

## **The Role of Taxation in Enhancing Canada's Productivity Through Encouraging Skills and Training for Small Business**

The skills and labour shortage facing Canada is already nearing epidemic proportions due to increasing skill shortages, the aging of our workforce and global competition. According to the Conference Board of Canada, by 2020 Canada will be facing a labour shortage of nearly 1 million workers.

The shortage of skilled workers and new job entrants is now a direct threat to Canada's economy and the well-being of industries and communities throughout the country. This issue is impacting the viability of businesses, causing some of them to ignore new business opportunities, hire under-qualified workers, function with fewer employees, reduce customer service, and artificially increase wages.

Addressing current and future skills shortages has become a number one concern among regional and national business and industry groups across the country. The Canadian Chamber does not think of this as a provincial problem, therefore by definition, a solution cannot be strictly provincial in nature.

One of the key barriers to small and medium-sized businesses (SMEs) providing training and skill development opportunities for their employees is the direct and indirect costs of these types of investment. Given that human capital has become our country's most valuable and scarce resource it is critical that the Canadian tax system needs to reflect this. Our tax framework supports companies who invest in research and development, purchase manufacturing equipment, etc. It should also reward those who invest in our most important resource, human capital, through providing incentives to train workers.

In particular, the Canadian Chamber of Commerce feels that three areas of human capital investment which can greatly increase Canada's labour competitiveness are: Apprenticeship Tax Credit, Immigrant Workforce Investment Tax Credit, and Human Resource Development Tax Credit.

SMEs in particular need innovative public policies and flexible training programs to support their human resources development.

The option that has received the most positive reaction from SMEs is the concept of developing an innovative tax credit system that provides incentives for training investments. These types of incentives have consistently been the subject of significant interest over the past several years to all levels of government.

### **Apprenticeship Tax Credit**

The federal government currently offers employers tax credits as an incentive to hire apprentices. The Government of Canada offers employers the Apprenticeship Job Creation Tax Credit, a non-refundable tax credit equal to 10% of the eligible salaries and wages payable to eligible apprentices. The maximum credit is \$2,000 per year for each eligible apprentice.

Three other provinces, BC, Manitoba and Ontario also offer a tax credit incentive to employers:

- The Province of Ontario offers the Apprenticeship Training Tax Credit to employers who hire apprentices. Employers receive a 25% refundable tax credit on wages and salaries paid for the first 36 months of the apprenticeship program. The maximum credit is \$5,000 per qualifying apprentice per taxation year.

- The Province of Manitoba offers the Cooperative Education & Apprenticeship Tax Credit to employers who hire apprentices. The credit equals 5% of wages and salaries paid to the journeyman up to \$2,500 per twelve months of employment for each journeyman.
- The Province of British Columbia offers the Training Tax Credit to employers who hire apprentices. The basic credit for employers is 10% of wages paid up to \$2,000 per apprentice in the first 24 months of a non-Red Seal apprenticeship program.

Most provinces and territories rely solely on the Government of Canada's Apprenticeship Job Creation Tax Credit as a benefit for employers. The Government of Canada needs to recognize the importance of apprenticeship training and increase the Apprenticeship Training Tax Credit to the benefit of employers who hire these apprentices.

### **Immigrant Workforce Investment Tax Credit**

In addition to enhancing businesses' ability to train existing workers, the Canadian Chamber believes that an innovative tax credit structure would be a critical component in Canada's attractiveness to international migrants by facilitating the ability of immigrants to enter the workforce at a level and in an occupation commensurate with their education and training.

Canada's further economic growth and development is dependent not only upon attracting and retaining highly skilled immigrants, but also ensuring that their skills are optimized in the workforce. There have been reports that immigrant economic circumstances are decreasing despite the increase in educational requirements. Two of the reasons given for this are language barriers and the recognition issues of professional Canadian work experience and qualifications.

While the Government of Canada has taken great steps in improving the recognition of foreign credentials, they still have not fully addressed the issue of job specific language training for immigrants at the national level. Since 2006 the Government of Canada has increased funding for various settlement initiatives including the Language Instruction for Newcomers to Canada (LINC) program. The problem however is that according to government numbers, less than 9% of immigrants who enter on an annual basis successfully complete the program which only offers basic language training; not occupation specific. The Enhanced Language Training program that does address this issue is not easily accessible for individual immigrants in provinces that do not have agreements with the federal government. This is problematic as many professional occupations utilize terminology that is specific to that occupation and without easy access many immigrants may not participate and obtain the language training required for their chosen occupation.

The creation of an Immigrant Workforce Investment Tax Credit would allow an employer to receive 10% or more of the immigrant's salary or wage for their first job in Canada in their respective field. This tax credit would be provided to employers who provide the worker with vocational language training to enable them to perform at their level in their chosen profession.

### **Human Resource Development Tax Credit**

In addition to the two programs outlined above, the Canadian Chamber recognizes that many businesses struggle to provide training to their employees for a range of required skills. To address these wider training needs the Canadian Chamber believes

government must take a proactive approach to identifying and providing incentives for sectors and skills that are impacting our productivity and economic growth.

While the Canadian Chamber will work with all provinces and stakeholders to ensure that individual provinces introduce a provincial human resource development tax credit, the origin of these programs must be an analysis of the sectors facing significant problems that will impact the Canadian economy. Following this analysis any program must ensure that it facilitates an increase in training across Canada, in the sectors where it is most needed – this cannot be achieved by a piecemeal approach.

The Canadian Chamber believes that training should be able to qualify for tax credit status providing they offer approved qualifications and can show a demonstrated shortage of skilled workers. Further to this, the Chamber urges the government to conduct regular reviews of the uptake for each qualifying program.

In the same way that the Canadian Chamber supports the development of Canada wide standards for apprenticeship and training programs as an essential tool in ensuring that training programs meet the need of the economy as a whole, the Canadian Chamber sees the foundation of an effective Canadian tax credit system as an integral part of providing business with the tools needed to address the skills shortage.

### **Recommendations**

That the federal government utilize the tax system to develop a system of innovative tax credits that will enhance Canada's productivity performance by increasing businesses ability to provide training and skills development. This system should:

1. Work with provincial/territorial governments to create a list of pre-approved accredited national training programs where a trans-Canada systemic shortage of skilled workers exists.
2. Introduce a national human resource investment tax credit program that provides a tax credit for firms that provided training as part of the federally accredited training program.
3. Immediately increase the Federal Apprenticeship Job Creation Tax Credit to match the highest provincial apprenticeship tax credit.
4. Immediately increase the number of recognized Red Seal Trades to match the province with the highest number of recognized trades.
5. Immediately increase the length of the qualification period from two years to three years.
6. Create an Immigrant Workforce Investment program that provides employers who hire and provide job specific language training to an immigrant for their first job in Canada in their field.
7. Develop a mechanism that provides an increased level of tax credit for small and medium sized businesses.