September 11, 2020

Dear ___________:  

Subject: Audit of your Canadian Emergency Wage Subsidy claims  

Following our telephone conversation on September 10, 2020, this is to confirm that we are commencing the audit of the Canadian Emergency Wage Subsidy (CEWS) received by __________ for the above-referenced periods. In accordance with subsection 231.1(1) of the Income Tax Act (ITA), we will require access to the various documents listed in the attached CEWS – Appendix A to initial contact letter for the purpose of administering and enforcing the ITA rules in the context of this audit.

As discussed, given the unusual nature of the wage subsidy program, the CRA is commencing audits earlier than it normally would. We anticipate that this approach will assist both taxpayers and the CRA in locating and providing requested documentation as well as explanations of approaches taken in the CEWS application. This is a limited scope audit which we anticipate could be completed, provided that requested documentation is made available in a timely manner.

In this regard, we refer you to the attached CEWS – Appendix B to initial contact letter which describes procedures for information requests throughout the audit process.

I would like to take this opportunity to direct you to My Business Account and Represent a Client, which, in addition to facilitating electronic documents transfer for the purposes of this audit, allow you to view and control many other services such as filing a return or election, and authorizing or managing representatives who can submit records on your behalf. For more details or to register for My Business Account, go to canada.ca/my-cra-business-account.

Also, to find out more about the audit process, please refer to CRA pamphlet RC4188 “What you should know about audits” which can be found at canada.ca/forms and publications.
Should you have any questions, please do not hesitate to contact me at _________.
You can also reach my team leader, ______________.

Sincerely,

_________

Audit Division
Tax Services Office: 61 - Toronto East
Website: canada.ca/revenue-agency

Attachments: Appendix A and B
Appendix A

Required Books and Records

Please ensure the following documents, with reference to the Canada Emergency Wage Subsidy (CEWS) reporting periods March 15, 2020 to August 29, 2020 are available for our review by September 28, 2020. If you anticipate delays in providing these documents, please contact the auditor to discuss the reason(s) for delay.

You have the option of sending the documents through the Submit documents service which is located in the My Business Account (MyBA) and Represent a Client (RAC) portals. Submit documents is a secure online service that allows registrants to send their information to the CRA electronically. If you choose to submit the information electronically, please reference case #_______ in order for your transmission to be successful. For more information, please go to canada.ca/cra-submit-documents-online. If you have difficulty setting up the MyBA or RAC, please contact ___________.

Please provide the information requested below:

1. Documents from the minute books of ___________, which include the following:
   a) Any excerpts of governance documents included in the corporate minute book as they relate to the CEWS claim.
   b) Various agreements including partnership agreements, banking resolutions and directors’ resolutions that demonstrate the decision-making process and approvals for making a CEWS claim.
   c) Shareholder register
   d) A list of the entities and businesses within the corporate group that includes their names, the type of entity and their business number:
      i. Corporations
      ii. Exempt entities pursuant to paragraphs 149(1)(e),(j), (k) or (l) of the Income Tax Act (ITA)
      iii. Trusts
      iv. Partnerships
      v. Joint ventures
      vi. Registered charities
      vii. Public institutions
      viii. Prescribed corporations
   e) Did the type and status of the entities change from the 2019 taxation year?
      i. Are there any newly incorporated or amalgamated entities? If yes, provide the information listed in Items #2 and #3 below.
      ii. Were any of the entities recently wound up or dissolved? If so, provide details of this windup or dissolution including the information requested in #2 and #3 below with respect to the related entities.
   f) Agreements with respect of inter-company loans/advances
   g) Agreements with respect to employee loans.
2. Revenues in respect of the 2019 taxation year:
   a) General ledger data for 2019
   b) Year-end trial balance
   c) Monthly trial balances
   d) Revenues:
      i. Monthly sales reports that break down sales by revenue type and source
      ii. Sales journals
      iii. Cash receipts journals
      iv. Bank statements
      v. Adjusting entries that affect monthly and year end revenues
      vi. A reconciliation of revenues from monthly revenue reports to trial balances
      vii. A reconciliation of revenues from trial balances to year-end financial statements
      viii. Working papers detailing how qualifying revenues were determined

3. Revenues in respect of the 2020 taxation year:
   a) Monthly general ledger data for 2020
   b) Monthly trial balances
   c) Revenues:
      i. Monthly sales reports that break down sales by revenue type and source
      ii. Sales journals
      iii. Cash receipts journals
      iv. Bank statements
      v. Adjusting entries that affect monthly and year-end revenues
      vi. A reconciliation of revenues from monthly revenue reports to trial balances
      vii. A reconciliation of revenues from trial balances to year-end financial statements
      viii. Working papers detailing how qualifying revenues were determined

4. Revenue information for purposes of computing the CEWS revenue decline percentages:
   a) Provide detailed working papers substantiating your computation of qualifying revenue for the:
      i. Current reference period
      ii. Prior reference period.
   b) Provide your revenue recognition policy for all items included in revenues.
   c) If the entity has deferred revenues, holdbacks, unearned revenues, please provide a copy of the revenue recognition policy for these items.
   d) Provide a brief description of your normal business activities.
   e) Provide a summary of:
      i. The source of revenues
      ii. Revenues by geographic location (Canadian vs foreign jurisdictions).
   f) Provide supporting information with respect to qualifying periods that were deemed pursuant to subsection 125.7(9) of the ITA to meet the revenue decline test because they met the revenue decline test for the prior qualifying period.
5. General payroll information
   a) Payroll journal
      i. Detailed version: Gross, CPP, EI, QPP, QPIP, Tax, Net
         1. By pay period
         2. By employee
         3. Including SIN
      ii. For CEWS claim periods: March 15, 2020 to present
      iii. For baseline remuneration period:
           1. 2020 – January 1 to March 15
           or
           2. 2019 – March 1 to May 31 (*new option for employers)
      iv. Working papers reconciling payroll data to lines A to C on the CEWS application.

   b) Manual calculation data that aligns irregular pay periods with weekly periods for purposes of CEWS
      i. Provide a copy of the manual calculation data
      ii. If not available, we will require the following detailed pay information.
          1. If employees are paid hourly, provide their time sheets in order to determine how much was paid on which day.
          2. If the employees are salaried, provide what days of the week they worked. Is it Monday to Friday, a four-day work week, (and if so, which days they worked), etc.

   c) List of Furloughed employees and dates
      i. Including the CPP, EI, QPP, QPIP, breakdown used to fill in Lines D and E on the application.
      ii. If your payroll cycle does not align with the CEWS for the claim periods, provide a manual calculation to reflect the remuneration paid in respect of that claim

   d) Employment contracts
      i. Include employee S.I.N #s

   e) Bank statements
      i. Provide bank statements for all CEWS periods as well as the baseline remuneration period.

   f) Proof of payment to employees
      i. Provide the following:
         1. Bank statements
         2. Disbursement journals if employees were paid in cash
         3. Any additional documents that will demonstrate that the employee was paid.

6. Information relating to other subsidies and other government programs that impact the CEWS claim.
   a) 10% Temporary Wage Subsidy
i. Supporting documentation related to amounts claimed for the 10% Temporary Wage Subsidy
   1. Provide a working paper or reconciliation to the amount claimed on the CEWS application.

b) Work-sharing amounts
   i. Supporting documentation related to amounts claimed under Employment and Social Development Canada’s Work-Sharing Benefit program.
      1. Provide a working paper or reconciliation to the amount claimed on the CEWS application.

7. Please provide a signed copy of the Attestation filed with your application for the periods covered in this letter. The form can also be found at https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/rc661.html

8. If you are utilizing an exception or making an election with respect to CEWS, please provide the following information for the exceptions/elections that you filed:
   
a) If a group of eligible entities normally prepares consolidated financial statements and each member of the group has determined its revenue separately on a non-consolidated basis pursuant to paragraph 125.7(4)(a) of the ITA, then provide the following information:
      i. Provide the information referred to in items #2 and #3 above for the eligible entity
      ii. If revenues include revenues that were earned in a foreign jurisdiction, provide a reconciliation to show how you arrived at revenues that arose in Canada.

b) If an eligible entity and each member of an affiliated group of eligible entities of which the eligible entity is a member jointly elect to use a consolidated basis for determining qualifying revenues pursuant to paragraph 125.7(4)(b) of the ITA, then provide the following information:
   i. The names and business account numbers for the eligible entities in the consolidated group.
   ii. Detailed financial statements for the prior reference period
   iii. Canadian consolidated financial statements for the prior reference period
   iv. Consolidation workbook by Canadian legal entities for the prior reference period
   v. Group reporting package including supporting schedules/commentary
   vi. Eliminating entries that tie into the consolidation workbook
   vii. If consolidated revenues include revenues that were earned in a foreign jurisdiction, provide a reconciliation to show how you arrived at revenues that arose in Canada
   viii. For 2020, provide the monthly consolidating trial balances for each entity
   ix. For 2020, provide the monthly consolidating workbook
   x. For 2020, provide any adjusting and eliminating entries
xi. Provide detailed working papers that show the computation of qualifying revenues for both the current and prior reference periods.

c) If an election under paragraph 125.7(4)(c) of the ITA was made by an eligible entity in respect of a joint venture, then provide the following information:
   i. The names and business account numbers for the eligible entities in the consolidated group
   ii. The financial statements of those entities
   iii. Provide the information referred to in items #2 and #3 above for the eligible entity
   iv. If the joint venture’s revenues include revenues that were earned in a foreign jurisdiction, provide a reconciliation to show how you arrived at revenues that arose in Canada.

d) If a joint election was made by the eligible entity with each person or partnership with whom it does not deal at arm's length and from whom the employer earns all or substantially all of its qualifying revenue under paragraph 125.7(4)(d) of the ITA (non-arm’s length revenue) then provide the following:
   i. The names and business account numbers for the eligible entities in the consolidated group
   ii. The financial statements of those entities
   iii. Provide the information referred to in items #2 and #3 above for the eligible entity
   iv. If revenues include revenues that were earned in a foreign jurisdiction, provide a reconciliation to show how you arrived at revenues that arose in Canada.
   v. Working papers detailing how qualifying revenues were computed for those entities

e) If an election under paragraph 125.7(4)(e) of the ITA (cash method) was made, provide the following information:
   i. A copy of your revenue recognition policies.
   ii. Provide the information referred to in items #2 and #3 above for the eligible entity
   iii. If consolidated revenues include revenues that were earned in a foreign jurisdiction, provide a reconciliation to show how you arrived at revenues that arose in Canada.
   iv. Working papers detailing how qualifying revenues were computed for those entities

f) If an election under subparagraph (b)(ii) of the definition "prior reference period" in subsection 125.7(1) of the ITA (prior reference period election) was made, please provide
   i. An explanation why this method was selected
   ii. If this method was selected because the entity did not exist prior to March 1, 2019, provide incorporation documents or documents validating the formation of the eligible entity
iii. Provide the information referred to in items #1 and #2 above, except reference to the 2019 year in #2 above will read as January and February 2020.

g) If an election under subparagraph (a)(ii) or (b)(ii) of the definition "qualifying revenue" in subsection 125.7(1) of the ITA (election by registered charity or not-for-profit to exclude government funding) was made, please provide
   i. A working paper reconciling revenues in the general ledger to qualifying revenues
   ii. Provide supporting information with respect to the government funding that is being excluded from revenues.

9. Remuneration - Exclusions
   a) Provide a list of any employees who were not receiving eligible remuneration for 14 or more days in a qualifying period.
   b) Provide a list of any employees who are independent contractors with respect to a qualifying period.
   c) Provide a list of employees who were not dealing at arm’s length with the eligible entity during the qualifying period.
   d) Provide a list of employees that are also employed by an entity that is related to ________ and indicate whether any of these employees have been claimed by both entities.
   e) Provide a summary of severance payments and retiring allowances paid to employee(s) during the each qualifying period.
   f) Provide a summary of employees receiving stock option benefits and details of those benefits for each qualifying period.
   g) Provide a list of non-resident employees and the weeks they worked in Canada for the following periods:
      i. January 1, 2020 to March 15, 2020 or
      ii. March 1, 2019 to May 31, 2019 and
      iii. during the qualifying period.
   h) Provide a list of amounts that were repaid (or are expected to be repaid) to the eligible entity, person or partnership not dealing at arm’s-length with the eligible entity.

10. Qualifying Revenue - Exclusions, please provide a breakdown of these items:
    a) Extraordinary items
    b) Revenues from non-resident related parties
    c) Revenues from non-arm’s length persons
    d) Government subsidies
Appendix B

Procedures for Information Requests

This Appendix outlines general procedures for requesting and communicating information in regard to the Canada Emergency Wage Subsidy (CEWS) audit of _____________.

Due to the exceptional circumstances currently being felt by Canadians because of the ongoing COVID-19 pandemic, the Canada Revenue Agency (CRA) is following temporary protocols to facilitate communications with taxpayers. As a result, in almost all circumstances during the course of this audit, the auditor will be conducting this audit virtually away from the taxpayer’s place of business using the current protocols in place for data capturing and communicating taxpayer information.

Information Request Turnaround Time:

It is anticipated that the turnaround time for the vast majority of information requests should be not more than 10 business days if the electronic transmission of the information is a viable option and the information is readily available given that the CEWS claims have recently been submitted to the CRA. Where it appears that a response will require additional time, please advise us as soon as possible with an explanation. A revised response date may then be established.

Electronic Portal:

The preferred method for submitting and/or receiving documents electronically is through the CRA’s secure portals. As mentioned in the cover page to this letter, My Business Account (MyBA) and Represent a Client (RAC) which, in addition to facilitating electronic documents transfer, allow you to view and control many other services such as filing a return or election and authorize representatives who can submit records on your behalf. For more details or to register for MyBA or RAC please go to the CRA website: canada.ca/cra-submit-documents-online. To the extent that this portal is a viable option for transmitting documents electronically, it will be used extensively during the course of this audit.