Tips for CEWS Application

Disclaimer:

This document contains examples to help you think through how to apply for the Canada Emergency Wage Subsidy Program. Please note that the information below has not been vetted by any Federal government employee. Accordingly, we cannot guarantee that it is accurate and properly interprets the information made available by the Federal Government.

We urge everyone using this document to read the Government of Canada information on CEWS and follow the advice given there when making an application.

April 29 Update

As you start preparing for the CEW application (with this guide), here are some thoughts:

1. **Calculating revenues to find out whether you qualify.** Yesterday, I listened to an early April KPMG webinar about CEWS. It included useful information on how NGOs can calculate revenues. As you will recall, you first have to decide whether to use the accrual or cash method. Most NGOs use accrual because we get multi year grants that then get deferred into the next fiscal year. Most NGOs deal with accrual issues at the end of their fiscal year. For example, a multi year grant arrives in May. You don't bother recording the amount that needs to be deferred every month. Rather, you record the deferral amount at the end of the fiscal year. KPMG advised that if you are going to use the accrual method, your financial statements should show the deferred amounts every month. I suspect most of you have not done this. So, it's unclear how CRA might respond if you apply and they do an audit later on.

I will try to contact CRA and ask them this question.

2. **Calculating base salaries for CEW.** The Application Guide states salaries should be the average salary between Jan. 1, 2020 and March 15 (see instructions for Line C). It's unclear what to do if you moved someone from part time to full time hours during that time. My ***guess*** is

that if you have documentation (prior to March 15) that indicates this was going to happen, you have a case for claiming full time hours instead of the average hours.

3. **Taking Responsibility for what you have submitted.** The application process includes completing this Attestation. In essence, the person who fills this out is taking legal responsibility for your organization'sl application. As it says at the bottom:

> I make this attestation acknowledging that making a false attestation is a criminal offence, and that the CEWS program rules and other rules under the Income Tax Act contain serious penalties and consequences for intentional or grossly negligent false statements and other misconduct

The KPMG webinar suggested this could include jail time. Here is what was on the KPMG slide:

- Penalties include 25% fine on denied claim and up to 5 years in prison for person "attesting" to materially inaccurate submission

I'm not a lawyer but this makes it clear to NOT submit any information that you know is false and/or inaccurate.

Tips on Calculating your Baseline Revenues for CEWS.

In order to qualify for CEWS, organizations will have to keep records that show revenues dropped by 15% in Period 1 (March 15 - April 11), 30% in Period 2 (April 12- May 9) and 30% in Period 3 (May 10- June 6).

You will not be asked to enter your revenue calculations for the application process. But it is expected you will have records (eg. financial statements, notes, calculations, etc…) that provide an accurate "paper trail" that show your organization qualifies.

CEWS has two methods you can use to develop your baseline revenue which you then use to compare your revenues in Periods 1,2 and 3.

1. What happened last year during the same Period (eg. March 15 - April 11, 2019)
2. The average monthly revenue from Jan-Feb. 2020.

The method you choose is the one you will be using for the three time Periods. It may also be the method you use should the Program be extended (which is possible if the Covid crisis continues past June 6).

Below are some tips. These may change as we get new information. As always, please check these tips against official CEWS information and always rely on the official information if there is a discrepancy.

Choosing a Method to Create your baseline revenue

The goal is to create an accurate representation of your organizational revenues in a given month. ENGOs have certain unique circumstances that are not specifically addressed by existing official documents explaining CEWS. Which means you may have a choice in how to proceed. These tips provide you with some ways to address these choices.

1. Decide whether you want to include revenues from government (eg. grants, Canada Summer Jobs). If you do so, you will have to include government revenues in the revenues you report for the 3 time periods.
2. Make sure revenues from project grants are included:
    a. For example, let's say you got a $120,000 grant in May 2019 for a 12 month project. It would probably be wrong to book $120,000 for May 2019 since the grant is to be used for a 12 month project. To calculate what amount to book, you will likely have to calculate what amount was actually spent in May 2019. Make sure that this amount is in line with any grant reports you have submitted and with what's recorded in your books.
    b. Include amounts from grants that came in before (and/or after) the reporting period. For example, say you got a $120,000 grant cheque in September 2019 for a 1 year project. Actual work on the project began in May. Remember to book revenue for May onwards in your monthly revenue calculations, in line with verifiable expenses.
3. Consider how to allocate individual/private donations. At this point (April 21) there is no guidance about how to do this. Two obvious approaches include (a) booking the revenues on the month they were received (b) taking annual donations dividing them by 12 and then booking that amount for each Period. Remember, while one method may give you higher projections for certain months, there may be lower projections in later months. Investigate the pros and cons of both approaches should CEWS be extended.
4. Run various scenarios based on different approaches to see what your baseline revenues are for the "Previous Year" and "Jan-Feb" methods. This will help you decide which Method is best for your organization.

Tips on Dealing with Grants

Group X wants to apply to the Canada Emergency Wage Subsidy (CEWS) program and has calculate their income to determine if they qualify.They've decided to use the alternate method which means recording revenues in January and February 2020 and then comparing them to the revenues during the appropriate Claim Periods (see here for details on alternate method and claims period).

At the end of December 2019, Group X got a cheque for $50,000 from Foundation Y to cover 5 months of work for a multi year grant. However, on March 13 Foundation Y and Group X agreed to suspend the project until January 2021.

For the purposes of determining whether they qualify for the CEWS, Group X calculates its income for January and February as follows:

1. Group X assumes the anticipated work on the project would have been the same every week for the 5 month period. Accordingly, the weekly "income" from the grant is $50,000 divided by 21.6 weeks (5 months) = $2,314.
2. January had 4.5 weeks so project income would be calculated as $2,314x4.5= $10,416. February had 4 weeks so project income would be calculated as $2,314x4=$9,256.

Since the project was suspended on March 13, no new revenues will be booked from the remaining funds until January 2021. In other words, when calculating the revenues for the first Claims Periods, the group will NOT include revenue from Foundation Y. While the money from Foundation Y is still in Group X's bank account, it cannot be spent (and viewed as income) because it is being deferred until January 2021 when the project resumes.

This deferral approach is similar to what Group X's auditor uses for calculating Group X's annual income when a big grant cheque comes and there is "unspent" money at the end of the fiscal year.