

FEUQ
Fédération étudiante
universitaire du Québec

**MEETING THE NEEDS OF OUR YOUNG PEOPLE
FOSTERING CANADIAN INNOVATION**

Federal pre-budget submission 2014-2015

FEUQ | CNCS
Conseil national des cycles supérieurs

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The **Fédération étudiante universitaire du Québec** (FEUQ) is an organization that brings together 13 student associations with over 125,000 students at all university levels from all regions of Quebec. Since the FEUQ was established in 1989, its primary mandate has been to defend the rights and interests of students before governments and stakeholders in the field of education. For 24 years, it has promoted humanistic education as a societal choice. It is especially invested in defending its members before, during and after their university studies by fighting for accessible and quality education, in particular.

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PREFACE

This document focuses on three elements the FEUQ has studied in recent years that directly affect undergraduate, graduate and post-graduate students, as well as new graduates. They fit into a unique economic, social and demographic reality that holds a number of challenges for future generations.

More specifically, we will discuss the issues of education affordability, economic and demographic challenges for resource and manufacturing regions, and barriers to university research caused by inadequate funding for indirect research costs.

SUMMARY OF RECOMMENDATIONS

That a tax credit for new graduates working in economically depressed areas (further to Bill C-288, introduced in 2009) be included in the budget measures outlined in the 2014 Economic Action Plan.

That tax credits for tuition fees and course materials be reduced and the funds be reinvested in the post-secondary education portion of the Canada Social Transfer (CST) according to the number of post-secondary students in each province.

That the funding for indirect research costs (IRCs) under the Government of Canada's Indirect Costs Program (ICP) be increased by \$286 million in order to bring the coverage rate for indirect research costs up to 40%.

CREATING A TAX CREDIT FOR NEW GRADUATES WORKING IN ECONOMICALLY DEPRESSED AREAS

Canada's resource regions are currently facing significant demographic and economic challenges. The Canadian population in general is aging as a result of two factors: a declining birth rate and an increased life expectancy.¹ And, as a result of the aging population, a significant proportion of Canada's workers will be leaving the labour force in the near future. Retirement age is fast approaching for baby boomers, and a number of concerns have been raised about who will fill their positions. There are already negative replacement rates in a number of sectors, and labour shortages are expected to accelerate in the next decade. Many jobs will need reinforcements, especially in management, health care, the public service, and the mining, manufacturing and oil and gas industries.²

Effects on businesses

In its 2013 Economic Action Plan, the Government of Canada prioritized support for small business and for communities and regions.³ By combining measures such as the hiring credit with reduced tax rates, the government is doing everything it can to encourage new Canadian businesses. However, current and future demographic challenges are curtailing private investment, as businesses cannot be assured that workers will be available.

For example, in some areas in Quebec, private investment in the mining sector has decreased by more than 50%, and in other areas investment in the manufacturing sector has decreased by up to 40%.⁴

A recent meeting with businessmen working in the regions⁵ revealed that they had chosen not to pursue investment projects due to a lack of local workers. This shows how important it is for the economic development of the regions in all Canadian provinces to have measures put forward to counteract this decline in the number of workers available in vulnerable regions.

¹ The Urban Futures Institute (2009). *Canada to 2058: Projections of Demographic Growth and Change for Canada and its Regions*. 25 p. Online. <http://www.urbanfutures.com/canada-2058/>

² Government of Canada (2013). "Canadian Occupational Projection System: Imbalances Between Labour Demand and Supply – 2011-2020". Human Resources and Skills Development Canada. Online. <http://www23.hrsdc.gc.ca/l.3bd.2t.1.3l.shtml@-eng.jsp?fid=1&lid=16>

³ Government of Canada (2013). *Canada's Economic Action Plan*. Online. <http://actionplan.gc.ca/>

⁴ Quebec Institute of Statistics (n.d.). *Investissements privés et publics : Québec et ses régions, perspectives 2013*. 4 p. Online. http://www.stat.gouv.qc.ca/publications/investissements/pdf/IPP_regions_2013.pdf [French only].

⁵ This meeting took place in early October during consultations on the renewal of the Quebec government's youth policy.

Tax credit for new graduates

To this end, the FEUQ has proposed creating a tax credit for new graduates working in “designated regions,” as outlined in the *Regional Development Incentives Act*, that have a population of less than 200,000 and that show signs of poor economic growth and/or social expansion. The tax credit would be worth up to 40% of their salary, with a maximum of \$3,000 per year and an aggregate amount of \$8,000.

This measure echoes the terms of a bill that was introduced in 2009⁶ that had passed third reading in the House of Commons, but a federal election was called before it could pass third reading in the Senate.⁷ However, an exhaustive study of this bill was carried out, including a cost assessment by the Office of the Parliamentary Budget Officer. It revealed that cost estimates for this measure were between \$180 million and \$600 million per year, depending on the methodology.⁸ We believe that these estimates show the necessity of carefully identifying which regions should be eligible for the tax credit. The *Regional Development Incentives Act* was updated in June 2013,⁹ ensuring that the regions and definitions described therein are up to date.

The tax credit for new graduates we are proposing is similar to a Quebec tax credit introduced in 2006 that has benefited **50,000 new graduates who have established themselves in the regions and stayed**.¹⁰ It is of critical importance to encourage new graduates to establish themselves in the regions. A number of stakeholders in the field of regional development support this measure, including the Conférence régionale des élus du Saguenay-Lac-Saint-Jean, the Table de concertation des forums jeunesse régionaux, Place aux jeunes en région, and Solidarité rurale du Québec, representing provincial organizations in municipal, agricultural, co-operative, economic development and community development areas.

RECOMMENDATION 1

That a tax credit for new graduates working in economically depressed areas (further to Bill C-288, introduced in 2009) be included in the budget measures outlined in the 2014 Economic Action Plan.

⁶ Ms. Deschamps (2009). Bill C-288: An Act to amend the Income Tax Act (tax credit for new graduates working in designated regions). Ottawa: House of Commons of Canada. 4 p.

⁷ Parliament of Canada (2010). “LEGISinfo: Private Member’s Bill C-288, An Act to amend the Income Tax Act (tax credit for new graduates working in designated regions)”. Parliament of Canada. Online. <http://www.parl.gc.ca/LEGISInfo/BillDetails.aspx?billId=4327742&Language=E&Mode=1>

⁸ Office of the Parliamentary Budget Officer (2009). An Assessment of Cost Estimates Presented for Bill C-288: An Act to Amend the Income Tax Act (tax credit for new graduates working in designated regions). Ottawa: author. 26 p.

⁹ R.S.C. 1970, c. R-3, *Regional Development Incentives Act*

¹⁰ Quebec Department of Finance (2012). Budget 2012-2013: Additional Information on the Fiscal Measures of the Budget. Quebec City: Government of Quebec. 116 p.

REDIRECTING THE TAX CREDIT FOR TUITION FEES AND COURSE MATERIALS TO THE CST

The FEUQ has carried out an in-depth study of federal and provincial fiscal measures relating to post-secondary education.¹¹ This research cast light on the unsuitability of the tax credit for tuition fees and course materials offered by the federal government (see lines 323 and 324 of the tax form). It is a non-refundable, transferable tax credit that serves to reduce the tax to be paid by an amount equivalent to 15% of tuition fees paid over the tax year, up to \$5,000.

This tax credit has two major weaknesses. The first is that it is a non-refundable credit. Our study's findings suggest that students with lower incomes need the tax credit the most, but they are the ones that benefit the least.¹² The tax credit does not seem to be an effective way to increase accessibility to post-secondary education.

The second weakness is that the credit is very dependent on the tuition fee policy of each province. This means that Canadian students receive different treatment depending on where they live (that is, a student from a province with higher tuition fees will receive a higher tax credit than a student who earns the same amount in a province where tuition fees are lower). More importantly, the overall number of students in a province depends on its tuition fee policy. From a federal point of view, this leads to uncertainty about how much the tax credits will cost, which could change unexpectedly at the behest of the provinces.

The tax credit for tuition fees is by far the federal government's highest post-secondary education expense. It is therefore paradoxical for the Canadian government not to have full control over this expense. Therefore, the FEUQ proposes eliminating the education tax credit and reallocating the funds to the post-secondary portion of the Canada Social Transfer (CST). It would not be based on tuition fees; rather, it would be based on the number of students enrolled in post-secondary institutions in each province. That way, the funds would be predictable and controllable. Furthermore, the funds could be invested in measures that would increase the accessibility of post-secondary education in a manner specific to the regional realities in the various provinces.

RECOMMENDATION 2

That tax credits for tuition fees and course materials be reduced and the funds be reinvested in the post-secondary education portion of the Canada Social Transfer (CST) according to the number of post-secondary students in each province.

¹¹ FEUQ (2011). *Mesures fiscales et l'éducation postsecondaire*. Montreal: Fédération étudiante universitaire du Québec. 88 p.

¹² *Ibid.*, p. 57.

BETTER FUNDING FOR THE INDIRECT COSTS PROGRAM

When a granting agency funds a university research project as part of a direct grant, a number of associated costs are incurred, called “indirect” costs, that cover areas such as administration and research costs (administration, libraries, human resources, office space, research equipment, etc.) These indirect research costs (IRCs) are the equivalent of between 50% and 65% of the amount of direct research grants.

In order to cover part of the IRCs, the Government of Canada established the Indirect Costs Program (ICP). **However, since the ICP was established, the federal government has not been able to fund IRCs beyond 40%** of the value of the direct grants provided by the Social Sciences and Humanities Research Council (SSHRC), the Natural Sciences and Engineering Research Council (NSERC), and the Canadian Institutes of Health Research (CIHR), as was originally intended. Despite the recommendation of the Advisory Council on Science and Technology (ACST) to increase IRC funding to 45%, the government has never been able to increase the ICP budget enough to reach this objective. Currently, federal funding for IRCs covers 21.5%. The balance must be paid by the universities, sometimes from their operating budgets. For the 2013-2014 fiscal year, this amount was \$76 million for Quebec universities and \$286 million for Canadian post-secondary institutions as a whole.

The Conseil national des cycles supérieurs of the Fédération étudiante universitaire du Québec (CNCS-FEUQ) proposes increasing the ICP contribution to 40% of the amount allocated in direct research grants, compared with the 21.5% rate currently in effect. To reach this target, which was the original goal of the ICP, CNCS-FEUQ proposes reviewing the current IRC funding formula by changing the rates associated with the reimbursement as follows:

Proposed modification to the funding formula for IRCs under the ICP

Level	Current rate	Proposed rate
First level, \$100,000	80%	80%
Second level, \$900,000	50%	50%
Third level, \$6 million	40%	50%
TOTAL	20%	37.5%

In order to fund IRCs according to the proposed formula, an additional \$286 million would have to be allocated to the ICP budget in 2014-2015. While it would be best to create new funding for this increase, it could be funded on a cost-neutral basis by reallocating funding from other programs.

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In 2013, the federal government's Economic Action Plan provided an additional \$37 million annually to support, through granting councils, research partnerships between post-secondary institutions and industry. This new funding is in addition to the existing \$366 million already allocated to the three councils for this type of research. Given the amount of funding already allocated to university–industry partnerships, and given that the results of these partnerships are fairly limited in terms of national scientific and economic development, this \$37 million could be better put to use funding the ICP on a recurring basis.

Furthermore, the amount of funding allocated by the government to the Canadian Foundation for Innovation (CFI) to build new infrastructure does not address the issue of maintenance costs, which are IRCs. Therefore, a portion of these funds should be reallocated to the Indirect Costs Program. The CNCS-FEUQ suggests using half of the investment income unallocated by the CFI, that is, \$112.5 million, to go toward funding the ICP.

Given how much the government invests in the Scientific Research and Experimental Development (SR& ED) Tax Incentive Program, and in light of the mixed results of this indirect support strategy for R&D, the CNCS-FEUQ proposes reallocating \$136.5 million from the \$2.3 billion SR&ED envelope to fund the ICP.

By following through with these three measures, it would be possible to increase the ICP by \$286 million, which is the amount required to fund IRCs at a rate of 40% of the grants allocated by the federal granting councils. Without question, this measure would have positive outcomes. When universities have to pay the IRCs, they have fewer financial resources to invest in other areas, such as granting scholarships to students. Graduate and post-graduate students are particularly active in advancing research, which means they are the best placed to transfer social and technical knowledge and innovation from universities to industry and civil society. According to a recent Quebec Council for Science and Technology publication, student researchers and graduates are the most powerful transfer mechanisms between universities and industry. Therefore, it is important to adequately support the next generation of scientists.

According to the Association of Universities and Colleges of Canada (AUCC), the \$17 billion invested in university research generates more than \$60 billion in economic spinoffs each year. In other words, **for every dollar the government invests in research, Canada's economy benefits to the tune of \$3.50. Therefore, increasing the ICP by \$286 million could generate close to \$1 billion in economic spinoffs in Canada.** Every dollar spent by universities to cover the funding gap attributed to IRCs means researchers are deprived of money that could be used to better fund research projects, which contribute to the socio-economic development and competitiveness of the country.

That the funding for indirect research costs (IRC) under the Government of Canada's Indirect Costs Program (ICP) be increased by \$286 million in order to bring the coverage rate for indirect research costs up to 40%.