

Department of Finance Canada
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On behalf of British Columbia's accommodation, hospitality, and tourism industries, we are writing in response to the Government of Canada's request for feedback on the Canada Emergency Wage Subsidy program.

Collectively, our industries generate over \$21 billion in annual revenue and employ over 300,000 workers in BC. Our industry's thousands of small businesses make vital contributions to the social, cultural, and economic health of communities in every region of the province.

We are enormously appreciative of the federal government's swift, decisive action to support Canadians and Canadian businesses during this unprecedented crisis. We are particularly grateful for the extension of the CEWS through to the end of August and government's efforts to extend eligibility to those who need it most. These measures will greatly assist our industry in hiring or rehiring many of the over 15 million Canadians who have applied for the Canada Emergency Response Benefit.

As you are no doubt aware, the dire economic consequences of the COVID-19 pandemic will continue to last for many months. Given that Canada's unemployment rate reached a new historic high of 13.7 per cent this June, the CEWS will be a vital tool to assist struggling businesses retain workers, sustain employment, or restart operations. Simply put, many of BC's accommodation, hospitality, and tourism businesses will not survive without an extended and simplified wage subsidy.

On behalf of our collective memberships, we offer the following recommendations:

1. Further extend the CEWS while COVID-19 restrictions remain in place or until businesses get close to reaching their pre-COVID sales to ensure businesses can continue to maintain employment and operate with confidence as our economy struggles to recover.
2. Introduce a smooth scaling of the program that allows businesses to access a proportionately reduced portion of the subsidy as their business revenues grow. This would assist businesses to retain current employment levels while they continue to rebuild, while also ensuring the current 30 per cent threshold does not act as an inadvertent disincentive to increase revenues (i.e. under the current structure, some operators may weigh the cost of increasing revenue versus losing access to this vital subsidy)
3. Expand eligibility to include additional common corporate structures not currently eligible for the program. For example, where multiple businesses are operated within a single corporation (as opposed to a separate corporation being used for each business), there appears to be no provision which would enable the corporation to determine its eligibility for the CEWS on a business-by-business basis.



This means that if the revenues of one business were to decline, but the revenues of the other business or businesses do not decline (or do not decline to a sufficient extent), the aggregate revenues of the corporation could remain above the relevant threshold and the corporation would be precluded from qualifying for the CEWS. It is vital that eligibility be based on the performance of each individual business, regardless of overall corporate structure.

Please see the attached briefing note with more detailed recommendations in response to government's specific questions.

Thank you again for your tireless efforts to support Canadians whose livelihoods and businesses have been devastated by this unprecedented crisis. If you have any questions or require further information, please do not hesitate to get in touch with any of us directly.

Sincerely,

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Canada Emergency Wage Subsidy Consultation

Recommendations from BC's accommodation, hospitality, and tourism industries

1. *Are there specific challenges associated with the CEWS program? For example, are there challenges with respect to its accessibility, its incentive impacts, or any other aspect?*
 - A key issue for many businesses with joint venture structures is that they are ineligible for the CEWS.
 - Specifically, those with a joint venture (JV) structure whereby not all of the qualifying revenue is derived from the JV do not qualify under CEWS. Members have had difficulty applying for CEWS, when the employer acting on behalf of the JV is a company that is only a nominee/agent of the JV and has no participation in and is not an operator of the JV. In these cases, the decline of revenue would be based on the non-operating company's revenue and not the operating company which has qualifying revenue declines.
 - Allowing flexibility for businesses to update and determine the employer in a joint venture would allow such companies to apply for CEWS with the correct qualifying revenues.
 - The application process for CEWS is not difficult, but it is complex and time consuming. A stream-lined, simplified process would facilitate a faster application process. Many businesses have reported difficulty in obtaining verification codes necessary to submit CEWS documents and have had difficulty obtaining technical support from the Canada Revenue Agency.
 - Eligible payments specific to the accommodation industry under CEWS also needs to be clarified, (i.e. tips, service charges, commissions, benefits, taxable benefits) and if they are included in the payment calculations.
 - The exclusion of third-party payroll providers is a barrier for some because the qualifying rules require payroll to be managed by the applicant, and not a third party. The outsourcing of payroll should not have an influence on eligibility since it has no bearing on the employee/employer relationship, other than a conduit for wages. Therefore, a third-party payroll company should be able to apply for CEWS on behalf of their employer.
2. *What adjustments to the CEWS would you propose to provide the right level of support to those most affected by the pandemic while supporting the economic recovery?*
 - The accommodation, hospitality, and tourism industries have been particularly hard hit by COVID-19 and its recovery will be prolonged due to border closures, limits on gatherings, domestic travel restrictions, and 14-day quarantine requirements still in place within Canada. But with the right support from our government, our critical

industries will come back strong. To assist in economic recovery, we recommend amending the CEWS legislation to extend the subsidy to December 31, 2020 to allow hard hit businesses to recover over a longer time horizon.

3. *Would adding complexity to the CEWS program be acceptable in order to expand access to this support, or better target support to those who need it?*

- COVID-19 has impacted various sectors and businesses differently. Adding complexity to the CEWS program to focus on those who continue to be hardest hit is necessary, and will allow government to provide proportional coverage to those that need it most over a sustained period. For example, our sectors have experienced revenue declines averaging 80 to 90 per cent. A uniform application of CEWS does not take this reality into consideration.
- By targeting the hardest hit businesses (those with revenue losses at 50% due to COVID-19) the government will be able to ensure that the hardest hit businesses receive adequate and proportional support. This will facilitate a faster re-hiring process as businesses position for recovery.
- Alternatively, government could also consider a sliding scale that pays a higher percentage subsidy to those with revenue loss of 50% (i.e. 100% subsidy on wages).

4. *To what extent are employers using the CEWS to provide support to furloughed employees as compared to using it as a means to pay active employees? Do employers value maintaining ties with furloughed employees by keeping them on the payroll? Should the level of support for furloughed employees be the same as for active employees?*

- All of our members are very keen to keep employment ties with workers, and the overwhelming majority report using CEWS for both furloughed and active employees.
- However, additional support to cover all employer-paid contributions to EI, CPP, QPP and QPIP would be helpful. Any additional cost during this period is difficult to manage for an industry that has seen 80 to 90 per cent revenue reductions. Currently, only furloughed employees are covered under the 100 per cent refund for these contributions. As our members bring back more employees, employers will need the accompanying payroll support for these workers.

5. *What are the key barriers to rehiring workers recently laid off due to the pandemic?*

- A core issue is that the Canada Emergency Response Benefit (CERB) provides a disincentive to return to work, as wages on CERB may be equal to or higher than low-income wages of some workers. As a result, businesses have reported a high occurrence of employees refusing to return to the workplace due to the preference of staying on CERB.
- Additionally, the 14-day exclusion is greatly limiting the ability of employers to easily rehire workers, as the exclusion makes it difficult to properly calculate pay periods, while

also providing a disincentive for employers to bring these employees back. Specifically, this rule should not have applied to the first eligibility period where many employees were out of work for longer than 14 days, as many businesses had already made staffing decisions before CEWS was rolled out.

6. *Are there specific factors that are preventing or discouraging employers from applying for the CEWS?*

- A key factor preventing many members from using CEWS is the sizable burden of fixed costs, such as mortgages, property taxes, maintenance and insurance that are ongoing despite significant and sustained revenue reductions. The added cost of bringing back employees and providing payroll contributions not covered under CEWS is contributing to a hesitation to fully use the program.
- As many members have had difficulty accessing liquidity programs, these added costs become a deep barrier.
- Many of our members report that they collect non-traditional salaries, such as through dividend payments or a management fee. They also reported difficulty in accessing the CEWS, since they were not on payroll and therefore are ineligible to be covered under CEWS.

7. *If you are a seasonal business are there any unique challenges you are facing in relation to the CEWS?*

Seasonal businesses whose revenues occur in the summer months have yet to experience a revenue loss but nonetheless experience wage costs through the year and especially in the months preparing for the summer season. These businesses currently to do qualify for the CEWS subsidy for wage costs being incurred. There is an opportunity to improve the eligibility criteria of the CEWS program to allow business-owner, contractor, and seasonal-employee eligibility, and allow a more flexible method of demonstrating a 30 per cent drop in revenue.

In addition to extending the program out to six months, eligibility must be reasonable. Demonstrating a 30 per cent loss by comparing March 2019 to March 2020, for example, is often difficult in seasonal tourism businesses. Many SMEs do not create monthly financials, some use a cash method, and some used the accrual method. A decline of 30 per cent or more, demonstrated by comparing to the same month last year, is difficult to demonstrate based on an irregular income stream that is common to this sector.

For example, many operators will declare their income as 'earned' only after they have delivered the service. In which case they may have had zero revenue in March 2019, and therefore no way to show a 'reduction' from there. Some declare income annually, and pay taxes monthly based on their previous year's income.

To account for these variances, we ask that SMEs be permitted to utilize their GST or yearly financials to demonstrate their loss. This may require that they submit a declaration of loss up front for payment that is then reconciled once their 2020 financials are filed with the CRA.

8. How do you foresee the CEWS interacting with the Canada Emergency Response Benefit (CERB) over this extended period? Do you have any additional comments about the CERB?

- As stated above, it has proved difficult to bring back employees currently receiving CERB. Since CERB is in place until October, it will remain a barrier as our members re-open and will want to rapidly scale up staffing.
- CEWS maintains the employer-employee tie and the system should be designed to support this goal. Our industries were already in the midst of a severe skilled labour shortage prior to COVID-19, and will suffer deep perception issues if the program is not extended further and large numbers of employees are laid off again at the end of August.