LOTT & COMPANY PROFESSIONAL CORPORATION

Wage Subsidy Accounting Instructions

These instructions relate specifically to the following announcement from the Department of Finance Canada on March 18, 2020:

Helping Businesses Keep their Workers

To support businesses that are facing revenue losses and to help prevent layoffs, the government is proposing to provide eligible small employers a temporary wage subsidy for a period of three months. The subsidy will be equal to 10% of remuneration paid during that period, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer. Businesses will be able to benefit immediately from this support by reducing their remittances of income tax withheld on their employees' remuneration. Employers benefiting from this measure will include corporations eligible for the small business deduction, as well as non-profit organizations and charities.

We have not yet seen the legislation. These instructions are based on the information provided by Canada Revenue Agency to date.

Who is Eligible for the Subsidy:

Canadian-controlled private corporations with taxable capital below \$15,000,000 on an associated group basis that had an existing business number and payroll program account on March 18, 2020. Non-profit organizations and registered charities are also eligible.

How is the Subsidy Paid:

The subsidy is received by reducing the remittance of federal, provincial and territorial income tax withheld from employees' payroll withholdings.

Note that all withholdings of CPP and EI must continue to be remitted along with the employer portion of CPP and EI.

When can the Subsidy be Claimed:

Remittances can start to be reduced with the first payroll remittance that includes wages paid between March 18, 2020 and June 20, 2020.

For example, if you are a monthly remitter, you can reduce the April 15, 2020 remittance by 10% of the wages paid between March 18 and March 31, 2020.

Accounting Procedures:

Create a general ledger account in the wages section of the income statement, preferably right after wages expense or vacation pay expense, named Wage Subsidy Received.

It will be important to track the amount of this subsidy separately for two reasons:

- 1. The total amount of the subsidy is capped at \$25,000. A separate general ledger account will make the tracking of this maximum amount very clear.
- 2. Tracking the amount of the subsidy received in a separate account will greatly simplify the annual payroll expense reconciliation when the 2020 T4 Summary is prepared.

Process and record the employee payroll as normal. There have been no changes to the CPP, EI and income tax withholding amounts from the employees pay. All amounts

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withheld from the employee paycheques will continue to be recorded to the payroll remittance liability account as normal.

To calculate the subsidy, perform the following steps:

- a) Create a spreadsheet listing each employee. Create a column for each pay period between March 18 and June 20, 2020. Create a total column summing the total gross wages for each employee. Create a total row at the bottom of the spreadsheet summing the total gross wages for each pay period. Enter the gross wages for each employee for the pay period. Do not enter the gross wages for any employee that has already reached their maximum of \$13,750.
- b) If the current period gross wages for any of the employees causes their total to date to exceed \$13,750, deduct the excess from the total gross wages for the remittance period.
- c) Calculate 10% of the adjusted total gross wages for the remittance period.
- d) Determine the total income tax (excluding CPP and EI) withheld from the employees during the remittance period.
- e) The subsidy is equal to the lesser of the amounts in step (c) and step (d).

Determine the amount of the payroll remittance by deducting the amount of the subsidy from the total payroll withholdings. If amount (c) is greater than amount (d), the excess can be carried forward and claimed in the next remittance period to the extent that there was enough income tax withheld from the employees' wages.

Complete the payroll remittance voucher as normal, but enter the reduced amount of payroll remittance in the payment field.

The accounting entry for the payment will clear the full amount of the payroll remittance amounts withheld. Cash will be credited for the amount of the payment. The difference, being the amount of the subsidy taken, is credited to Wage Subsidy Received. This entry will be recorded on the date of the remittance payment

Accounting Entry Example:

Assume the following:

Accelerated payroll remitter with their next remittance due March 25 for the pay period from March 1 to March 15.

No employees have reached the gross wages maximum of \$13,750

Total income taxes withheld from all of the employees is more than \$5,000

Gross wages for the pay period \$50,000 Total payroll withholdings for the period \$15,000

The wage subsidy equals \$5,000 (\$50,000 * 10%)

The accounting entry is as follows:

March 25, 2020 DR Payroll remittances payable \$15,000 CR Cash

CR Cash \$10,000 CR Wage Subsidy Received \$5,000

To record payment of payroll remittance net of wage subsidy