



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Legislative Costing Note

Announcement date:	2020-03-25 (C-13)
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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>Employers will be eligible for the subsidy:</p> <ul style="list-style-type: none">• between March 15th and April 11th if their revenues in March 2020 are 15% lower than March 2019;• between April 12th and May 9th if their revenues in April 2020 are 30% lower than April 2019;• between May 10th and June 6th if their revenues in May 2020 are 30% lower than May 2019;

Employers may choose to compare their revenue level to the average of January and February rather than to the prior year.

For existing employees, the subsidy will be 75% of pre-crisis wages, up to \$847 per week. For new employees, the subsidy will be 75% of wages, up to \$847 per week. "Pre-crisis" refers to the period of January 1 to March 15th.

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.

Eligible employers include individuals, taxable corporations, and partnerships as well as non-profit institutions and registered charities. Public bodies are not eligible. Only revenues from arm's-length sources qualify; revenues from extraordinary items and amounts on account of capital are excluded. Cash or accrual accounting may be used. Employers will not have to pay employees their full pre-crisis wages to qualify for the wage subsidy.

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.

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 of the operating revenues relative to change in GDP during the 2008 financial crisis was used for the adjustment. The revenue drop 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.

An additional amount of wages paid as a result of the policy was assumed to offset a portion of the decline in total wages due to layoff and reduction of work hours.

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 personal income tax rate was applied to the additional wages under the wage subsidy to estimate incremental personal income tax revenues. 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. The employer social contributions rates were applied to the applicable insurable or pensionable earnings base within baseline wages to estimate the lost employer EI and CPP social contributions.

Aggregate Results: The PBO estimates the total net cost of this measure to be \$76 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 government responses; therefore, it is affected by the sources of uncertainty outlined in that scenario. This estimate is moderately sensitive to the behavioral response of employers, which is not yet determinable. This estimate does not account for revenues and cost savings which may arise from the economic impact of boosting employment incomes during or after the qualifying period. It does not account for minor reductions in the costs of other means-tested benefits. This estimate assumes all incremental corporate tax revenues are realized in 2020-21, while in practice may be realized when corporate losses are carried over to the subsequent tax years.

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Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	-	75,975

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