

Legislative Costing Note

Announcement date:	2020-03-25 (C-13); 2020-05-15 (Extension Announced)	
Publication date:	2020-06-18	
Short title:	Canada Emergency Wage Subsidy (CEWS) for employers with reduced revenues	
Description:	<p>Introducing a wage subsidy for employers with reduced revenues.</p> <p>The subsidy is available for wages paid in six 4-week periods from 15 March 2020 to 29 August 2020. Employers are eligible for the subsidy in relation to a period if they have a qualifying revenue decline based on the leading calendar month. The required revenue decline is 15% for March, 30% for April and May, and is assumed to remain 30% for June, July and August.</p> <p>Employers may choose to compare their revenue level to the average of January and February or to the same month in the prior year. Once an eligible employer has determined that it has experienced the qualifying reduction in revenue for a particular claim period, it is also deemed eligible for the immediately subsequent claim period.</p> <p>For existing employees, the subsidy is up to the lesser of 75% of pre-crisis wages and \$847 per week. For new employees, the subsidy is 75% of wages paid, up to \$847 per week. "Pre-crisis" refers to the period of January 1 to March 15th. The level of subsidy is assumed to remain the same for June, July and August. Employers do not have to pay employees their full pre-crisis wages to qualify for the wage subsidy.</p> <p>Eligible employers can also recover 100% of employer-paid contributions to Employment Insurance, the Canada Pension Plan, the Quebec Pension Plan, and the Quebec Parental Insurance Plan in relation to employees on leave with pay.</p> <p>Eligible employers include individuals, taxable corporations, and partnerships as well as non-profit institutions and registered charities. Public bodies are not eligible.</p> <p>For employers that are eligible for both the Canada Emergency Wage Subsidy and the 10% wage subsidy for a period, any benefit from the 10% wage subsidy for remuneration paid in a specific period would generally reduce the amount available to be claimed under the Canada Emergency Wage Subsidy in that same period.</p>	
Data sources:	<u>Variable</u>	<u>Source</u>
	Gross domestic product (GDP) by industry	Statistics Canada

Financial statistics for enterprises, by industry	Statistics Canada
Labour statistics consistent with the System of National Accounts (SNA), by job category and industry	Statistics Canada
Employment by sector	Statistics Canada
Wages and wage distribution by industrial subsector	Statistics Canada
COVID-19 impact on labour force and GDP	PBO economic model
Employment, wages in non-profit institutions	Statistics Canada
Economic impacts of COVID-19 pandemic on the charitable sector	Economic studies

Estimation and projection method:

The eligible employers that experience a drop of at least 30 per cent in revenues were identified based on the estimated drop in the sub-sectoral gross revenues.

The COVID-19 impact on sectoral GDP provided by the PBO model was used to capture the change in the revenues. This impact was adjusted by considering the magnitudes in changes between the GDP and revenues. The change in operating revenues relative to change in GDP during the 2008 financial crisis was used for the adjustment. The revenue drops by subsector were weighted to calibrate for the share of subsectors' GDP relative to sectoral GDP.

The baseline total wages paid by subsector were estimated based on wages and employment in each subsector. This amount was adjusted to include the employment loss due to COVID-19.

The sub-sectoral employment loss was determined by calculating the share of the sub-sector in sectoral employment loss that was identified in the PBO economic model.

Using Labour Force Survey microdata, the wage subsidy per wage dollar, Employment Insurance (EI) cost per wage dollar, applicable marginal personal income tax rates were estimated for each sector. A model was built based on the relationship between these factors and incomes across sectors then applied to the average wages for each sub-sector to estimate these values for each subsector.

The applicable corporate income tax rate was applied to the amount of the subsidy paid in relation to baseline wages to estimate the incremental corporate income tax revenues.

Aggregate Results:

The PBO estimates the total net cost of this measure to be \$56 billion in 2020-21.

The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario, although there may be potential fiscal impacts for subsequent years.

Source of Uncertainty:

This estimate is highly sensitive to the PBO's economic scenario regarding the impact of COVID-19 and employer responses; therefore, it is affected by the sources of uncertainty outlined in that scenario. The relation between business revenue and GDP shocks is highly uncertain and may be significant. The

distribution of revenue losses between employers within each subsector could be significantly different than our assumptions but could not be addressed at this time. This estimate assumes all incremental corporate tax revenues are realized in 2020-21, while the actual revenues arising from mitigating current corporate losses may be realized in subsequent tax years. The refund of employer payroll contributions in relation to employees on paid leave was not taken into account.

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Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	-	55,645

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