



THE TAX INSTITUTE

21 January 2021

Manager
Individuals Tax Unit
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
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By email: Selfedconsultation@treasury.gov.au

Dear Sir/Madam

Education and training expense deductions for individuals

The Tax Institute welcomes the opportunity to make a submission to the Government in relation to the December 2020 discussion paper 'Education and training expense deductions for individuals' (**Discussion Paper**), as announced in the Federal Budget 2020–21.

The Tax Institute is the leading forum for the tax community in Australia. We are committed to shaping the future of the tax profession and the continuous improvement of the tax system for the benefit of all. In this regard, The Tax Institute seeks to influence tax and revenue policy at the highest level with a view to achieving a better Australian tax system for all. Please refer to Appendix A for more about The Tax Institute.

The Tax Institute has reviewed the Discussion Paper. Our submission below addresses our main concerns in relation to the proposed measures to allow individuals a deduction for education and training expenses, where the expense is not related to their current employment.

Policy intent

The Discussion Paper states that:

Stakeholder views are sought on whether tax arrangements should play a greater role in encouraging Australians to retrain and reskill to support their future employment and career and, if so, how this would best be achieved.

It is proposed that deductions for education and training expenses could be expanded to include expenses not associated with current employment activities.

The Tax Institute questions the merit of using the tax system to achieve the policy intent. Before designing legislative amendments, it is important that the policy intent be clearly understood so that the class of individuals intended to benefit from these reforms will actually benefit.

A deduction will be of limited use to individuals who are unemployed as they will likely have minimal, if any, assessable income against which a deduction could be offset. A carry forward loss, available in the future, will not assist them now. A deduction mechanism will predominantly benefit those individuals who are employed and on higher incomes as the deduction would be available against their assessable income at a higher marginal tax rate.

If the policy is intended to assist individuals who are unemployed, or are in lower paid employment, a deduction mechanism will not be effective. An alternative mechanism such as a direct grant, or a payment via the transfer system may be more effective.

Accordingly, it is crucial to understand whether the policy intent is designed to benefit those individuals who are currently:

- (a) unemployed and are seeking to improve their skills to secure paid employment — who will receive a lesser, or no, benefit from a deduction mechanism; or
- (b) employed and are seeking to reskill or shift their vocation — who will receive a greater benefit from a deduction mechanism.

It is our view that any benefit provided should be available to both groups of individuals without discrimination. If the tax system is to be used for this purpose, the design of any new provisions should ensure the benefit is equally available to those unemployed or on income levels where deductions would otherwise provide little or no benefit or incentive to retrain.

We would encourage the Government to consider the impact on the following groups in their design process:

- (a) those unemployed with little or no income seeking to get back into the workforce;
- (b) those on extended leave, such as maternity leave, with little or no income seeking a change in career or improved opportunities;
- (c) those employed either full-time or part-time with low income seeking a change in career or improved opportunities; and
- (d) those employed either full-time or part-time with high income seeking a change in career or improved opportunities.

It is our view that a benefit restricted to a 'simple' tax deduction would only incentivise and benefit those individuals in category (d).

Lifestyle or personal development courses

While we are in full support of the principle expanding the scope of eligible education courses, we have concerns about the potential scope for claims made for courses where the expense is not related to current employment or the prospect of future income or employment. There would need to be integrity rules around 'lifestyle or personal development' courses to ensure that there is no scope for these courses to fall within the new provisions.

First \$250 of self-education expenses not deductible

The availability of a deduction for self-education expenses for the excess of the expenses over \$250 is a legacy from the former concessional \$250 rebate which was removed in 1985. Given this threshold can be satisfied with non-deductible expenditure, its existence is merely a compliance burden for taxpayers. We agree that the \$250 no-claim threshold no longer achieves its intended purpose.

Scope of deductible expenses

The discussion paper correctly identifies the scope of current deductions:

Currently, a deduction for self-education expenses can be claimed when the education activity is directly connected to the income arising from an individual's current employment activities. That is, the education activity either maintains or improves the specific skills required for that employment or leads to an increased income in the individual's current employment.

...

Generally, deductible education and training expenses can include course or tuition fees, costs for textbooks and stationery, depreciation of certain assets (such as laptops) and certain travel expenses to a place of education. Expenses that are not deductible for individuals undertaking study include student contributions towards Commonwealth supported places (CSPs) at universities such as repayments of Higher Education Loan Program (HELP) loans, home office occupancy expenses (such as rent, mortgage interest or rates) and reimbursed costs.

It must be first acknowledged that the scope of the allowable deductions is achieved through the general deduction provision (s 8-1 of the *Income Tax Assessment Act 1997*). Limitations on deductibility are achieved through separate and specific provisions.

It is our opinion that the scope of deductibility for present self-education expenses (but for the first \$250 mentioned earlier) should not change. Should the Government proceed with introducing a new deduction, the new provisions should be separate and specifically targeted to those expenses not otherwise deductible according to general principles. A separate provision would facilitate the specific targeting of benefits for this proposal without unnecessarily and adversely impacting those already undertaking, or considering undertaking, studies to maintain or further their current employment and income-earning capacity.

Submission

The Tax Institute is of the view that:

- (a) the policy intent be clearly identified as to whether it is designed to benefit individuals who are unemployed to assist them to secure paid employment or those who are employed and wish to reskill or shift their vocation;
- (b) there should be integrity rules around 'lifestyle or personal development' courses to ensure that there is no scope for individuals to claim expenses for these types of courses;
- (c) there is no basis for the retention of the \$250 no-claim amount in the current law tax and we support its removal; and
- (d) any new provision should be separate to those expenses already deductible under existing provisions.

We would appreciate the opportunity to participate in any further consultation on the exposure draft legislation to ensure that the best and most equitable outcome is achieved for our members and for the continuous improvement of a better tax system.

If you would like to discuss any of the above, please contact either myself or Senior Advocate, Robyn Jacobson, on (03) 9603 2008.

Yours faithfully,



Peter Godber

President

APPENDIX A

About The Tax Institute

The Tax Institute is the leading forum for the tax community in Australia. We are committed to representing our members, shaping the future of the tax profession and continuous improvement of the tax system for the benefit of all, through the advancement of knowledge, member support and advocacy.

Our membership of almost 12,000 includes tax professionals from commerce and industry, academia, government and public practice throughout Australia. Our tax community reach extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the provision of specialist, practical and accurate knowledge and learning.

We are committed to propelling members onto the global stage, with over 7,000 of our members holding the Chartered Tax Adviser designation which represents the internationally recognised mark of expertise.

The Tax Institute was established in 1943 with the aim of improving the position of tax agents, tax law and administration. More than seven decades later, our values, friendships and members' unselfish desire to learn from each other are central to our success.

Australia's tax system has evolved, and The Tax Institute has become increasingly respected, dynamic and responsive, having contributed to shaping the changes that benefit our members and taxpayers today. We are known for our committed volunteers and the altruistic sharing of knowledge. Members are actively involved, ensuring that the technical products and services on offer meet the varied needs of Australia's tax professionals.