

SUBMISSION

TAX CREDIT PROGRAM ON TRAINING

A Submission to
Finance Minister Carole
Taylor on allocation of
tax credit for training

July 2006



SUBMISSION BY THE B.C. FEDERATION OF LABOUR

The B.C. Federation of Labour welcomes this opportunity to make a submission on the plan announced in the Balanced Budget 2006 for \$90 million for a new tax credit program to expand training opportunities in the traditional construction trades and emerging industries.

The B.C. Federation of Labour supports an innovative tax credit program that is designed with the specific objectives of increasing apprentice hiring, sustainability of apprenticeship employment and completion of apprentice training to journeyman status. Similar to the federal program, provincial incentives should support both employers and employees.

BACKGROUND

BC is experiencing a significant skills shortage. The advancing pace of major project work preceding the 2010 Winter Olympics and the demographic shifts in our workforce are only part of the skills shortage challenge. The apprenticeship system in British Columbia is simply not producing enough journeymen to meet the needs of our economy. The number of apprentices in the apprenticeship system is important, but the efficacy of the training system in producing certified journeymen, referred to as “completions,” is even greater.

Completions are down from 3,401 in 2002/03 to the current number of 2,899. This is a drop of more than 15 percent over the past two years and a decline of 35 percent, down from 4,471 in 1996/97. The Industry Training Authority states that only 42 percent of those in apprenticeship programs complete and attain their full credentials. Currently, one-third of all apprentices in BC are sponsored by union training programs. In contrast with the overall completion rate for apprentices, the completion rate for apprentices in these programs is very high, about 95 percent. One reason for the high success rate is the dispatch system, which ensures that apprentices are placed with new employers when there is a work slow down and they are laid off. Another success factor is ongoing support and mentoring by union training coordinators.

INDUSTRY PARTICIPATION IN APPRENTICE TRAINING

Employers are not investing in apprenticeship training. Most employers have no apprenticeship positions and a very small percentage of apprentices maintain employment until completion of their apprenticeship program. A recent study by the Canadian Apprenticeship Forum and Skills Canada found that less than two in ten employers (18 percent) in the manufacturing, transportation, construction and service sectors currently employ apprentices in Canada. The study also shows that 55 percent of employers have never hired apprentices. The study provides valuable insight into employers' current perceptions towards apprenticeship training.

The research suggests that once employers begin hiring apprentices, many continue to do so. Clearly there is an important role that a tax credit program can play in revitalizing apprenticeship by including specific objectives to increase apprenticeship hiring and completion. The tax credit should be structured to reward employers who are committed to training and who are willing to ensure the opportunity for apprentices to complete their programs and achieve journeyman certification.

EMPLOYEE PARTICIPATION IN APPRENTICESHIP TRAINING

For apprentices, finding that first job with an employer who is committed to long-term training is one of the keys to their success. But this is not the only challenge that an apprentice will face. Even for those who are persistent, the process to complete an apprenticeship can take many years beyond the term outlined in the program for the trade. A four-year apprenticeship can often take much longer to complete due to lay-off and other factors such as incontinuity of employers and gaps in employment. Some apprentices take as long as seven to ten years to complete their journey! Over the same period, for every person that completes the journey, hundreds drop out. A tax credit program must be directed toward assisting apprentices to overcome financial barriers to training and ensuring sustainability of training.

PUBLIC POLICY

Except for Quebec where employers must invest a minimum of 1 percent of their payroll in training, there is no obligation on employers to invest in training in Canada. Compared to other countries, Canada ranks near the bottom of the OECD countries in investment in workplace learning. Canadian companies spend only 0.5 percent of payroll on training compared to the 1.3 percent average for all OECD countries and well below the 3 percent of several EU countries. A tax credit as a mechanism to increase workplace training must be part of an overall economic strategy. The approach needs to be long-term. There needs to also be disincentives for those who don't participate in the training of apprentices but reap the benefits by hiring only journeypersons. Those employers who don't train should have to contribute to the system. If not, there is a poaching argument to be made in regards to apprenticeship, as training costs affect the bottom line. Employers who do training should not have to subsidize those who do not.

RECOMMENDATIONS

An effective tax credit program must be designed with an outcomes-based approach. There must be built-in guarantees of substantive and equitable new training opportunities to increase apprentice hiring and completion to qualify for a credit.

In the Federation's view, the credit should be distributed on the following basis:

- **Apprentices**

The credit should include tuition reimbursement for apprentices upon completion of inter-provincial certification and an apprentice tool allowance for each year of apprenticeship training.

- **Industry**

Eligibility for the credit should be for private and non-profit companies with permanent establishment in BC (corporations, proprietors, partnerships, and societies) and for employers who provide quality practical trades training and sustainable work opportunities to apprentices in a recognized trade.

- **Organization Size**

An equitable training tax credit that recognizes that small employers are disproportionately impacted by training costs.

- **Type of Training**

Accredited, registered, industry apprenticeship training programs. The apprentice is trained by a qualified journeyman to the Inter-Provincial standard where applicable.

Apprenticeship ratios must be enacted and be part of the criteria for eligibility for the tax credits. This is to ensure that there are qualified journeypersons, in sufficient numbers to mentor the apprentices properly, to ensure quality training and a greater numbers of completions.

DESIGN OF INCENTIVE

The tax credit must be back-end loaded. The percentage of the wages and benefits of any apprentice that an employer can claim as a tax credit would increase in each subsequent year of a training program, with the largest amount claimed following the apprentice achieving trade certification. This would be an incentive to sustain the employment opportunities for apprentices and would lead to greater completion rates.

The tax credit would cover all existing and new apprentices. The tax credit would follow the apprentice to a new employer if their apprenticeship is transferred.

A three-way apprenticeship agreement signed by the employer, apprentice and government representative outlining the conditions of apprenticeship and the tax credit.

If it is determined that the employer is not training to the industry apprenticeship standard, the tax credit can be revoked.

Provincially, Level 1 and 2 apprenticeship credit is now given for some Entry Level Trades Training programs. The tax credit and tuition credit for technical training should be targeted to apprentices attending regular Level 1 and 2 Apprentice Technical Training.

CONCLUSION

A balanced board of labour, management and government must be set up to oversee the review and evaluation of the tax credit.

The tax credit in BC should not duplicate the program announced recently by the federal government, nor result in the loss of such a federal credit to employers.

There is a bottleneck of training spaces in apprentice technical training classes. Unless the number of training spaces are increased, more and more apprentices will be on an ever-longer waitlist for technical training.

BC has eliminated standards and any meaningful enforcement of apprenticeship training, regional apprenticeship offices have been closed and their apprenticeship counsellors have been “made redundant.”

Effective regulation and enforcement guarantees the employer and apprentice a return on the substantial investment made by both parties. It also ensures that all beneficiaries contribute to the system.

A training tax credit is only part of the solution. Leadership and planning by the provincial government is required. Provincially-funded projects, government departments and contracts for service should include apprenticeship and reflect local equity demographics.

Thank you.

**SUBMITTED ON BEHALF OF THE B.C. FEDERATION OF
LABOUR**

JIM SINCLAIR
President

ANGELA SCHIRA
Secretary-Treasurer

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