



Personal income tax revenues are expected to decline to \$146.3 billion in 2020-2021 from \$170.9 billion in 2019-2020. Corporate income tax revenues are projected to decline to \$38.3 billion in 2020-2021 from \$49.2 billion in 2019-2020. Revenue from excise taxes and duties is projected to decrease to \$46.4 billion in 2020-2021 from \$55.6 billion in 2019-2020.

Though there are many COVID-19 response measures to contribute to the deficit, the biggest expenditures include:

- Canada Emergency Response Benefit: \$80 billion;
- Canada Emergency Wage Subsidy: \$82.3 billion;
- Safe Restart Agreement: \$14 billion; and
- Canada Emergency Business Account: \$13.75 billion.

Although the federal government's projected budget deficit has increased, the snapshot did not announce any tax changes in response to the significant change in the fiscal position. However, the snapshot reiterates the government's commitment to enhance the tax write-off for zero-emission vehicles.

Income Tax Payment Deadline Extended

On July 27, 2020, the Canada Revenue Agency ("CRA") extended the payment deadline for income tax balances and instalments. The deadline with respect to current-year individual, corporate, and trust income tax returns is extended to September 30,

COVID-19 Tax Update for Businesses

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The federal government has been continuously introducing and modifying numerous measures to support Canadian businesses throughout the COVID-19 pandemic. This article summarizes the key tax-related developments that occurred in the recent months that you should be aware of.

2020 Economic and Fiscal Snapshot

On July 8, 2020, the former federal Finance Minister Bill Morneau delivered the 2020 Economic and Fiscal Snapshot. The deficit for 2020-2021 is projected to increase to \$343.2 billion—pre-COVID-19, it was originally projected to be \$34.4 billion. A large proportion of the spending is \$212 billion in direct support to Canadians and businesses.

Also attributable to the increased deficit are projected declines in tax revenues.

2020—previously this deadline had been extended to September 1, 2020. Penalties and interest will not be charged if payments are made by September 30, 2020, which includes the late-filing penalty if the return is filed by September 30, 2020. The deadline for instalment payments is also extended to September 30, 2020.

The CRA is also waiving interest on existing tax debts for individual, corporate, and trust income tax returns from April 1, 2020, to September 30, 2020. Similarly, interest on existing GST/HST debts is waived from April 1, 2020, to June 30, 2020. Therefore, interest will not apply during these periods with respect to existing balances owing, but this does not cancel interest and penalties that had been assessed prior to these periods.

To align with the federal announcement, Revenue Québec announced that the deadline for the payment of tax balances, instalments, and other tax payments will also be extended again to September 30, 2020.

Partnership Return Deadlines Extended

On June 1, 2020, the CRA updated its website with new filing deadlines for the 2019 T5013 partnership information return. Prior to this change, the website solely stated that the deadline for the T5013 return had been extended to May 1, 2020. The updated deadlines are as follows:

- May 1, 2020 for partnerships that would normally have a March 31 filing deadline;
- June 1, 2020 for to partnerships that would normally have a filing deadline after March 31 and before May 31, 2020; and
- September 1, 2020 for to partnerships that normally have a filing deadline on May 31, or in June, July, or August 2020.

EI Premiums Update

Ordinarily, the employment insurance (“EI”) premium is set to the forecasted the seven-year break-even premium rate, which was determined to be \$1.93 per \$100 of insurable earnings, an increase of 35 cents. The forecasted increase is mainly attributable to a rise in unemployment resulting from the pandemic, that is the Government of Canada’s response through the Canada Emergency Response Benefit (29 cents) and temporary measures to support transition back to the EI program (6 cents).

However, as a result of the economic impact of the COVID-19 pandemic, the Government of Canada used its authority under the Employment Insurance Act to temporarily limit the change in the premium rate to zero in order to freeze the EI premium rate for 2021 and 2022 at the 2020 level.

As a result, the 2021 EI premium rate is set at \$1.58 per \$100 of insurable earnings for employees and \$2.21 for employers who pay 1.4 times the employee rate; the rate is unchanged from the 2020 premium rate. The Maximum Insurable Earnings (“MIE”) for 2021 will increase to \$56,300 from \$54,200 in 2020. For self-employed individuals who have opted-in to the EI program, the annual earnings required in 2020 will increase to \$7,555 for claims filed in 2021.

The premium rate in 2021 for residents of Quebec covered under the Quebec Parental Insurance Plan (“QPIP”) will be \$1.18 per \$100 of insurable earnings, while their employers will pay \$1.65 per \$100 of insurable earnings. The maximum annual contribution for a worker in Quebec will increase by \$13.94 to \$664.34 (up \$19.52 for employers to \$930.08 per employee).

Canada Emergency Wage Subsidy Update

Bill C-20, An Act respecting further COVID-19 measures, received Royal Assent on July 27, 2020. The bill amended the rules for the Canada Emergency Wage Subsidy (“CEWS”) in order to:

- allow the extension of the CEWS until December 19, 2020, including redesigned program details until November 21, 2020;
- make the subsidy accessible to a broader range of employers by including employers with a revenue decline of less than 30% and providing a gradually decreasing base subsidy to all qualifying employers—this would help many struggling employers with less than a 30% revenue loss get support to keep and bring back workers, while also ensuring those who have previously benefited could still qualify, even if their revenues recover and no longer meet the 30% revenue decline threshold;
- introduce a top-up subsidy of up to an additional 25% for employers that have been most adversely affected by the pandemic—this would be particularly helpful to employers in industries that are recovering more slowly; and
- provide certainty to employers that had already made business decisions for July and August by ensuring

they would not receive a subsidy rate lower than they would have had under the previous rules.

Further, Bill C-20 addressed certain technical issues identified by stakeholders. These changes, which generally apply as of March 15, 2020, include:

- providing an appeal process based on the existing procedure for notices of determination that allows for an appeal to the Tax Court of Canada;
- providing continuity rules for the calculation of an employer's drop in revenues in certain circumstances where the employer purchased all or substantially all the assets used in carrying on business by the seller;
- allowing prescribed organizations that are registered charities or non-profit organizations to choose whether to include government-source revenue for the purpose of computing their reductions in qualifying revenue; and
- allowing entities that use the cash method of accounting to elect to use accrual-based accounting to compute their revenues for the purpose of the CEWS.

In addition to the above changes, Bill C-20 enacted changes that had originally been included in Bill C-17. These include relieving changes for calculating pre-crisis "baseline" remuneration for corporations that have amalgamated and for eligible entities that use payroll service providers, and an amendment that aligns the treatment of trusts and corporations for the purposes of the CEWS.

Bill C-20 introduced a separate CEWS rate structure with respect to furloughed employees. Beginning in Period 7, the CEWS calculation for furloughed employees would be adjusted to align with the benefits provided through the Canada Emergency Response Benefit ("CERB") and/or Employment Insurance ("EI").

However, since these changes were enacted, the CERB was extended by another four weeks. Therefore, the federal government announced that the current CEWS computation with respect to furloughed employees will continue to apply for Period 7 (August 30 to September 26). The Department of Finance news release states that further details about the calculation of CEWS for furloughed workers for remaining periods of the program will be announced in the coming weeks.

Income Tax Assessments

The time limits on the Minister's ability to make an assessment, reassessment, or additional assessment,

which would otherwise have expired on or after May 20, 2020, are temporarily extended for a maximum of six months but not beyond December 31, 2020.

GST/HST Assessments

The time limits on the Minister's ability to make an assessment, reassessment, or additional assessment of a registrant's GST/HST return or of certain amounts of GST/HST payable, penalties, rebates, or interest, which would otherwise have expired on or after May 20, 2020, are extended for a maximum of six months but not beyond December 31, 2020.

Requesting Extension to File Notice of Objection (Income Tax and GST/HST)

The time limit by which the Minister may grant an extension of time to a taxpayer to file a Notice of Objection to an assessment, which would otherwise have expired on or after March 13, 2020, is extended for a maximum of six months but not beyond December 31, 2020. Note that this only applies to requests for an extension of time to file a Notice of Objection—the deadline for filing a Notice of Objection has not been extended beyond June 30, 2020. Specifically, if the deadline for filing an objection under the Income Tax Act or Excise Tax Act was between March 18, 2020 and June 30, 2020, the objection can be filed on or before June 30, 2020, without providing the reasons why it was not filed on time.

Applying to TCC to Extend Objection Time

The time limit by which a taxpayer or registrant may apply to the Tax Court of Canada for an extension of time to object to an assessment, which would otherwise have expired on or after March 13, 2020, is extended for a maximum of six months but not beyond December 31, 2020.

New T4 Reporting Requirements

The CRA has introduced additional reporting for the T4 slip, Statement of Remuneration Paid. Additional reporting requirements apply to all employers, and will help the CRA validate payments under the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Response Benefit (CERB), and the Canada Emergency Student Benefit (CESB). For the 2020 tax year, in addition to reporting employment income in Box 14 or Code 71, employers must use new other information codes when reporting employment income and retroactive payments in the following periods:

- Code 57: Employment income — March 15 to May 9

- Code 58: Employment income — May 10 to July 4
- Code 59: Employment income — July 5 to August 29
- Code 60: Employment income — August 30 to September 26.

Eligibility criteria for the CERB, CEWS, and CESB is based on employment income for a defined period. The new requirement means employers should report income and any retroactive payments earned during these periods.

Federal Rent Assistance Extended

The Canada Emergency Commercial Rent Assistance (“CECRA”) for small businesses was extended by one month to help eligible small businesses pay rent for September. All provinces and territories continue to participate in this initiative and collaborate with the federal government to provide rent supports to those small businesses most in need. CECRA application deadlines were also extended to accommodate this extension. This will be the final extension of this program as the government explores options to support small businesses as they face the ongoing challenges of the COVID-19 pandemic.

SR&ED Reporting Deadline Extended

The deadline to report scientific research and experimental development (“SR&ED”) activities by filing Form T661 has been extended.

Corporations with tax year ends from September 13, 2018 to December 31, 2018, that had an SR&ED reporting deadline from March 13, 2020 to June 30,

2020, are extended by six months. Corporations with tax year ends from January 1, 2019, and to June 29, 2019, that would usually have an SR&ED reporting deadline from July 1, 2020 to December 29, 2020, are extended to December 31, 2020.

For individuals who operated a sole proprietorship with a December 31, 2018, tax year end and who had an SR&ED reporting deadline of June 15, 2020, the deadline is extended by six months to December 15, 2020.

Trusts with tax year ends from December 13, 2018 to April 1, 2019, that would usually have an SR&ED reporting deadline from March 13, 2020 to June 30, 2020, are extended by six months. Trusts with tax year ends of April 2, 2019 to October 1, 2019, that would usually have an SR&ED reporting deadline of July 1, 2020 to December 30, 2020, are extended to December 31, 2020.

CEBA Extended and Expanded

The federal government has announced that the application deadline for the Canada Emergency Business Account (“CEBA”) is extended from August 31 to October 31, 2020.

Moreover, the government is working with financial institutions to make the CEBA program available to businesses with qualifying payroll or non-deferrable expenses that have so far been unable to apply due to not operating from a business banking account. Further details on these changes will be released in coming days, including a new business account opening process through which qualifying businesses will be able to apply.