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Covid – 19 Government Initiatives and Planning NGCOA - Atlantic

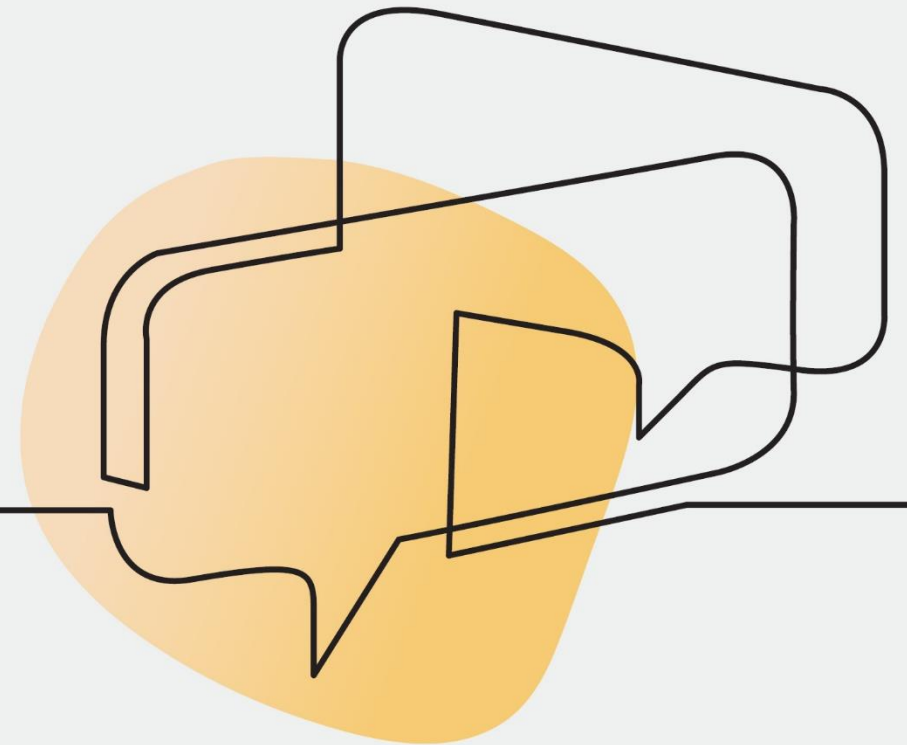
- May 8, 2020





Wage Subsidy Programs

Mike Power



Temporary Wage Subsidy Program (TWS)

- Temporary wage subsidy for a period of three months as follows:
- Subsidy is 10% of remuneration paid during period; maximum subsidy of \$1,375 per employee and \$25,000 per employer.
- CCPC's with taxable capital up to \$15M, partnerships, individuals (not Trusts), charities and NPO's
- Claim TWS by reducing their remittances of income tax withheld on their employees' remuneration
- TWS is deemed to be claimed for purposes of CEWS
- No need to reduce the tax remittance credited to the employee as source w/h.
- Available March 18 – June 19, 2020.

Payroll Related
Measures

Canada Emergency Wage Subsidy (CEWS)

- **Eligible Entities**

- Corporation that is not exempt from Tax (could be a foreign entity)
- Individual and Trusts
- Charity that is not a public institution
- Regular Not for Profit (NPO) entity
- Partnership with eligible entities as partners

Canada Emergency Wage Subsidy

- Reporting Periods for CEWS Claim

	Comparative	Pay Periods
March 2020	15% reduction from March/19 or average Jan/Feb/20	March 15 – April 11
April 2020	30% reduction from April/19 or average Jan/Feb/20	April 12 – May 9
May 2020	30% reduction from May/19 or average Jan/Feb/20	May 10 – June 6

Canada Emergency Wage Subsidy

- Test includes measurement of 75% of “baseline remuneration” and actual wages paid during qualifying Periods
- Baseline remuneration is average weekly pay for employee during January 1 – March 15, 2020
- Employees must effectively not be without remuneration for 14 days during a 4 week claim period to qualify for CEWS
- However CERB can be repaid on retroactive recall to obtain CEWS for the period
- Applies to wages paid for part time employees and seasonal workers
- Wages plus all benefits “paid or reported” excluding stock options

Canada Emergency Wage Subsidy

- Government will cover up to 75% of wages (Limit: \$58,700 annualized or \$847/week)
- Eligible for wages from March 15, 2020 to June 6, 2020
- Subsidy can effectively provide support for 100% of first 75% of wages paid
- Employees “related” to employers (i.e. owners) must have baseline remuneration to be eligible for subsidy therefore owner paying dividends only during Jan – March 15 will disqualify them for subsidy

Canada Emergency Wage Subsidy

- Benefit Calculation
- Subsidy is the greater of:
 - A) 75% of remuneration paid, up to a maximum of \$847 per week
 - OR
 - B) The lesser of either:
 - i. The remuneration paid, up to a maximum of \$847 per week
 - OR
 - ii. 75% of the employee's baseline remuneration

Canada Emergency Wage Subsidy

- Examples

	Baseline remuneration	Actual wages paid
Scenario I	\$800	\$800
Scenario II	\$800	\$600
Scenario III	\$1,300	\$800

Canada Emergency Wage Subsidy

- Examples

Criteria		Scenario I	Scenario II	Scenario III
The greater of:				
(A) 75% of remuneration paid, up to a maximum of \$847 per week, <u>or</u>		\$600	\$450	\$600
(B) The lesser of:	The remuneration paid, up to a maximum of \$847 per week, <u>or</u>	800	600	<u>800</u>
	75% of the employee's baseline remuneration	<u>600</u>	<u>600</u>	975
Amount of Subsidy		\$600	\$600	\$800


Canada Emergency Wage Subsidy

- Revenue Reduction Test Components
- Qualifying Revenues from activities In Canada include everything from arm's length sources, except the following:
 - *Revenues exclude extraordinary items and amounts on account of capital*
 - *Elections available for:*
 - Affiliated groups to all be eligible
 - 90% sales to a NAL person
 - Cash v Accrual basis

Canada Emergency Wage Subsidy

- CEWS Key Issues
- CEWS claim will include the following:
- ***qualifying entity***, for a qualifying period, means an eligible entity that meets the following conditions:
 - a) it files an application with the Minister in respect of the qualifying period in prescribed form and manner, before October 2020
 - b) **the individual who has principal responsibility for the financial activities of the eligible entity attests that the application is complete and accurate in all material respects**

CEWS



Canada Emergency Wage Subsidy

- CEWS Key Issues
- Penalties include **25% fine on denied claim** and up to **5 years in prison for person “attesting” to materially inaccurate submission**

CEWS

Canada Emergency Wage Subsidy

- My Business Account opened for submissions on April 27
- Claim will separately allow for refund of full actual employer portion of EI/CPP/QPP on wages for employees on leave with no limits
- 10% Temporary Wage Subsidy “eligible” for the same qualifying period will reduce CEWS claim for corresponding period
- Any EI payments under formalized Workshare program with Service Canada must be reduced from CEWS claim

Canada Emergency Wage Subsidy

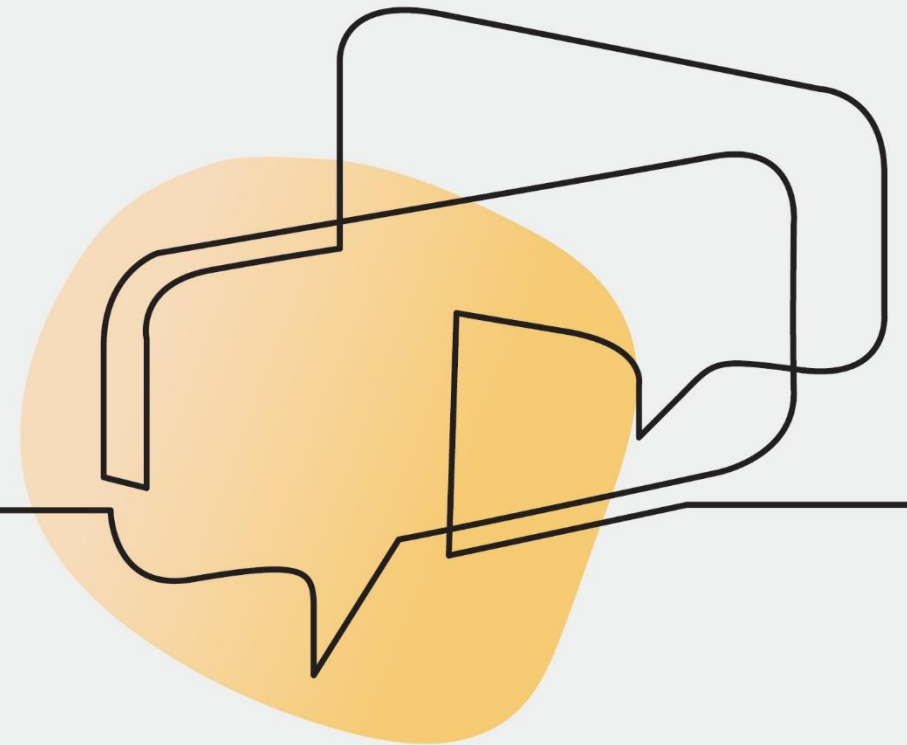
- Input to My Business site requires:
 - 1. Salaries paid in respect of the Period
 - 2. Subsidy amount and adjustments
 - 3. CFO attestation on material accuracy of information
- To the extent entity qualifies for revenue reduction in one Period it will be deemed to automatically qualify in next Period, but not two subsequent Periods
- CRA will be able to publically share information on organizations making the claim and will share info for purposes of CERB payouts

Canada Emergency Wage Subsidy

- Expected payout of subsidy within 7 – 10 days from submission
- First receipt of funds available by mid-May
- April submission will be made shortly thereafter
- Supporting documentation must be retained for follow up audits by CRA which are expected to be close to 100% verification with 3,000 new auditors to review claims



Tax Filings and Payments





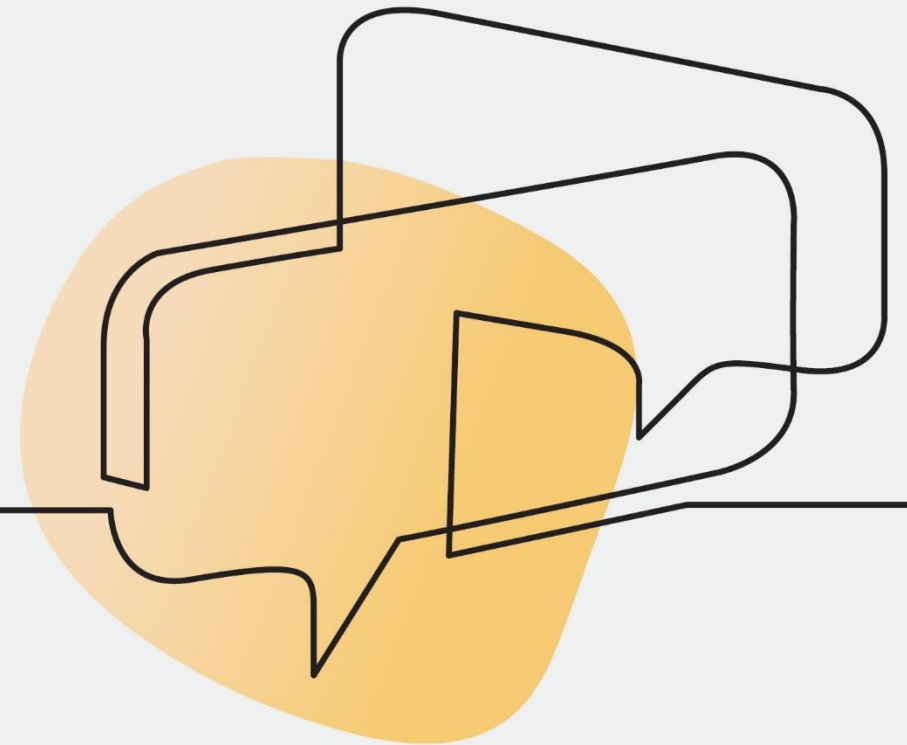
Tax Filings and Payments

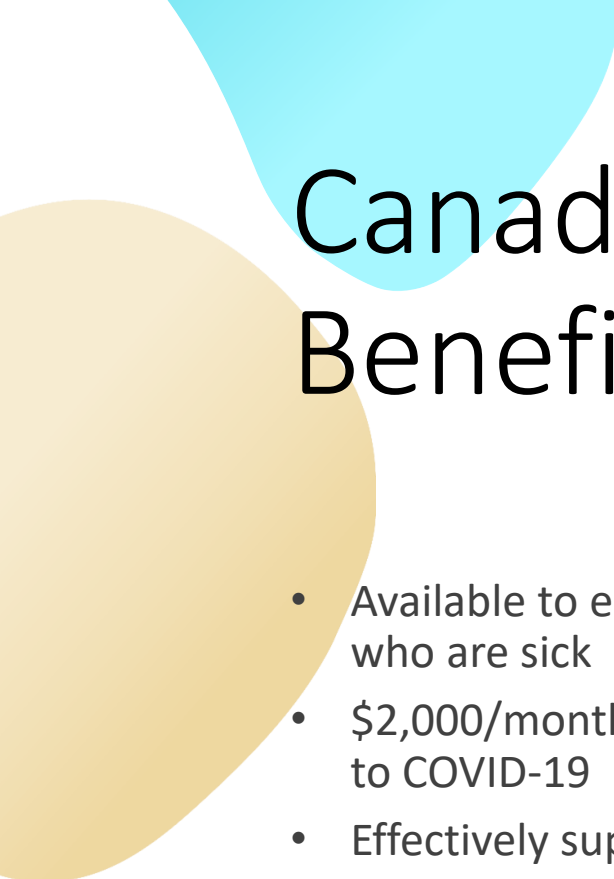
- Corporate tax returns due after March 18, 2020 but before June are deferred to June 1, 2020
- Income tax instalments and income taxes that became due on or after March 18, 2020 and before September are due September 1, 2020
- GST/HST remittances that become owing on or after March 27, 2020 and before June 2020 are deferred to June 30, 2020
- Customs duties due dates for account statements and payments of these fees for March, April, and May are extended to June 30, 2020
- No interest or penalties will apply



Other Government Programs and Initiatives

Mark Parkhill






Canada Emergency Response Benefit (CERB)/EI

- Available to employees, self-employed, or those who are sick or caring for those who are sick
- \$2,000/month benefit for up to 4 months for those who have ceased work due to COVID-19
- Effectively supports EI program for anyone not in receipt of EI and laid-off
- CERB was not designed to be issued with Work-Share but does work with SUB plan
- Must have earned at least \$5,000 in 2019 or previous twelve months
- May earn up to \$1,000 during an eligible 4 week period



CERB/EI

- Applications for EI in process on or after March 24 were switched to CERB for ease of processing
- Workers receiving EI benefits will continue to do so
- CERB repayable if employee is recalled for retroactive periods
- Workers with wages of less than \$32,000 on an annualized basis better to stay on CERB compared to CEWS
- EI program continues to operate in conjunction with CERB – person receives one or the other – not both
- EI eligibility maintained while applicants on CERB




Supplementary Unemployment Benefit Program (SUBP)

- Increase weekly income of employees who are unemployed due to temporary stoppage of work
- Combined weekly payments under the SUB plan and EI can reach up to a maximum 95% of normal weekly earnings
- Payments made under SUB plan registered with Service Canada are not insurable earnings and not deducted from an employee's EI benefits
- Does not reduce entitlement to the CERB



Work-Sharing Program

- Applicable to private, publicly held, and non-profit businesses
- Applicable where there is a temporary reduction in the normal level of business activity beyond the control of the employer
- Three-party agreement involving employers, employees, and Service Canada
- Employees work, are paid by employer, and receive EI benefits
- Applies on a basis of Work Units (similar jobs)
- The amount of work reduction can fluctuate from week to week
- Program can last up to 76 weeks
- Weekly reporting requirement to Service Canada on hours worked

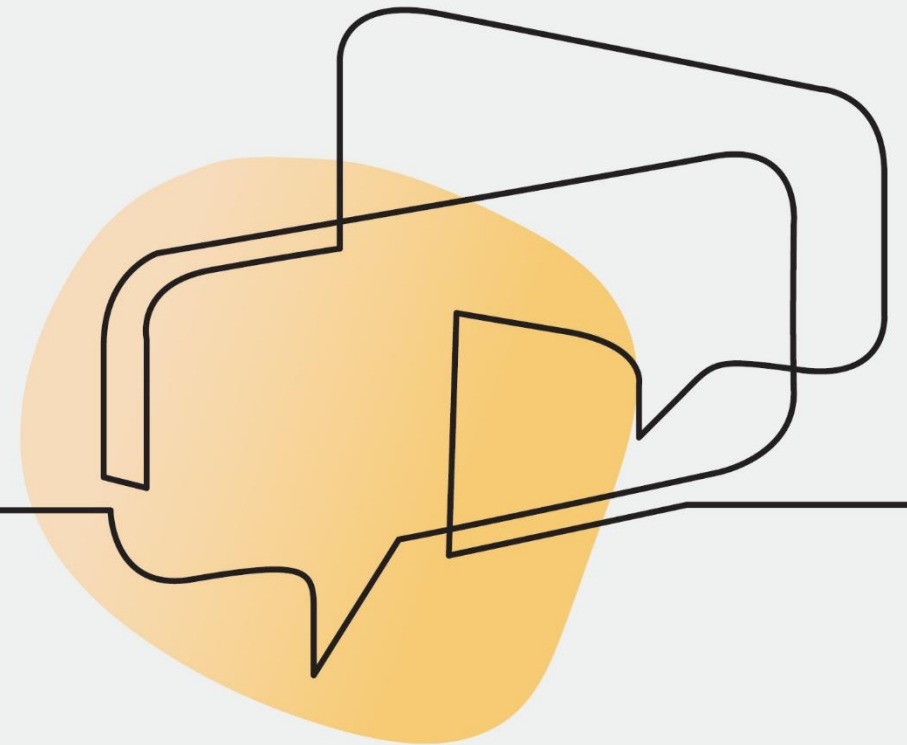


Canada Emergency Student Benefit (CESB)

- Announced April 22, 2020, details to come
- Post-secondary students and recent graduates are eligible
- Must be ineligible for the CERB or EI
- Applicable to those who are unable to find full-time employment or unable to work due to COVID-19
- Applicable May through August 2020
- Benefit of \$1,250 per month
- Benefit of \$1,750 per month for students with dependents and those with permanent disabilities
- Administered through the CRA



Access to Federal Credit and support



Overview of Key Federal Credit Supports for SME's

Canada Emergency Business Account (CEBA)

- CEBA is being implemented by eligible financial institutions (FI) in cooperation with EDC.
- Provides interest-free loans of up to \$40,000 to small businesses and not-for-profits that had an annual payroll of between \$20,000 and \$1.5 million in 2019.
- Repaying the loan balance on or before December 31, 2022 will result in a 25% loan forgiveness (up to \$10,000).
- If loan is not repaid by December 31, 2022, the remaining balance will be converted to a three-year term loan at 5 per cent interest.

Business Credit Availability Program (BCAP)

- **BDC Co-Lending Program:** Eligible businesses may obtain additional credit amounts up to \$6.25 million, 80% of which would be provided by BDC, with the remaining 20% by their FI.
- **EDC Guarantee:** Allows FI to issue new operating credit and cash flow term loans of up to \$6.25 million with 80% guaranteed by EDC, to be repaid within one year.
- Available to all businesses that were financially viable prior to COVID-19 outbreak.
- Eligible companies could obtain up to \$12.5 million through these two options.

Canada Emergency Commercial Rent Assistance (CECRA)

- 75% rent subsidy for small and medium sized businesses, NPO's, and charities affected by COVID-19 (governments to cover 50%; Property owner 25%)
- For businesses that pay less than \$50,000/mo in rent; and have temporarily ceased operations or experienced a 70% drop in pre-COVID-19 revenues
- Where rents reduced by at least 75% via a Rent Forgiveness Agrmt
- Applicable for April, May and June rents

BDC COVID-19 Working Capital Loan

- Working Capital loans of up to \$2 million
- Flexible terms and payment postponements for up to 6 months for qualifying businesses (i.e. businesses that was financially sound pre-COVID-19 and is in need of short term liquidity funding).
- 3 Year Term, first twelve month principal deferment.

What Lenders Are Saying

Focus on Clients

- Key focus on **existing clients**.
- Banks have reported that **companies are drawing down on their liquidity lines** where available.

Impact Across All Clients

- Some industry sectors are more affected than others, but **all clients are impacted**.
- Relationship banking is at the forefront of their messaging.

Conservative but Open for Business

- Mid-term and long term views will be driven by COVID-19 duration and wider economic challenges during recovery.
- Expect **pricing to increase further and risk tolerance to lower** which can impact clients looking for amendments/waivers.

Providing Support

- Instances where lenders have already agreed to provide **principal deferrals and marginally increase operating lines**.
- Banks will be working together with **BDC/EDC** as part of recently announced Government-backed lending solutions.

Alternative Lenders

- Bigger players have ability to provide flexibility – covenant lite, interest only for initial period etc.
- However, given current conditions **difficult for non-existing clients to access** this type of funding **at this stage**.
- Likely to play a bigger role through any prolonged recession.

What Should Businesses Do?

Liquidity Management

- Identify opportunities to stabilize business (reduced disbursements / increasing internal sources of cash flow)
- Understand and **manage** the business' **working capital**.
- Consider the Company's covenants and borrowing availability.

Cash Flow Forecasting

- Develop **detailed liquidity forecast model**.
- Identify upcoming liquidity constraints to optimize decision making.

Fixed Costs & Overhead Review

- Identify **cost reduction opportunities** in direct costs, overheads and corporate costs.
- Reduced costs can alleviate cash burn, minimizing losses and maximizing operating runway in a downturn.

Scenario Modelling

- **Re-evaluate the status quo** and identify business and economic risks.
- Quantify the various sets of macro- and micro-economic assumptions against the company's business plan under a range of scenarios.

Stakeholder Analysis

- Identify key stakeholders and associated risks for each party.
- Provide **ongoing communication** and messaging to **ensure business continuity and minimize risks**.

Strategies for Success

1



React Swiftly

- Approach stakeholders early.
- Delays in financing requests and approvals can put further pressure on operations.
- High volumes of credit applications at banks can slow-down application processes.

2



Be Prepared

- Know the financing request: additional funding vs waiver.
- Ensure you have necessary documentation, forecasts and financials.
- Pinpoint areas of vulnerability in the near-term.

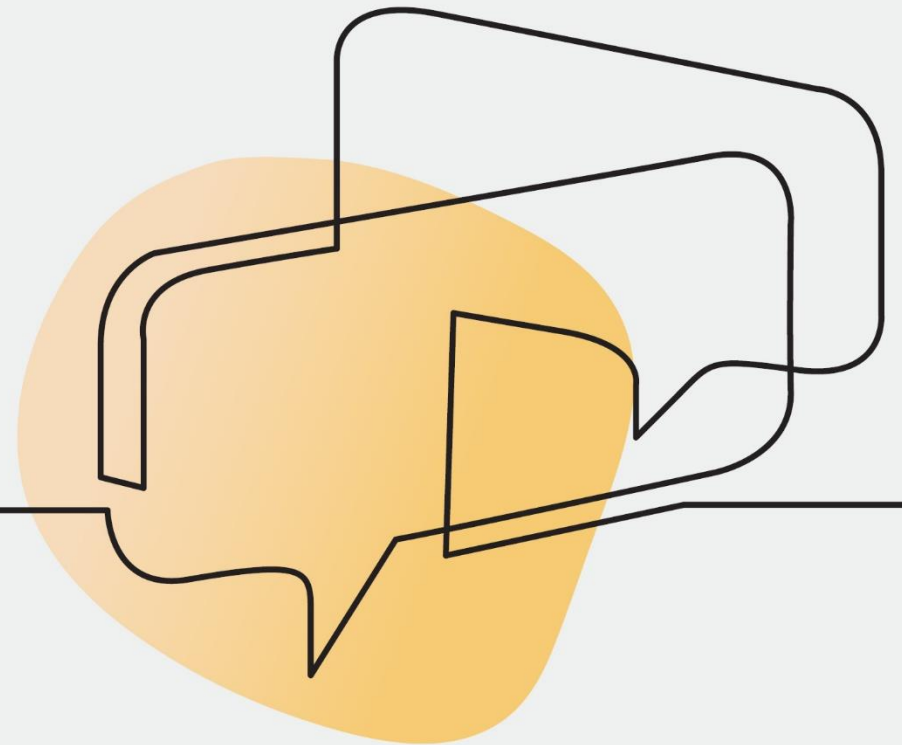
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Open & Honest Communication

- Crucial to have open and honest dialogue with all stakeholders
- Do not underplay the current economic climate
- Maintaining strong relationships now will ensure business continuity in the future

Q&A



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