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# Ottawa paid out more than \$37-billion in pandemic wage subsidies to businesses with tax debts

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The federal government paid \$37.7-billion in pandemic wage subsidies to businesses with tax debts, and \$1-billion to insolvent companies through the COVID-19 support program.

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The federal government paid \$37.7-billion in pandemic wage subsidies to businesses with tax debts, and \$1-billion to insolvent companies, raising new concerns about the level of screening Ottawa applied to its most generous COVID-19 support program.

The \$37.7-billion represents over 37 per cent of the total cost of the Canada Emergency Wage Subsidy (CEWS), which accounted for \$100.7-billion of the \$210.7-billion spent on pandemic benefits to individuals and businesses.

The CEWS was paid directly to employers experiencing significant revenue declines during the pandemic, as a way of helping them keep employees on payroll. The fact that billions went to companies with tax or insolvency problems exposes issues with the program's design, given that many of the businesses were already struggling for reasons unrelated to COVID-19 and were not likely able to maintain their staffing levels.

The new details on CEWS spending are revealed in a Canada Revenue Agency document provided to the House of Commons public accounts committee, which is reviewing Auditor-General Karen Hogan's December audit [report](#) into pandemic benefits.

The agency provided the document in response to questions raised during a January hearing, in which CRA Commissioner Bob Hamilton [told MPs](#) it was not "worth the effort" to conduct a full review of more than \$15-billion in pandemic wage benefits the Auditor-General had said may have been sent to ineligible recipients.

The Auditor-General said in a 2021 report that, according to the CRA's own research, employers with tax debts have a high likelihood of insolvency, meaning "giving the subsidy to these employers could present a risk of inefficient use of public funds."

The Globe and Mail [reported](#) in 2021 that bankrupt companies were receiving CEWS payments. The Globe review cross-referenced the public CEWS [registry](#) with data from the Office of the Superintendent of Bankruptcy, identifying over 100 companies.

The new CRA information reveals that 2,638 businesses that received CEWS payments are now insolvent, a category that includes companies in bankruptcy, receivership or involved in proposals to repay amounts owed.

The 2021 Globe review of data available at the time also [found](#) that 388 publicly traded companies (or their wholly owned subsidiaries) had received more than \$3.6-billion in CEWS payments, and in some cases used the government subsidies to pad their bottom lines. The Globe noted at the time that there were limitations and omissions in the available data. The new CRA figures show the final amounts were much higher: 2,280 publicly traded companies had CEWS claims approved, for a total of \$9.9-billion.

Near the end of the CEWS program, the legislation was amended to restrict access to the benefit by employers that appeared to be increasing executive compensation. As a result, the CRA document says, 57 businesses repaid a combined \$56-million.

During the January hearing, the CRA commissioner said that the agency can only enforce the rules, and that the government's CEWS legislation allowed companies that are bankrupt or that have tax debts to apply.

"I want to make sure we don't confuse administrative issues with policy issues, because you can get both in here. People might think from a policy perspective that a company should not have been eligible. We administer the legislation as it is drafted," he said.

Conservative MP Kelly McCauley later pressed the commissioner on whether the CRA had advised the government not to make the subsidy available to businesses with tax debts.

Mr. Hamilton said he could not discuss the CRA's private advice.

"I keep getting pushed to talk about what recommendations we might have made within the confines of discussions, so I'm not going to go there, but suffice it to say that we were part of the discussions and as we saw things we took note of them. You're right: If a company looks like it's going to be insolvent, that makes the prospect of collection, should there be a problem, riskier," the commissioner said.

In an interview Wednesday, Mr. McCauley said it is clear from that exchange that the CRA was saying the lack of restrictions on businesses with tax debts or insolvency proceedings was a political decision.

"When there's clear indicators of potential risks, I would expect the government to protect taxpayers a bit better than just simply shovelling money out the door," he said. "Here we are paying scofflaws with taxpayers' money, while at the same time they owe taxpayers billions and billions."

The CRA document says that around 140,000 CEWS recipients accounted for a total of \$7.5-billion in tax debt before receiving their first CEWS payments. Currently, it says, 157,082 CEWS recipients have unpaid taxes, with debts totalling \$9.5-billion.

"CEWS was provided so that businesses could retain or rehire employees," the agency says in the document. "The CEWS should not be seen as a contribution to a company's bottom line, but rather as an employee retention and support program."

The Auditor-General's December report looks at the major pandemic support programs to individuals and businesses. Ms. Hogan found \$4.6-billion in overpayments to ineligible recipients and an additional \$27.4-billion that she said should be further investigated. That larger amount includes \$15.5-billion for businesses that received CEWS but did not suffer from a significant drop in revenue, which was the key criterion for accessing the benefit.

The CRA has disputed the usefulness of the \$15.5-billion figure, saying that it is based on extrapolations using sales tax data, and that there are better ways to identify high-risk files.

In a recent interview with *The Globe*, which took place before the CRA sent the document to the committee, CRA assistant commissioner Cathy Hawara said the agency has come up with a similarly sized bundle of CEWS payments, \$14.7-billion worth, that will receive further review.

“We’re about to launch another 2,500 audits this coming April,” she said. The \$15.5-billion identified by the Auditor-General relates to 51,000 employers, of which about 92 per cent are small and medium-sized, Ms. Hawara said.

In contrast, she said, the agency’s \$14.7-billion figure relates to 4,117 audits and is more focused on larger businesses. The CRA’s target figure will increase as more audits are launched, she said.

About \$8.2-billion in CEWS payments went to 260 companies with between 1,000 and 4,999 employees each, and 68 per cent of that amount, covering 85 businesses, is under CRA audit. A further \$2.4-billion went to 24 companies with over 5,000 employees each, and the agency is auditing 10 businesses representing 68 per cent of that amount.

Bill Morneau, who was finance minister when the government launched CEWS, revealed in a recent book that his concerns about the cost of pandemic benefits were routinely overruled by the Prime Minister’s Office based on political calculations.

“My job of providing counsel and direction where fiscal matters were concerned had deteriorated into serving as something between a figurehead and a rubber stamp,” he said of that period in office. “There was only revision of my recommendations, ever upward, toward funding levels that the PMO believed would play well the next time Canada went to the polls.”