Canadian Construction Association
Pre-budget Submission 2015

Executive Summary

The Canadian Construction Association (CCA) represents 20,000 member companies engaged in civil and non-residential construction across Canada. Through our network of more than 65 local and regional partner associations, CCA brings a pan-Canadian approach to the development of standard industry practices and documents, as well as national public policy issues of importance to the sectors.

As part of the House of Commons Standing Committee's 2015 pre-budget consultations with Canadians, CCA is pleased to provide the following submission for the committee's consideration. This year's submission focuses on four areas of concern to the non-residential construction sector:

1. Supporting apprenticeship training and increasing labour mobility;
2. Ensuring Canada's trade-enabling infrastructure can support the expected increased export growth flowing from the new opportunities created by landmark trade agreements;
3. Encouraging the commercialization of industry-led basic and applied research; and
4. Increasing industry productivity with minimal tax reforms.

The decade ahead will present Canada with many new competitive challenges: labour shortages due to our aging population; increased competition from developing countries to supply natural resources; and, capacity constraints on our trade-enabling infrastructure. If not addressed, these are just some of the challenges that may have dramatic effects on our future growth potential and the sustainability of cherished social programs.

The recommendations presented from CCA will help address these challenges, allow the federal government to support the competitiveness and productivity of Canadian industries, and create a healthier and more dynamic Canadian economy.

Focus on Education and Labour Force Development

Support for Apprenticeship Training

Since 2006, the Government of Canada has announced a number of policy measures intended to promote apprenticeship across the country. These measures are directed at both employers and apprentices alike and include:

- Apprenticeship Job Creation Tax Credit (AJCTC)
    - An employer tax credit of up to 10% of the wages paid to first or second year apprentices in a Red Seal trade, up to a maximum of $2,000 annually.

- Apprenticeship Incentive Grant (AIG)
    - A taxable cash grant of $1,000 paid to apprentices for the completion of their first and second year of apprenticeship training, up to a maximum of $2,000 per individual.
- Apprenticeship Completion Grant (ACG)

- A taxable cash grant of $2,000 paid to registered Red Seal trade apprentices upon completion of their training and receipt of their journeyperson certification.

- Canada Apprentice Loan (CAL)
  - An interest-free loan of up to $4,000 for apprentices actively engaged in the pursuit of a Red Seal trade apprenticeship.

Despite the introduction of these measures, the rate of apprenticeship uptake by employers remains a concern. A December 2013 study by the Canadian Federation of Independent Business found that for many Atlantic Canada businesses, the greatest barrier to increased participation in apprenticeship is cost, including wages paid to the apprentices as well as lost productivity related to journeyperson mentoring and training. These costs can be a significant deterrent for many employers, and particularly smaller businesses that most often do not have the financial resources to commit to apprenticeship training.[1] To overcome these challenges, the CFIB study recommends:

> *To offset some of the costs associated with apprenticeship training, small businesses need accessible financial assistance. Providing a more general financial incentive, for instance in the form of a tax credit that would be open to a wider group of participants, would help alleviate cost struggles.*

Other than the AJCTC, all federal apprenticeship incentives are directed at apprentices. Though these are important, they do little to increase the number of businesses willing to participate in apprenticeship training.

Recommendation 1

- **To overcome this challenge, CCA members recommend the maximum annual value of the AJCTC be increased and, if applicable, the eligibility criteria broadened to include the third, fourth and fifth years of study in all recognized provincial apprenticeship programs. Specifically:**
  - **Increase the value of the current credit from 10% of eligible wages up to a maximum of $2,000, to 25% of eligible wages up to a maximum of $5,000 annually.**
  - **Broaden the application of the current credit to include all years of a provincially recognized apprenticeship program and not just the first and second years of study.**

Mobility of Labour

While apprenticeship is a provincial responsibility, CCA members applaud federal efforts to encourage the harmonization of apprenticeship curriculum and training standards across Canada. These efforts will help make training and qualifications more portable, and remove barriers faced when workers seek employment outside local labour markets.

[1] Canadian Federation of Independent Business, December 2013, *Coming Up Short: Barriers to Apprenticeship and the Shortage of Labour*; pg. 5: http://www.cfib-fcei.ca/cfib-documents/rr3314.pdf

However, many apprentices and journeypersons (tradespersons) still face significant costs not covered by their prospective employers when looking for work away from home. Costs associated with job searches and temporary relocation can often be a significant barrier for many tradespersons, particularly for workers with families.

Current tax policy permits deductibility of most reasonable expenses associated with permanent relocation. Larger employers will often provide tradespersons with some assistance to help offset costs associated with temporary relocation. Unfortunately, smaller and many medium-sized employers are simply not in a position to provide comparable benefits, leaving tradespersons with the difficult decision of assuming these costs and accepting immediate employment, or forgoing the employment opportunity and waiting for local labour market conditions to improve.

Canada's Building Trades Unions (CBTU) estimate tradespersons can pay about $3,500 annually related to temporary relocation, presenting a significant obstacle to the pursuit of employment opportunities outside their local labour market. Government assistance to help offset these expenses would contribute to increased workforce mobility.

Recommendation 2

- **CCA members recommend the introduction of a new mobility tax deduction for tradespersons under the Income Tax Act, specifically related to expenses incurred as part of job searches greater than 250 kilometres from permanent residences and not covered by employers or other government support programs.**

Focus on Infrastructure

National Infrastructure Component of the New Building Canada Fund

Over the past few years, the Government of Canada has announced several landmark trade agreements that could lead to billions of dollars in additional exports. To ensure Canadians can reap the benefits of these agreements, the country's trade-enabling infrastructure must be adequate to the task.

Despite government efforts to accelerate Canadian public infrastructure modernization—including projects of national significance under the $4 billion National Infrastructure Component (NIC)—demand for reinvestment remains high, particularly related to the country's trade-enabling infrastructure, much of which is at or exceeding its design capacity and cannot accommodate significant increases in exports.

CCA members wholeheartedly support the NIC's objectives. However, even leveraged, the $4 billion investment is inadequate to satisfy current and future demands on the program.

Recommendation 3

- **CCA members recommend, as the federal deficit is retired, a portion of future surpluses be dedicated to augment program funding under the NIC for the modernization of Canada's trade-enabling infrastructure.**

Commercialization of Innovation

The Government of Canada has emphasized the importance of industry-led research and innovation as a tool to enhance Canada's long-term productivity and prosperity, calling on industries to play a larger role in the identification, support, and commercialization of research projects.

The Canadian construction industry, with the assistance of CCA, helped launch Canadian Construction Innovations (CCInnovations) with the mandate to direct and disseminate industry research and innovation. This industry-led institute will work with government, universities, colleges, and private laboratories to drive innovation.

Recommendation 4

- **CCA members recommend increased research funding to support industry-led research and innovation.**

Tax Reform and Productivity

Despite numerous federal policy initiatives, Canada's productivity rate continues to lag that of the U.S. Leading Canadian economists, such as Don Drummond, attribute this to underinvestment by Canadian industry in machinery and equipment.

In 2012, Deloitte reported the productivity growth for Canadian manufacturing averaged just 0.8% between 2000 and 2008, while the average US manufacturing growth rate was 3.3%. As labour costs increased between 2000 and 2007, the per-worker investment by Canadian businesses in labour-saving equipment and machinery was just 52% of the investment made by businesses in the United States.[2]

This, however, is not a new trend. A more recent Deloitte report finds:

> *In the mid-1980s, the Canadian productivity rate was 91% of the US rate. That figure has since fallen to 80%. Today, the average Canadian worker contributes $47.66 US in GDP per hour compared to $60.77 US per hour in the Unites States, placing us in the bottom quartile of the OECD*.[3]

One reason for lower investment in Canada is the way governments permit businesses to depreciate their capital investments. In Canada, equipment and machinery purchases are depreciated using the capital cost allowance rates established to reflect the residual value of an asset as it depreciates over the period of ownership.

[2] Deloitte, *The Future of Productivity 2012*: http://www.deloitte.com/view/en_CA/ca/insights/insights-and-issues/the-future-of-productivity-2012/index.htm

[3] Deloitte, *The Future of Productivity 2013,* pg. 2: http://www.deloitte.com/view/en_CA/ca/insights/insights-and-issues/the-future-of-productivity-2013/index.htm

One relevant example to the construction sector is the difference in depreciation policy between Canada and the United States as it pertains to power-operated movable equipment. In Canada, these assets are depreciated using the declining balance method at a rate of 30%, whereas in the U.S, the same piece of equipment is depreciated based on fixed percentages. Consequently, in Canada it takes 13 years to reach 99% depreciation, whereas in the U.S it takes 6 years to achieve full depreciation.

Canada – United States Mobile Equipment and Machinery Depreciation Rates		
	Residual Asset Value after Applied Depreciation (Percentage)	
Year	Canada Class 38	United States Class 15
1	85%	80%
3	42%	28%
6	14%	0%
9	5%	- -
13	1%	- -

The U.S rate better aligns depreciation policy with the average productive life of these assets. In some cases, the asset depreciation can be further accelerated through the use of the Special Depreciation Allowance. Under these temporary measures, businesses acquiring an asset valued at $500,000 or less can depreciate the full value of the asset in the first year of ownership. For equipment exceeding this value, businesses can apply an additional 50% bonus to reduce the undepreciated value further. Any remaining balance is then depreciated based on standard MACRS fixed percentages.[4]

While U.S corporate tax rates are higher than those in Canada, the use of these pro-investment depreciation policies have contributed to higher rates of corporate investment in productive equipment and machinery. This, many believe, helps explain the growing productivity gap between our two economies.

To reduce the productivity gap between Canada and the U.S, a combination of pro-investment tax policies and low corporate taxes are required. The introduction of accelerated depreciation for fixed equipment and machinery is proof these policies can be effective, as evidenced by the impressive recoveries underway in the Canadian forestry and manufacturing sectors. The extension of similar provisions to power-operated movable equipment would have similar benefits at a very low cost.

According to research carried out by PricewaterhouseCoopers for CCA, the estimated impact of accelerating the depreciation of mobile construction assets would be less than $60-million over five years and could be offset by revenue gains elsewhere resulting from increased industry productivity and profitability.

[4] Section 179.org, *The Section 179 Deduction*: http://www.section179.org/index.html

As significant purchasers of construction services, Canada's governments could benefit greatly from enhanced sector industry productivity. Given the considerable resources committed to infrastructure redevelopment over the next 10 years and the potential for skilled labour shortages in the sector resulting from aging demographics, any change in policy encouraging greater industry investment in labour force productivity will have widespread and positive benefits for governments and the broader economy alike.

Recommendation 5

- **CCA members recommend the Government of Canada increase the permissible depreciation rate for Class 38 assets from 30 to 50 percent, which will better align depreciation policy with the productive life of these assets, improve overall construction sector productivity and potentially lower infrastructure development costs for governments across Canada.**