

**Response to the Consultation on a British  
Columbia Training Tax Credit Program:**

*A RECOMMENDED BRITISH COLUMBIA  
SMALL BUSINESS TRAINING TAX CREDIT*

**Submitted to the Honourable Carole Taylor  
Minister of Finance, Province of British Columbia**

*Submitted by the*



October, 2006

## **THE BRITISH COLUMBIA CHAMBER OF COMMERCE**

The British Columbia Chamber of Commerce (The Chamber) is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber is the widest and broadest based business organization in the province. Representing the views of more than 130 chambers of commerce and boards of trade and over 31,000 businesses from every size, sector and region of the province The Chamber is “The Voice of BC Business.”

Known to be in operations as early as March 1867, The Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community;
- Present members’ opinions to the provincial and federal governments;
- Promote trade and commerce; and,
- Improve the economic and human well being of the people of British Columbia.

The Chamber has been highly successful at generating innovative policy solutions through local evidence-based analysis as well as information and judgments about the needs of communities across the province that reflect the values of influential stakeholders and community members. The understanding that it is only through the direct input of local chambers that The Chamber develops policy recommendations has come to a growing realization by the media, public and by government that The Chamber is the organization best able to continue to offer real solutions to real challenges facing business across the province.

Given its mandate of advocating a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper, The Chamber is very pleased to be able to make this submission to the BC Ministry of Finance on the design of a Training Tax Credit Program.

## **EXECUTIVE SUMMARY**

This submission is The Chamber's response to the British Columbia Ministry of Finance consultation on a Training Tax Credit Program. Our purpose is to call for the creation of a British Columbia Small Business Training Tax Credit Program.

The Chamber was very pleased to see the focus given in Budget 2006 to the need to address the skills shortage facing the provincial economy. In particular, The Chamber was pleased to see the government respond to its call for new tax credits for training. The Chamber has consistently been the leading voice calling for the creation of a tax credit for training as the most proactive and immediate tool available to the government to provide businesses with the means to increase their capacity for workforce training.

This initiative clearly demonstrated that the provincial government has heard the call of our members that the skills shortage is having an immediate impact on every sector and in every region of the province that needs immediate, focused government action.

This submission provides recommendations on the training tax credit design so that the program can make the best use of tax dollars for increasing productivity and human resource development capacity among the driving force of our economy; small business.

Before making recommendations for a BC Small Business Training Tax Credit Program, this submission provides context on the significance of small business<sup>1</sup> to BC's economy, and on small business skills and training challenges.

The key suppositions about small business in BC made in this submission are:

- The importance of small businesses to the provincial economy;
- The critical need to improve productivity and competitiveness among all sectors and sizes of business; and,
- The need to support small businesses to improve training and human resource capacity.

### **Training Tax Credit Design Recommendations**

Based on the aforementioned considerations and the above principles, The Chamber provides recommendations regarding the design of a BC Training Tax Credit that can be summarized as follows.

#### **#1 – Recommended Training Tax Credit Goals**

A BC Small Business Training Tax Credit should incent and assist BC small businesses and their employees to:

- Increase job-related skills, adaptability and flexibility;
- Increase on-the-job training capacity;
- Increase productivity and global competitiveness; and,
- Harmonize provincial and federal training tax incentives.

---

<sup>1</sup> There are a number of definitions for what constitutes a small business, for the purposes of this submission we will use the definition of a business with fewer than 50 employees.

## **#2 – Recommended Training Tax Credit Design Features**

A BC Small Business Training Tax Credit should be designed to:

- provide equitable access to training tax incentives regardless of industry sector, occupation, or region of the province;
- address the key barriers to employer investment in training, particularly those faced by small businesses – financial and human resources;
- be refundable so that small businesses with no profits can still receive a benefit from the tax credit;
- be performance-based where possible and focused on outputs and outcomes; and,
- be administratively simple and easy to use by small businesses.

## **#3 – Recommended Training Tax Program Scope**

A BC Small Business Training Tax Credit should focus on incentives for employers who invest in employee training. There are a number of government programs which provide support for workers and new entrants. Since this is a training tax credit to help small businesses train employees, self-employed workers should not be eligible for a tax credit.

While a BC Small Business Training Tax Credit program may not exclusively focus on the following, it should make no distinction between formal on-the-job and off-the-job training. The Chamber believes that the only principles that need to be covered by the tax credit are that it:

- Increases the skills and productivity of existing employees and businesses;
- Results in a formal credential from an accredited private training institution, public educational institution, or industry/business/professional association;
- Excludes safety and other regulatory training, manufacturer/supplier training, and academic training; and,
- Excludes any training already funded by provincial or federal government programs.

The purpose of the BC Small Business Training Tax Credit is to enhance the capacity of small business to plan for the long term training needs of their business and therefore the economy of BC. As such the government must ensure that the credit provides certainty to small businesses regarding the level of credit they will receive for training provided.

## **#4 – Recommended Training Tax Credit Value**

A BC Small Business Training Tax Credit needs to balance the need to make the tax credit available to as many businesses as possible with the need to provide a sufficient level of tax credit to incent companies to increase their investment in training. Anecdotal feedback from SME owners suggests that the tax incentive would need to be up to \$1,000 per employee per year to a maximum of 3 employees, to make a difference in their hiring and training practices.

Further to this The Chamber believes that the tax credit must become a resource that assists small businesses dedicate resources to increasing training for their employees, not as a mechanism to simply pay for training. As such The Chamber recommends that the tax credit should be capped at providing no more than 50% of the cost of any particular training program.

Tax credits should only be allowed for small businesses who have documented (external or internal) formal training costs for employee training. This should be administered through the tax system by providing a simple one-page schedule as an addendum to a company's income tax forms, via an agreement between Canada Revenue Agency and the Province of BC. To introduce

a new mechanism or use a different existing mechanism to administer such documentation will only further complicate or confuse matters for small businesses.

#### **#5 – An Alternative Model for Building Small Business Training Capacity**

An innovative option for increasing the capacity of small business to provide training would be to provide resources to a consortium of The Chamber and other small business groups. These groups would enable small businesses throughout the province to build training capacity and to educate them about training and the various programs available for training and human resource-related tools and activities.

#### **Conclusion**

Empirical data show the importance of small business to BC's economy. The Small Business Roundtable led by the Honourable Rick Thorpe, Minister of Small Business and Revenue indicates, "Small business is the engine that drives our growing, booming economy."

The Chamber's research and that of other small business organizations have clearly shown that skills shortage and the ability to find, train and retain skilled workers is a top issue for small business. Recruitment and retention of skilled labour was the only priority issue that was identified at all 18 community consultations held by the Small Business Roundtable.

A BC Small Business Training Tax Credit Program can be designed to complement and not duplicate the federal training tax incentives and grants. In summary, the BC Chamber wants to see a BC Small Business Training Tax Credit program that:

1. Focuses on small businesses in all sectors and regions with less than 20 employees;
2. Supports formal job-related in-house and off-site training provided by accredited private and public training institutions;
3. Provides a refundable tax credit that can be carried forward to subsequent years;
4. Provides a tax credit to employers, not employees;
5. Rewards job-related training that is completed and for which an employee receives a recognized certificate or credential;
6. Support a consortium of The Chamber and other small business groups to educate and help small businesses expand training capacity throughout BC; and,
7. Does not provide tax credits for apprenticeship training for the reasons indicated above, thereby complementing and not duplicating federal measures.

In order for tax dollars to obtain the best results for our economy and communities, we need a British Columbia Small Business Training Tax Credit Program.

## CONTENTS

<b>THE BRITISH COLUMBIA CHAMBER OF COMMERCE</b>		<b>i</b>
<b>EXECUTIVE SUMMARY</b>		<b>ii</b>
<b>1.</b>	<b>INTRODUCTION AND PURPOSE</b>	<b>1</b>
<b>2.</b>	<b>SMALL BUSINESS SKILLS AND TRAINING CHALLENGES</b>	<b>2</b>
<b>3.</b>	<b>SMALL BUSINESS AND HUMAN CAPITAL IN BC</b>	<b>3</b>
	<b>3.1 The Significance of Small Business in BC</b>	<b>4</b>
	<b>3.2 The Productivity Imperative</b>	<b>4</b>
	<b>3.3 Small Business and Human Capital</b>	<b>5</b>
<b>4.</b>	<b>APPRENTICESHIP TRAINING</b>	<b>7</b>
<b>5.</b>	<b>TRAINING TAX CREDIT DESIGN RECOMMENDATIONS</b>	<b>7</b>
	<b>5.1 Recommended Training Tax Credit Goals</b>	<b>8</b>
	<b>5.2 Recommended Training Tax Credit Design Features</b>	<b>8</b>
	<b>5.3 Recommended Training Tax Credit Scope</b>	<b>8</b>
	<b>5.4 Recommended Training Tax Credit Value</b>	<b>10</b>
	<b>5.5 An Alternative Model for Building Small Business Training Capacity</b>	<b>10</b>
<b>5.</b>	<b>CONCLUSION</b>	<b>11</b>

## **1. INTRODUCTION AND PURPOSE**

In Budget 2006, the provincial government announced “\$90 million for a new tax credit program, to be designed in consultation with industry, to expand training opportunities in the traditional construction trades and emerging industries.”

The Chamber was very pleased to see Budget 2006 focus on the need to address the skills shortage facing the provincial economy. In particular, The Chamber was pleased to see the government respond to its call for new tax credits for training. The Chamber has consistently been the leading voice calling for the creation of a tax credit for training as the most proactive and immediate tool available to the government to provide businesses with the means to increase their capacity for workforce training.

The Chamber also welcomes the additional measures in Budget 2006 focused on enhancing skills in a number of sectors with an increase of \$39 million for the Industry Training Authority as well as the extension of programs to encourage the participation of disadvantaged youth, women and First Nations, and \$145 million in additional operating funding to post-secondary institutions to help create 25,000 new student spaces by 2010.

These provincial initiatives clearly demonstrate that the provincial government has heard the call of our members that the skills shortage is having an immediate impact on every sector and in every region of the province and needs immediate, focused government action.

The Chamber welcomes the Ministries discussion paper and the published set of questions provided on its website. After consultations this summer, the provincial government has committed to implement a training tax credit program later this fiscal year.

Part of the context for a provincial Training Tax Credit is the fact that the Government of Canada introduced new tax and grant initiatives for employers, apprentices and tradespersons across the country. These measures are in addition to other new tax, scholarship and student loan measures and include a new Apprenticeship Job Creation Tax Credit (introduced effective May 2, 2006) where eligible companies can receive up to \$2,000 per year for the first two years of an apprenticeship. Also, apprentices themselves will be eligible for \$1,000 grants in each of the first two years of a Red Seal apprenticeship (as of January 1, 2007), under a new Apprenticeship Incentive Program. Tradespeople will also be eligible for a new tools tax deduction of up to \$500 for the cost of tools in excess of \$1,000 that they must acquire as a condition of their employment.

Keeping in mind that a training tax credit program is but one of a number of actions that are needed to address the very real and particular challenges faced by BC small businesses as they look to grow, the balance of this submission focuses on a BC Small Business Training Tax Credit Program.

## **2. SMALL BUSINESS SKILLS AND TRAINING CHALLENGES**

BC business and industry can become and remain competitive only by the continued investment in, and maintenance of, the highest standards in the development of human capital. Last year in a presentation to the Select Standing Committee on Finance and Government Services, The Chamber stated:

“BC is at a skills crossroad. The aging of our workforce along with ever increasing global competition has meant that growth in the province is being directly threatened by a looming skills shortage, a problem that will be exacerbated by the significant projects associated with 2010.”

The province is now significantly behind the eight ball on this issue. We have passed the crossroads (heading in the wrong direction), with growth in the province now being directly affected. In short the skills shortage is no longer looming it is here. At the same time, it has been estimated that BC economy will create over 1 million new job openings to 2015 with only 650,000 students due to graduate over the same period. This is why The Chamber foresaw this challenge and released the “Closing the Skills Gap” report in 2002.

These issues have particularly serious implications for our rural communities, since many of the businesses that represent the backbone of local economies are small businesses that lack the capacity to deal with the impending labour shortage. Compounding the problem is the fact that a large number of small business owners, themselves, will soon be retiring.

Special cadres of skilled workers are required to take over the reins of these businesses as their current owners move out of the workforce. The Chamber feels that the current situation requires a coordinated response from all stakeholders that focuses on two key areas:

- Increasing the skills base of the workforce; and,
- Increasing the number of workers in the economy.

In order to gain a better understanding of the nature and scope of the skills shortage as it relates to regions outside the Lower Mainland and the Capital Region, The Chamber, in partnership with the Community Futures Development Association of BC initiated the “BC Skills Force Initiative.”<sup>2</sup> Some of the more worrying results of this research were:

- Approximately 50% of the employers stated that they currently have vacant positions;
- 34% of respondents reported that they had job vacancies in “difficult to fill positions”; and,
- Employers have to take what workers they can rather than what they want.

The study found the following for small businesses in both the northern and southern parts of BC:

- “Delivering on-the-job training is onerous for a small business. The process is usually fairly time-consuming, taking either the business owner or a senior level person in the firm away from their productive time at work. As a result, this time devoted to

---

<sup>2</sup> Visit <http://bcskillsforce.com>.

on-the-job training can be quite costly for a small firm in terms of lost productivity, lost business opportunities, less attention to customer service, etc.”

- “Often, small firms lack the capacity to train their employees on the job properly because of a lack of either financial or human resources, or both. And, as indicated earlier, many small business employers expressed frustration over the fact that once they have invested time and effort into training their employees, they will often lose them to other employers.”

In short, the survey told us that the skills shortage is the number one concern facing businesses across the province. The report also states that the solution to this must be a partnership between government, business and educators. The business community has begun to address many of the issues within its remit but without immediate government action there will be profoundly negative repercussions for the provincial economy.

This is not to imply that the government has not taken action, particularly over the past year. Indeed the government is to be commended for its introduction of a \$90 million training tax credit over the next three years as well as the continued support of the Industry Training Authority.

It is within the context of the importance of small business and the training challenge they face that the importance of the Training Tax Credit must be viewed; and in the end the success of the actual program must be judged.

The Ministry consultation discussion paper indicates that the BC Government will design the training tax credit program based on the following principles:

- Help address the impediments to meeting the demand for skilled workers in British Columbia;
- Encourage incremental new investment in training by industry and employees;
- Be responsive to the changing needs of industry;
- Ensure that British Columbia’s existing training programs are used effectively;
- Cost within the budgeted amount of \$90 million over three years;
- Be administratively feasible with low administration costs for government and low compliance costs for program applicants; and,
- The program cannot address the training needs of all employers in all sectors and still be effective in meeting other objectives.

The Chamber welcomes these principles and feels that a BC Small Business Training Tax Credit is the best way to embrace these principles.

### **3. SMALL BUSINESS AND HUMAN CAPITAL IN BC**

Three major factors and realities influence our recommendations on the design of the training tax credit program:

- The importance of small businesses to the provincial economy;
- The critical need to improve productivity and competitiveness among all sectors and sizes of business; and,
- The need to support small businesses to improve training and human resource capacity.

### **3.1 The Significance of Small Business**

A key fact to keep in mind for the design of a BC training tax credit is that small businesses play a pivotal role in the BC economy. The Chamber has consistently been the leading voice calling for the recognition of the role played by small businesses in the economic growth, job creation, regional and local development, and social cohesion of communities across the province.

BC has a strong reliance on small business with a full 98% of all businesses in BC being either self-employed or having 50 employees or less involved in all sectors and all regions of the province.

The number of businesses does not tell us much about the real contribution and impact of the small business sector to the provincial economy, or to communities across the province. To understand this we need to look at the jobs and economic benefits these businesses bring to the economy:

- The level of job creation by small companies in BC is second only to Saskatchewan in Canada. Small businesses in BC employed 971,000 people in 2004; this represents an impressive 47% of all jobs in the province and translates to 57% of all private sector jobs.
- Perhaps more importantly small businesses in BC rank first in Canada in terms of their contribution to the provincial economy when measured as a proportion of Gross Domestic Product (GDP).
- Small businesses in BC represent 26% of GDP, compared to the national average of 22%. The Chamber cannot overemphasize how important this makes small firms to the provincial economy as drivers of economic growth and prosperity.
- What is also particularly important to The Chamber is the fact that small enterprises are the economic lifeblood for practically every community across the province. This is driven by the simple fact that the distribution of small enterprises does not depend on proximity to any particular resource or location; the distribution of small businesses is simply related to population and the need for goods and services.
- Chamber thinks it is worthy of note that while only 5,100 businesses (representing 1.4% of the total number of small businesses in the province) are involved in exporting, they are responsible for a full 31% of the total value of the provinces exports, representing \$8.9 billion in economic activity.

### **3.2 The Productivity Imperative**

The nature of the current transformation occurring in the global economy will have profound implications for BC. The growing economic strength and vitality of Asian economies, particularly India and China, will present a seismic shift in global economic geography that presents both new opportunities and new challenges for BC and for Canada. It is the ability of our small businesses to be competitive that will determine whether these changes become opportunities or challenges.

In order to maintain and enhance our international competitiveness, a greater focus on productivity is essential. Only through maintaining and repeatedly renewing a strong enterprise base will BC maintain sustainable growth.

Productivity is a huge challenge facing the province. During the 1990's BC had productivity gains similar to those at the national level; however since then BC has fallen significantly behind the national average. BC's productivity record during the last decade and a half has been less than stellar. This trend has continued with BC's ranking slipped to sixth place among the provinces. Real GDP per hour worked in BC was \$31.40, well below the national average (\$33.70). Only Manitoba and the Atlantic provinces (excluding Newfoundland) had lower overall productivity levels.

In 2002, Canadian productivity was about 17% below that of the United States. This gap was large enough to explain entirely why the standard of living of Canadians in 2002 (measured in terms of real GDP per capita) was 15.4% below that of our American counterparts. This translated into an annual income gap of \$6,287 Canadian per capita (at purchasing power parity).

It is critical that growth originates in improvements in our ability to produce goods and services. These improvements would build an economic foundation that is more competitive and will improve the living standards of the province. In order to move in this direction and improve productivity and competitiveness, The Chamber recently made recommendations to the BC Competition Council in the following areas:

- Ensuring a competitive taxation regime;
- A streamlined and efficient regulatory system;
- Invest in technology, innovation and infrastructure;
- Ensure a skilled and educated workforce; and,
- Building a strong export base.

### **3.3 Small Business and Human Capital<sup>3</sup>**

The fact that we are already experiencing a skills shortage will be seriously exacerbated by the coming "demographic time-bomb." This phenomenon is one being faced by countries around the world as declining birth rates and longer life spans will result in a "greying" of the population.

Of the province's 347,900 small businesses, 52% are owned by entrepreneurs over the age of 45. Twenty-two percent are over the age of 55.

---

<sup>3</sup> The Chamber also believes that the provincial education system from kindergarten to elementary, secondary and post-secondary levels must provide equal opportunity for all students to develop to the maximum of their potential. As the needs of society, and our economy, change so too must the educational system. We have made a number of recommendations and submissions on these issues, but these are not covered in this submission because of the focus on the training tax credit program.

To ensure that small businesses are provided the necessary tools, government should provide innovative public policies and flexible solutions in order to allow businesses to provide the necessary training and skills development opportunities.

The BC Skills Force Initiative raised some interesting recommendations that provide an action plan for business, government and educators. A complete list of these can be found in the full report, but two specific recommendations support the need for a training tax credit program that can be accessed by small businesses:

- On-the-Job Training  
Small business employers need to develop greater capacity to deliver effective on the-job training for their employees. Government needs to play a greater role in helping to provide small businesses with progressive and effective tools to stimulate their investment in training. Small businesses will work in partnership with industry/trade associations and educational institutions to ensure that the most effective training models and delivery methods are used to achieve maximum results.
- Human Resource Management  
B.C.'s small business employers need to build greater capacity to develop and implement effective recruitment, training and compensation strategies in order to ensure that they are employing the proper techniques and developing the innovative packages that will allow them to attract and retain skilled workers.

This research and findings prompted The Chamber to make the following HR-related recommendations to the BC Competition Council:

- Use the results of this survey – particularly the impact of skill shortages, high turnover and aging workforce on small businesses – to promote the need for businesses and sectors to develop strategies to address these pressures. For example, the results show that small businesses feel a definite impact on production levels and customer service from skill shortages and staff turnover.
- Promote small business human resource planning and ownership succession planning as a strategic tool for companies to get on top of these problems and for developing proactive strategies for addressing skill gaps.
- While overall, almost half of the small businesses reported they used in-house training, just over one-third of micro-businesses did so. While training is not a panacea, work needs to continue on promoting the business case (i.e. return on investment) for training among very small businesses, and to develop tools and assistance that will help such companies use training to their advantages in offsetting skill shortages and turnover.

Based on the fact that the demographic challenge facing BC over the coming years will necessitate looking outside the province for the workers, The Chamber also has promoted the need to market for new workers who will come from both inter-provincial migration and international immigration. This includes the need for innovation and reform in immigration policies and programs administered by provincial and federal governments. Specific recommendations regarding immigration recently made by The Chamber can be found in its BC Competition Council submission.

#### **4. APPRENTICESHIP TRAINING**

The Chamber found in its research and discussions that the small business sector has a significant degree of interest in apprenticeship training – particularly in certain regions and sectors. This should be capitalized upon and more information could be provided to small businesses in rural regions on what the Industry Training Authority is doing and how it can help smaller businesses participate in such training.

However, The Chamber recommends that the training tax credit not be used for apprenticeship training for the following reasons:

- Apprenticeship training is supported through new federal tax credits and grants to employers, apprentices and trades workers;
- The BC Government supports apprenticeship training by subsidizing most of the cost of technical training through ITA grants to training institutions;
- The ITA has received significant budget increases in the last two years and has done an excellent job of increasing the number of young people and employers who participate in formal apprenticeships. This upward trend seems to be continuing to happen without tax incentives, so there is no need to use a training tax credit program to reward what is already occurring.
- Making apprenticeship training eligible for the training tax credit could easily use up the whole tax incentive fund. If employers received an average of \$1,000 per apprentice, the current number of over 28,000 apprentices would represent almost \$30 million.
- Formal apprenticeships are mostly predominant in construction, primary industry, transportation-related sectors, and a few service sectors – this would exclude the small businesses in the majority of BC’s economy.

Excluding apprenticeship training from the tax credit would ensure positive harmonization between federal and provincial programs thereby making effective use of tax dollars.

#### **5. TRAINING TAX CREDIT DESIGN RECOMMENDATIONS**

In its response to the Ministry of Finance’s consultation on a Training Tax Credit program, The Chamber has considered the consultation goals (i.e. impediments to employer training and desired program design) and Ministry design principles identified in the consultation discussion paper. We have also reflected on the BC economic context, in particular the contribution of small businesses, the need for productivity improvements, and skill and labour shortages and impediments summarized in the previous section.

The Ministry consultation discussion paper indicates that the BC Government will design the training tax credit program based on the following principles:

- Help address the impediments to meeting the demand for skilled workers in British Columbia;
- Encourage incremental new investment in training by industry and employees;
- Be responsive to the changing needs of industry;
- Ensure that British Columbia’s existing training programs are used effectively;
- Cost within the budgeted amount of \$90 million over three years;

- Be administratively feasible with low administration costs for government and low compliance costs for program applicants; and,
- The program cannot address the training needs of all employers in all sectors and still be effective in meeting other objectives.

Based on the aforementioned considerations and the above principles, The Chamber provides the following recommendations below regarding the design of a BC TTC program.

### **5.1 Recommended Training Tax Credit Goals**

A BC Small Business Training Tax Credit Program should incent and assist BC small businesses and their employees to:

- Increase job-related skills, adaptability and flexibility;
- Increase on-the-job training capacity;
- Increase the productivity and global competitiveness; and,
- Harmonize provincial and federal training tax incentives.

### **5.2 Recommended Training Tax Credit Design Features**

A BC Small Business Training Tax Credit should be designed as follows:

- The tax credit should provide equitable access to training tax incentives regardless of industry sector, occupation, or region of the province;
- The tax credit should address the key barriers to employer investment in training, particularly those faced by small businesses – financial and human resources;
- The tax credit should be refundable so that small businesses with no profits can still receive a benefit from the tax credit;
- To the extent possible the tax credit should be performance-based and focused on outputs and outcomes; and,
- The tax credit program should be administratively simple and easy to use by small businesses.

### **5.3 Recommended Training Tax Program Scope**

A BC Small Business Training Tax Credit should focus on incentives for employers who invest in employee training. There are a number of government programs such as Employment Insurance supports, student loans, worker tax incentives, wage subsidies, provincial welfare programs, etc. which provide support for workers and new entrants. Further, directing a tax incentive to individual employees will encourage employee mobility and increase worker attrition in small businesses. An employee tax credit will not increase training capacity in small businesses.

The Chamber sees the key element of the credit as being the enhancement of an employee's ability to enhance their productivity and thereby contributing to the betterment of the business. The Chamber believes that the ability of the tax credit to enhance small businesses ability to become a large business is incumbent on its ability to enhance the competitiveness

and productivity of the businesses employees. As such the Chamber recommends that self-employed workers should not be eligible for a tax credit.

In order to be able to provide an average tax credit per company under the program, we recommend that the training tax credit program focus on small businesses with less than 20 employees. There are approximately 138,000 businesses in BC with 1 to 19 employees. To open the tax credit up to larger companies would mean the average tax credit would be so small as to would lose its incentive power; larger businesses have more capacity and resources for employee training.

While a BC Small Business Training Tax Credit program may not exclusively focus on the following, it should be weighted more towards formal on-the-job and off-the-job training that:

- Increases the skills and productivity of existing employees and businesses;
- Is credentialed by an accredited private training institution, public educational institution, or industry/business/professional association;
- Includes management, supervisory and soft skill training;
- Excludes safety and other regulatory training, manufacturer/supplier training, and academic training; and,
- Excludes any training already funded by provincial or federal government programs.

“Formal” training would involve measurable learning that can be documented and has auditable costs such as training resources, equipment, trainers, course fees, etc.

The BC Small Business Training Tax Credit Program would not be awarded until evidence of training module, course or program completion is provided through documentation that shows completion. This would make the tax credit more of an outcomes-based incentive.

The Chamber is concerned that given the scale of the skills shortage challenge facing the province \$30 million, while welcome, may turn out to be insufficient to meet the needs of the economy. This presents the potential that the credit will quickly become oversubscribed, if that occurs The Chamber believes it is critical that the level of credit provided to small business not be impacted, in short if the tax credit applications exceed the funds available The Chamber does not believe that business should receive a pro-rated credit.

The Chamber recommends that the government either look at requesting applications at the beginning of the year, thereby ensuring that they have an understanding of the funds required. This would allow the government to either pro-rate the credit before businesses commit to providing training, or limiting the business granted the credit to ensure training provides the biggest return on the governments investment.

A BC Small Business Training Tax Credit could be limited by providing a training tax credit only for incremental positions or incremental training; tax credits for a maximum number of employees per company per year; and a maximum credit value per employee and company per year.

#### **5.4 Recommended Training Tax Credit Value**

A BC Small Business Training Tax Credit needs to balance the need to make the tax credit available to as many businesses as possible with the need to provide tax credit to incent companies to increase their investment in training. \$30 million each year will not go very far if companies receive several thousands of dollar per employee trained.

Anecdotal feedback from SME owners suggests that the tax incentive would need to be up to \$1,000 per employee to a maximum of 3 employees, per year to make a difference in their hiring and training practices.

In order to be able to provide an average tax credit per company under the program, we recommend that the training tax credit program focus on small businesses with less than 20 employees. There are approximately 138,000 businesses in BC with 1 to 19 employees. To open the tax credit up to larger companies would mean the average tax credit would be even smaller and it would lose its incentive power; larger businesses have more capacity and resources for employee training.

Further to this The Chamber believes that the tax credit must become a resource that assists small businesses dedicate resources to increasing training for their employees, not as a mechanism to pay for training. As such The Chamber recommends that the tax credit should be capped at providing no more than 50% of the cost of the training program.

Tax credits should only be allowed for small businesses who have documented (external or internal) formal training costs for employee training. This should be administered through the tax system by providing a simple one-page schedule as an addendum to a company's income tax forms, via an agreement between Canada Revenue Agency and the Province of BC. To introduce a new mechanism or use a different existing mechanism to administer such documentation will only further complicate or confuse matters for small businesses.

#### **5.5 An Alternative Model for Building Small Business Training Capacity**

An innovative option for use of a small portion of the BC Small Business Training Tax Credit Program would be to provide resources to a consortium of small business groups to assist small businesses throughout the province to build training capacity and to educate them about training and the various programs available for training and human resource-related tools and activities. This would also help ensure a better quality of training for which businesses would receive tax credits.

## **6. CONCLUSION**

Empirical data show the importance of small business to BC's economy. The Small Business Roundtable led by the Honourable Rick Thorpe, Minister of Small Business and Revenue indicates, "Small business is the engine that drives our growing, booming economy."

The Chamber's research and that of other small business organizations have clearly shown that skills shortage and the ability to find, train and retain skilled workers is a top issue for small business. Recruitment and retention of skilled labour was the only priority issue that was identified at all 18 community consultations held by the Small Business Roundtable.

A BC Small Business Training Tax Credit Program can be designed to complement and not duplicate the federal training tax incentives and grants.

In summary, the BC Chamber wants to see a BC Small Business Training Tax Credit program that:

1. Focuses on small businesses in all sectors and regions with less than 20 employees;
2. Supports formal job-related in-house and off-site training provided by accredited private and public training institutions;
3. Provides a refundable tax credit that can be carried forward to subsequent years;
4. Provides a tax credit to employers, not employees;
5. Rewards job-related training that is completed and for which an employee receives a recognized certificate or credential;
6. Supports a consortium of The Chamber and other small business groups to educate and help small businesses expand training capacity throughout BC; and,
7. Does not provide tax credits for apprenticeship training for the reasons indicated above, thereby complementing and not duplicating federal measures.

Again, The Chamber is very pleased to see the focus given in Budget 2006 on the need to address the skills shortage facing the provincial economy, particularly the introduction of a training tax credit program. We also welcome the additional measures in Budget 2006 focused on enhancing skills in a number of sectors with an increase in ITA funding as well as other initiatives including additional operating funding to post-secondary institutions to create 25,000 new spaces by 2010.

This submission has not directly responded to each of the 11 questions in the Ministry of Finance web questionnaire as some of the questions pertain to individual businesses and the other questions have been addressed in the preceding content of this submission.

In order for tax dollars to obtain the best results for our economy and communities, we need a British Columbia Small Business Training Tax Credit Program.