion in 2020-2021. The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario.

Sources of Uncertainty:

The number of businesses that will apply to the program and the share of those that will pay it back on or before December 31, 2022 is uncertain.

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## Cost of proposed measure

\$ millions	2020-2021
Total cost	9,335

### 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