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## **Industry Training Federation of NZ submission on Skills Training Tax Credits**

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### **Introduction**

1. The Industry Training Federation of New Zealand (ITF) welcomes the opportunity to provide input into the Government's review of business taxation. We have focused our submission on the element of the review of most direct relevance to our core vision, which is a skilled workforce for New Zealand's prosperity.
2. The ITF is a membership based organisation representing 41 Industry Training Organisations (ITOs) who collectively seek to lift the skills of the New Zealand workforce and improve the business performance of their employer clients, for the collective benefit of the nation.

### **Concept of Skills Training Tax Credits**

3. The ITF recognises the importance of the objectives for a skills training tax credit as set out in the discussion document. The industry training system is predicated on a belief that there are individual, firm and national benefits in encouraging and assisting employers, workers and industries to invest in relevant training to lift workplace productivity, firm performance and industry capability.
4. The industry training system in New Zealand is relatively unique internationally, and is characterised by a number of features that have contributed to its success and relevance to employers, workers and industries. These include:
  - a. Industry training organisations established by, owned by, and accountable to industry and workers;

- b. Flexible forms of training and learning that recognise the different needs of individual workers, firms and industries;
  - c. Training and learning linked to industry-set standards so that training and learning is of benefit beyond individual firms and encourages industry benchmarking and performance improvement;
  - d. Linking both formal and informal training to formal recognition of learning as part of a national qualifications framework which provides learning pathways for the differing needs of workers, employers and industries.
5. While the ITF sees merit in a well designed and targeted tax credit for skills training, this needs to be balanced with the alternative, which is an increased investment in industry training funding through the existing, proven, industry training system. The advantages of direct investment include:
- a. Fiscal certainty – the Government will know how much it is investing, with no risk of fiscal blowout;
  - b. Industry-led investment decision making – the industry training system has the advantage of joint decision making between industries, firms and workers; whereas skills training relating to tax credits will be a firm-level decision only. Thus industry training is more likely to respond to longer term skill development needs, and contribute to processes of transforming industries and sectors from lower to higher productivity and performance.

### **Definition of “eligible training”**

6. Based on the success of the industry training system, the ITF strongly endorses the proposal to link eligibility for the skills tax credits to the National Qualifications Framework (NQF).
7. The ITF endorses the principles in the discussion document that the definition of “eligible training” needs to:
- a. “be inclusive in its coverage of training that is industry-recognised and transferable, and of the greatest public benefit; and
  - b. “ensure the tax credit is simple for employers to understand and administer”.
8. While the ITF recognises some of the limitations noted in the discussion paper of limiting “eligible training” to the National Qualifications Framework, we believe that:

- a. these limitations are reasonable in terms of ensuring that training is industry-recognised, transferable and of public benefit;
  - b. that they will ensure that the system of skills training tax credits is administratively simple for both employers and Government; and
  - c. they will provide incentives for industries and providers to make greater use of the National Qualifications Framework, which will advantage workers, students, firms and industry and be of benefit to the taxpayer.
9. This last point is particularly important. The National Qualifications Framework was established in the early 1990s after considerable public consultation and input, and was designed to enable industry to have greater input into qualifications design, to enable better recognition and transfer of skills and knowledge by students and workers, and to provide clarity as to the purpose and relationship between qualifications.
10. The only area where the ITF believe it could possibly be desirable for the Government to consider allowing training not linked to the NQF to be eligible for skills training tax credits is in the area of literacy and numeracy programmes. This only because a number of these programmes operate below Level 1 of the NQF and involve the development of skills that will enable workers to later attain national standards and qualifications. Even in this area, however, ITOs are increasingly moving towards programmes of embedded literacy, so that the literacy requirements of national standards are highlighted, and specifically catered for.
11. In terms of levels of the NQF for which training should be eligible for the skills training tax credit, the ITF is of the view that while there is merit in targeting the tax credit at lower levels, we believe that Level 5 training should be included within eligibility.
12. Level 5 training includes many qualifications and standards that apply to the training of supervisors, front line managers and advanced technical employees who supervise and support other staff. The ITF believes that this level of training is a critical 'cap-stone' to the training at Levels 1 to 4. It is training at this level that ensures that the investment in Levels 1 to 4 is realised in terms of improvements in business practice, ongoing individual performance and business performance.

### **Who should qualify for the tax credit**

13. The ITF believes that there should be a wide definition of eligible "employers". We do not support any limits on size or form of "employer".
14. The ITF does not support the exclusion of the "self-employed" from the skills training tax credit. There are very considerable sections of a number

of important New Zealand industries where the dominant form of business is self-employment. If New Zealand is to lift its productivity in these industries, excluding the “self-employed” will be counter productive. Given the limit on the type of training eligible for the tax credit which the ITF supports, the dangers of ‘abuse’ are very minimal. It is not “abuse” for a self-employed building contractor to obtain proper certification and training in health and safety, for example. Because training is to a national standard, there are positive externalities from such training for the industries and others this person works with.

15. Similarly, the ITF supports the wide definition of eligible employee. Again, the clear targeting of eligible training supported above builds in a useful element of targeting, which means that the rules around eligibility of employees can be kept simple.

### **Eligible Expenditure**

16. The ITF supports the general approach to determining eligible expenditure as set out in the discussion document. We support the proposed definition of “eligible expenditure”. We welcome the recognition that payments to industry training organisations, whether by membership fees or another form, are a direct training expenditure. It would be useful if guidance for administrators and users of the scheme noted that membership fees for ITOs were specifically covered.
17. The ITF recommends that it may be useful to allow for a standard cost for travel to and from the training site, and possibly for accommodation. Given the proposal to exclude the cost of wages and salaries, and replacement staff, we believe that allowing a tax credit for travel and accommodation at a standard cost is reasonable if we wish to encourage small employers to engage in the kinds of training we are seeking to incentivise.