



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

# Legislative Costing Note

Announcement date:	2020-03-25 (C-13); 2020-05-15 (Extension); 2020-07-17 (Further Extension)	
Publication date:	2020-08-13	
Short title:	Canada Emergency Wage Subsidy (CEWS) – 40-week program	
Description:	<p>Introducing a wage subsidy for employers with reduced revenues.</p> <p>The subsidy is available for wages paid in ten 4-week periods from 15 March 2020 to 19 December 2020. The parameters for the tenth period have not yet been announced but were assumed to be the same as the parameters for the ninth period for the purposes of this analysis.</p> <p>For Periods 1 to 4, employers are eligible for the subsidy if they have a qualifying revenue decline. Revenue declines are calculated based on calendar months, rather than the 4-week periods, with the first period corresponding to March 2020. Revenues in the corresponding calendar month are usually compared to revenues in the same calendar month in the prior year. The revenue decline required for eligibility is 15% for March, and 30% for April, May and June. For July onwards, employers are eligible for the subsidy if in a period they have any revenue decline.</p> <p>For Periods 1 to 4, the subsidy is 75% of wages up to the lesser of the weekly cap and wages actually paid. For new employees, the subsidy is 75% of wages paid up to the cap. For Periods 5 to 10, the subsidy rate that an employer will receive depends on the extent of the employer’s revenue losses in the corresponding calendar month (for the base subsidy) and the preceding three calendar months (for the top-up). The level of subsidy declines over periods 7 to 9 as shown in the annexed tables. The employee remuneration eligible for subsidies is capped at \$1,129 per week.</p> <p>For employees on leave with pay, 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.</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>	
Data sources:	<u>Variable</u>	<u>Source</u>
	Baseline employment by industry	Statistics Canada, Table 14-10-0202-01 Employment by industry, annual

Baseline wages by industry	Statistics Canada. Table 14-10-0204-01 Average weekly earnings by industry, annual
GDP projections by industry and persons on leave with pay	PBO Economic Model (as of June 2020)
GDP by industry	Statistics Canada, Table: 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly (up to May 2020)
Retail revenues by industry	Statistics Canada, Table: 20-10-0008-01 Retail trade sales by province and territory (up to May 2020)
Wholesale revenues by industry	Statistics Canada, Table: 20-10-0074-01 Wholesale trade (up to May 2020)
Manufacturing revenues by industry	Statistics Canada, Table: 16-10-0047-01 Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry (up to May 2020)
Air Transport revenues	Statistics Canada, Table: 23-10-0079-01 Operating and financial statistics for major Canadian airlines, monthly (up to May 2020)
Supplemental detail regarding ambulatory health care revenue changes	US Census Bureau, Selected Services - Estimated Quarterly Revenue for Employer Firms, Seasonally Adjusted
Historical revenues and median analyst revenue projections for a large sample of publicly traded firms	Capital IQ, custom query (extracted July 2020).
Payroll tax contributions applicable to employees on leave with pay	Statistics Canada, Labour Force Survey Public Use Microdata File (for May 2020)
Value of CEWS claims by Period by week of submission	Canada Revenue Agency, Claims to date - Canada Emergency Wage Subsidy
Value of CEWS claims and number of employees supported by industry	Canada Revenue Agency, Response to PBO IR0496

Estimation and projection method:

For retail, wholesale, manufacturing and air transportation, the April and May year-over-year revenue shocks for each industry group were indexed to PBO's GDP shocks by industry to estimate revenue shocks for June onwards.

Using the revenue and GDP data for these industry groups in April, a simple model was built of the relation between revenue and GDP shocks arising from COVID-19 by industry. This model was applied to the GDP shocks for all other industries to estimate revenue impacts over the projection period.

Using median analyst Q2 revenue projections from Capital IQ, a model was built of the share of businesses experiencing a given percentage revenue decline due to

COVID-19 as a function of industry-wide revenue declines. This model was applied to the estimated April-June revenue shocks for each industry to generate a revenue loss distribution. For the months subject to the deeming rule, the share of firms with each range of revenue decline for the purposes of calculating the subsidy was set to be at least the share of firms with that range of revenue decline in the prior month.

Employment was estimated based on these revenue declines for each industry group, for each revenue loss bracket, and for each period. Specifically, baseline employment was distributed in proportion to the share of businesses in each revenue loss bracket, while employment losses were distributed in proportion to the share of total revenue losses in each revenue loss bracket.

The average wage eligible for subsidies was calculated for each industry based on average subsidies per employee from the operational data up to 22 June 2020.

Subsidies were estimated as the product of average wages eligible for subsidy, the applicable subsidy rate for that period and the relevant employment. Industries dominated by public bodies were excluded.

The subsidies were independently estimated for March to June based on a projection from the number of employees supported by claim period, by week of submission. This projection assumes a continuing exponential decline in new claims submitted each week, as observed to date in the operational data. The resulted estimates were used for March to June and was used to confirm the validity of the model.

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 number of employees on leaves with pay was extracted from the PBO economic model. Labour Force Survey microdata was used to calculate the employer payroll tax contributions applicable to employees on leave with pay in each industry.

Aggregate Results:

The PBO estimates the total net cost of this measure to be \$59.2 billion - \$67.9 billion in wage subsidies and \$0.5 billion in forgone employer payroll contributions, offset by \$9.1 billion in corporate income tax revenues from wage subsidies.

Source of Uncertainty:

This estimate is sensitive to the PBO's economic scenario regarding the impact of COVID-19 and, therefore, affected by the same sources of uncertainty outlined in that scenario. The relation between business revenue and GDP shocks is uncertain for those industries without data regarding revenue change attributable to COVID-19. The distribution of revenue losses is uncertain for all industries.

This estimate assumes all incremental corporate tax revenues are realized in 2020-21, while the actual revenues arising from of mitigating current corporate losses may be realized in subsequent tax years.

It is not possible to determine whether the wage subsidy affected employment in Canada. To the extent the CEWS increases employment or employee income, the fiscal impacts would be reflected in the PBO's baseline economic assumptions.

**Cost of proposed measure**

\$ millions	2019-2020	2020-2021
Canada Emergency Wage Subsidy Payments	-	\$67,894
Forgone Employer Payroll Contributions	-	\$476
Corporate Income Tax Revenues	-	-\$9,147
Total cost	-	\$59,223

**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

## Base Subsidy Rates

		Timing				
		Period 5*: July 5 – August 1	Period 6*: August 2 – August 29	Period 7: August 30 – September 26	Period 8: September 27 – October 24	Period 9: October 25 – November 21
Revenue drop in prior calendar month	50% and over	60%	60%	50%	40%	20%
	0% to 49%	1.2 x revenue drop	1.2 x revenue drop	1.0 x revenue drop	0.8 x revenue drop	0.4 x revenue drop

\* In Periods 5 and 6, employers who would have been better off in the CEWS design in Periods 1 to 4 would be eligible for a 75% wage subsidy if they have a revenue decline of 30% or more.

## Top-up Subsidy Rates

		Timing				
		Period 5*: July 5 – August 1	Period 6*: August 2 – August 29	Period 7: August 30 – September 26	Period 8: September 27 – October 24	Period 9: October 25 – November 21
Revenue drop in prior 3 calendar months	70% to 100%	25%				
	50% to 70%	1.25*(revenue decline-50%)				
	0% to 49%	0				