



Putting Education to Work!

BRIEF SUBMITTED TO THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

Recommendations for the creation of a Federal Co-operative
Education Hiring Tax Credit for the 2015 Budget

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Executive Summary

The looming skills shortage, low labour productivity and youth unemployment problem threatens economic growth in Canada. Co-operative education (“co-op programs” or “co-op”) provides students with both the opportunity to employ their academic skills and knowledge in a practical environment and earn money to fund their education by alternating work and study terms during their post-secondary education. Furthermore, employers get enthusiastic and innovative talent at a reasonable cost. Co-op prepares the next generation of highly skilled and educated young workers to help Canada reach higher levels of productivity and innovation for its economy.

A nation-wide infrastructure is already well established for co-op students and employers with Co-operative Education programs offered at more than 100 colleges and universities and more than an estimated 80,000 students participate in these co-op programs each year. Canada is one of the world leaders in co-operative education, with internationally known co-op programs such as at the University of Waterloo, which is presently the largest in the world. Unfortunately, even given these accomplishments, co-op remains an underutilized tool in Canada. In fact, many employers, especially small and medium sized businesses (SMEs), still find the cost of co-op hiring restrictive even though there are co-op hiring tax credits or subsidy programs that have been set up in six provinces in Canada (Ontario, Quebec, Manitoba, Nova Scotia, Newfoundland and Labrador) in an effort to stimulate the number of co-op placements. Currently, there is no federal initiative in place.

The Canadian Association for Co-operative Education (CAFCE) recommends that the federal government create a Co-operative Education Hiring Tax Credit. A federal co-op tax credit would help employers across Canada reduce and offset the cost of hiring co-op students by allowing them to recoup a portion of the students’ wages. Moreover, this tax credit would encourage employers in provinces that already have tax credits or subsidy programs to hire even more co-op students because the cost of co-op hiring would be significantly reduced. Overall, this tax credit would support employers to hire co-op students, which they might otherwise not be able to afford without a credit, empowering them to create jobs and provide training to help mitigate the impact of the youth unemployment problem and the skills and labour shortage. It also has another benefit in encouraging employers to actively participate in the training of our youth by having a direct relationship with Canada’s post-secondary institutions. Ultimately, it would contribute to developing and building a stronger and more productive and skilled Canadian workforce.

The value of the tax credit and the cost of the program will depend on the design approved by the federal government. Nevertheless, CAFCE recommends a tax credit of \$3,000 per co-op student hired by private sector employers in Canada. Assuming a 50% uptake rate from participating employers, a federal Co-operative Education Tax Credit of a maximum value of \$3,000 would cost approximately \$79 million per year.

The Co-operative Education Hiring Tax Credit

Recommendations

Young people have been told repeatedly that the way to secure a decent job with a good pay cheque and ensure they live a comfortable life was to pursue higher education after high school, by enrolling in either university or college. Unfortunately, the situation for young Canadians is no longer as simple. Today, Canada's young people are struggling to find a decent job during their studies and, more importantly, to find employment that is stable, well paid and related to their field of study after they have worked extremely hard to graduate from these higher learning institutions. Moreover, private sector employers, like small and medium sized businesses (SMEs), do not always have the means to hire or train new employees, such as co-op students.

As a solution to these economic problems, the government can help young Canadians as well as SMEs by creating a co-op hiring incentive in the form of a tax credit. A federal tax credit for co-op hiring means that businesses could recuperate a certain amount of the money spent on the hired student's wage, therefore lifting an important part of their financial burden. This would allow Canadian businesses to create jobs for co-op students and hire co-op students they might not otherwise afford. Moreover, this incentive would help fund training of these students and, therefore, play a role in helping to relieve the youth unemployment problem.

Therefore, it is recommended that the federal government consider the following strategies for the 2015 Budget:

- Develop a tax credit program for Canadian private sector employers, such as SMEs, that hire co-op students enrolled in universities and colleges in Canada;
- Model the new tax credit on the Ontario Co-operative Education Tax Credit program and provide a tax credit of a value of \$3,000 to private sector employers, including SMEs, who hire co-op students;
- Promote a federal tax credit as an additional credit on top of existing provincial co-op hiring incentives available in certain provinces in Canada.

Discussion on the Design of a Co-operative Education Hiring Tax Credit

The cost of the program will ultimately depend on its design and what the government feels will be the most suitable medium to create sustainable economic growth and provide the best return on investment. A co-operative education tax credit framework exists in Ontario and it could potentially serve as a model for a federal co-op hiring tax credit encompassing all provinces in Canada, whether or not they already have tax credits or subsidy programs in place. The Ontario Co-operative Education Tax Credit (CETC) was first created in 1996 with a maximum credit of \$1,000 per qualifying co-op placement, but after revision in March 2009, the maximum refund

amount was tripled to \$3,000 per placement. The CETC is a refundable tax credit and applies to Ontario businesses who hire university and college coop students: corporations are able to recuperate 25% and small businesses 30% of eligible expenditures for a student during a qualifying work placement (Canada Revenue Agency, 2013) up to the maximum of \$3000. Since its increase, the tax credit program has known great success: the Canada Revenue Agency (CRA) has calculated the cost of the program over four years from \$17,039,000 in 2009 to approximately \$38,938,000 for 2012. In 2012, the program provided deductions to approximately 2,320 corporations for having hired approximately 16,710 qualifying co-op students under the CETC whereas three years earlier when the new value for the credit was first introduced, there were 1,730 corporations hiring 9,360 co-op students under the CETC.

These results show that the CETC is being claimed by more employers each year and that there are more co-op students eligible for the CETC in Ontario. Therefore, expanding the existing Ontario CETC framework to a nation-wide incentive program would help create a balanced and diverse workforce and help youth unemployment as well as bring innovation to the economy.

The Return on Investment from Co-op

The Co-operative Education Hiring Tax Credit would help to encourage growth and return for all private sector businesses, especially SMEs, throughout the country who wish to hire co-op students at an affordable rate. It would also help to make every province in Canada competitive with provinces that already have similar tax credits or subsidy programs such as Ontario, Quebec, Manitoba, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. This federal tax credit could be used to encourage private sector employers to hire students in provinces such as British Columbia, the third most important player for co-op education in Canada, after Ontario and Quebec. Co-op especially helps Canada's SMEs attract and retain the best and brightest students from across Canada and avoid "brain drain" from provinces with no tax credits to competing provinces.

A federal tax credit would be beneficial to employers and co-op students alike in all of Canada. While it may be difficult to quantify the wide ranging benefits provided by co-op, one way to estimate the return on investment is to look to employers who have hired co-op students. In 2012, there were approximately 72,000 co-op placements in Canada with students earning an average of \$10,000 for each placement; this represents an investment of over \$100 million into co-op student wages. Furthermore, a study from the International Handbook of Co-operative Education revealed that over 95% of employers felt their co-op student added value to their organization and 77% felt the added value exceeded the cost of employment (Weisz & Chapman, 2004). Despite only reflecting the short-term economic benefit for employers, these figures help to put the value of co-op in the Canadian economy into perspective and demonstrate the potential for greater returns, like reducing youth unemployment and improving the economy, through a co-operative education hiring tax credit. Ultimately, the long-term objectives of a co-operative education tax credit would be to improve Canada's work force productivity, introduce innovation through a new and young labour force, and, consequently, enhance its international competitiveness.

Helping education, training and competitiveness of Canadian Business

Co-operative education is mutually beneficial to post-secondary students, employers, educational institutions and the provinces as a whole. Students are given both the opportunity to employ their academic skills and knowledge in a practical environment and earn money to fund their education. Furthermore, co-op provides employers with enthusiastic and innovative talent at a reasonable cost. A continuous cycle of knowledge transfer between students and employers also helps post-secondary institutions better align their curricula with changing priorities. The provinces as a whole benefit from having the next generation of highly skilled and educated young workers to help meet its human resource challenges and realize the full potential of the emerging knowledge-based economy.

Unfortunately, co-op is an underutilized tool as many private sector employers, especially SMEs, find the cost of co-op hiring restrictive. The economic downturn has stifled job creation, further exacerbating the problem and reduced the number of quality co-op placements available to Canadian students. Canadian SMEs, especially the ones in provinces with no CO-OP student hiring incentives, face greater challenges in an era of intense competition for human resources.

Undoubtedly, SMEs lack the financial resources to attract experienced and talented employees. They often hire under-qualified workers and provide on-the-job training as necessary, earning small business the title of “Canada’s Training Ground” (Canadian Federation of Independent Business, 2009). This investment in training young and inexperienced workers is often lost when these employees are later “poached” by larger corporations. While small businesses recognize that training is necessary to operate and grow their business, they often bear a disproportionate amount of the cost while benefits such as a highly skilled and educated workforce are delivered to society as a whole. A 2013 survey conducted by the CFIB revealed that half of small businesses are in favour of the introduction of a federal tax credit for employers who hire a student enrolled in a co-operative education program. SMEs are an integral part of the Canadian economy, representing more than half the Canadian economy, and the government must foster their growth in order to create new jobs and opportunities for Canadians.

Supporting co-operative education by providing SMEs and all Canadian private sector employers with a tax credit to help offset the cost of hiring and training would reward SMEs for their contributions while reducing the barriers to co-op employment. This would allow the opportunity for Canadian businesses to hire co-op students they might not otherwise be able to afford, empowering them to create jobs and provide training to help mitigate the impact of a skills and labour shortage.