



The Institute of Public Accountants

**Reform to deductions for education expenses**

**July 2013**

*Partnership beyond numbers*



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS

## Introduction

The IPA welcomes the opportunity to provide a submission to Treasury on the discussion paper '**Reform to deductions for education expenses**'. Currently the taxation treatment of education expenses is that they are generally tax deductible if the expense is incurred in the course of gaining or producing assessable income and the expense is not private, domestic, or capital in nature.

Many professionals and employees are required to undertake further training to ensure their knowledge remains up to date. This provides a benefit not only to those professionals, but also to their employers and the wider Australian community. In recognition of this, and of the fact that many professionals are required to undertake continuing professional development to maintain their licence or registration, the issue of changing the current tax treatment is of prime importance to many in the community.

The IPA is one of the three professional accounting bodies in Australia, representing over 24,000 accountants, business advisers, academics and students throughout Australia and internationally. The IPA prides itself in not only representing the interests of accountants but also small business and their advisors. The IPA was first established (in another name) in 1923.

The IPA's submission has been prepared with the assistance of its members who have expressed their views and concerns. We are grateful for their contribution and guidance.

We look forward to discussing further and in more detail the IPA's submission with the Government and Treasury.

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Yours faithfully



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## Executive Summary

The IPA cannot stress enough the importance of maintaining the general deductibility of reasonable legitimate work related self education expenses.

We oppose in the strongest possible way changes to the current tax treatment for reasonable work related self education expenses. It goes without saying that we do not support the introduction of a broad arbitrary monetary cap on self education expenses as proposed in the discussion paper.

Many professionals and employees are required to undertake further training to ensure their knowledge remains up to date. Without this training, it would be difficult to maintain their skills and service quality. This provides a benefit not only to those professionals, but also to their employers and the wider Australian community.

Many professionals are required to undertake continuing professional development to maintain their licence or registration. From a policy perspective, it does not seem appropriate, nor in the public interest to limit the ability for taxpayers to claim deductions for reasonable work related education expenses, especially if we subscribe to the philosophy of a smarter Australia that encourages the pursuit of excellence. Any restrictions on reasonable self education expenses will lead to a mentality of mediocrity, rather than advancement and maintaining competitiveness. Supporting ongoing professional development creates a smarter professional network, better able to advance Australia's position in the 'Asian Century' which will support our long-term economic development.

We are deeply concerned that the policy change does not aptly consider the economic risks and potential unintended consequences of discouraging ongoing professional development. The IPA view is that the costs saved by introducing a proposed cap would be outweighed by the long term costs of having a less-educated and productive professional workforce serving the economic interests of all Australians.

The proposed reforms seem counterproductive in an economy increasingly moving towards services and knowledge based activities, and away from resource dependency. High technology and/or high value add activities require a skilled workforce, so initiatives that discourage the need for professional development will have a profound impact on national productivity over time. The discussion paper does not address the policy impacts of the proposed changes which is deeply concerning.

The cost savings predicted might be dwarfed in comparison with the harmful side affects of discouraging workers from upgrading their skills and knowledge, potentially undermining service standards and damaging productivity and innovation.

It is important to note that the Henry review supports the current deductibility of self education expenses, and it appears ironic that such a proposal which puts in jeopardy our ability to sustain world best practice is being proposed in light of recommendations contained in that report.

Lastly the proposed reforms treat sole traders and partners in partnership differently to employees. The proposed cap will not apply to training or education expenses paid by the employer for their employees. This is highly discriminatory towards these types of taxpayers and represents inconsistent tax treatment for essentially the same education expenses. Professionals in small business undertake self education mainly to continue to perform their current roles or to up skill in order to perform an existing role to a higher level. Many small business professionals derive their income from personal exertion which requires them to maintain their skill base in order to continue performing their services at the required level expected by their clientele. Without this self investment, their income earning capacity is diminished. The ability to provide a quality service can only be achieved through ongoing professional activities.

The Government encourages companies to invest in research and development through tax incentives, so it would seem counterintuitive to discourage self investment for small business professionals. Small business entities are able to invest in assets up to \$6,500 and receive an unlimited deduction for such expenditure. This appears incongruous when the government is proposing to place a \$2,000 cap on augmenting intellectual property.

The cap will escalate the cost of education to the small business community who will be required to undertake continuing CPE activities so that the public is provided with up to date services. The inconsistent tax treatment will have significant impact on the accounting profession, as many practitioners operate as sole traders or partners in a partnership.

A recent quote from US President Barack Obama, aptly summarises our underlining view of the proposal:

**“Cutting the deficit by gutting investments in innovation and education is like lightening an overloaded airplane by removing its engine. It won’t take long to feel the impact”**

The short term monetary gains to the Federal budget will be quickly overtaken by the long term adverse effects on the Australian economy, and for this reason we believe that the reforms to deductions for education expenses are poorly thought through.

The IPA is of the view that the proposal to introduce an arbitrary cap of \$2,000 on education expenses should be abandoned in favour of more targeted measures which do not deny legitimate reasonable education expenses.

Encouraging taxpayers to continue their education throughout their working life is fundamental, ensuring quality is maintained across a range of professions. There is no substitute for lifelong continuing education which needs to be nurtured, not discouraged.

## Introductory comments

The discussion paper examines the current treatment of education expenses, including what qualifies as an education expense, and proposes a \$2,000 cap on work related education expense deductions. The main justification for the reforms to the tax treatment of education expenses, are to help fund the National Plan for School Improvement, more commonly referred to as the Gonski reforms.

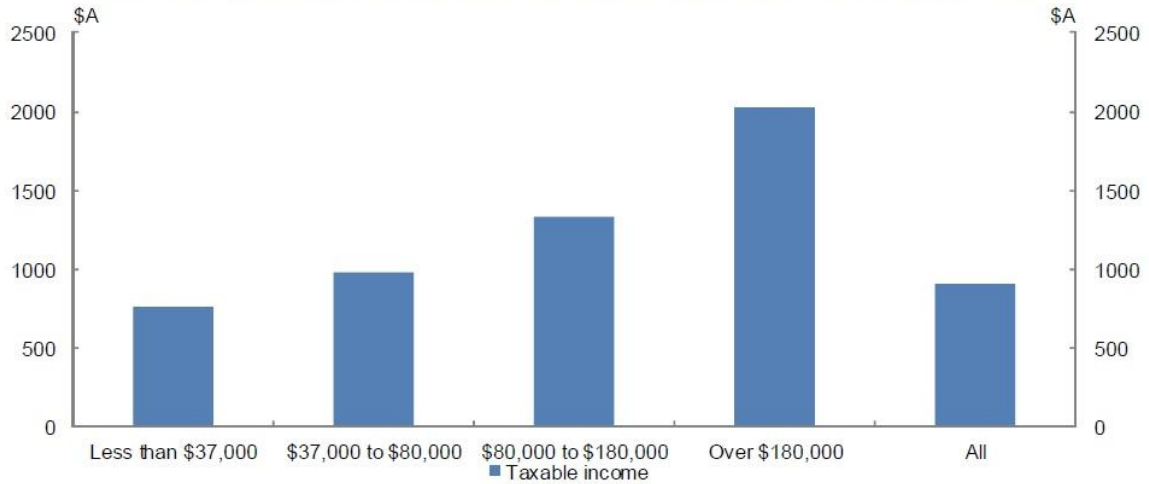
Another reason advanced in the discussion paper is the perceived roting associated with overseas travel to attend overseas conference with a short holiday on the side. In this instance the overseas airfare will be fully deductible if the primary purpose of the trip was to attend the conference. The discussion paper does not provide any quantitative evidence to substantiate the concerns raised.

The reforms are intended to cover both formal (from a school, college, and university) and informal (seminar, conferences, workshops etc) education. The annual cap of \$2,000 will apply to all expenses incurred in both categories of education activities including textbooks, trade journals, stationary and computer expenses. The \$2,000 cap will therefore apply very broadly. It will encapsulate expenses claimable under the general deductibility rules under ( under s 8-1 1997 Income Tax Assessment Act) as well as self education expenses claimable in s82A ( 1936 Income Tax Assessment Act).

The discussion paper provides statistics on the average expense claimed for formal education that is from a school, college, university or other place of education. It states that only 638,000 taxpayers or 5 per cent of all individuals claimed a deduction for an expense incurred in gaining a formal education and the median claim for 2010-11 was \$905. A more appropriate measure would be the mean average claimed by all professional taxpayers. The focus on the median amounts claimed by all taxpayers also fails to adequately acknowledge that self-education expenses will not be uniform across the whole of a taxpayer's career.

Education expenses are claimed in two places on the Individuals Tax return. At label D4 'Work-related self-education expenses' (for expenses relating to formal qualifications from a school, college, university or other place of education) and label D5 'Other work-related expenses'(for other expenses, including conferences, journals and reference books, depreciation of computers). Other work related expenses also claimed at D5 include union fees, overtime meal expenses, reference books, tools and home office expenses.

**Chart 1 Median claim for formal education expenses by taxable income range, 2010-11**



Source: Estimates derived by Treasury using unpublished data.

As expenses at D5 are not itemised the medium claim noted above is not representative of what taxpayers actually incur on education expenses. Most on going professional development expenses incurred by taxpayers are claimed as part of other work related expenses. Whilst the discussion paper has used ATO data to try extrapolating what education expenses are included in other work expenses, it may not be indicative of the quantum of education expenses claimed by professionals. Treasury estimates of education expenses included in other work related expenses is \$296 for 2009-10 year.

Another shortcoming with using the above statistics is if the individual is self employed and carrying on business, the self education expenses would be included in the business schedule. Self education expenses for these taxpayers who are carrying on business would not be reported such expenses at either D5 or other work related expenses.

In an online survey conducted by IPA after the reform announcement, some 86 per cent of respondents stated that they spent over \$2,000 on self education expenses.

## Reasons for opposing the cap

Reasonable work related education expenses should not be capped for the reasons noted below. Our position encompasses the views expressed by our members.

The main arguments supporting our position can be summarised as follows:

- An arbitrary cap on education expenses discriminates against regional and remote taxpayers who incur significant travel, meals and accommodation costs in attending continuing professional education (CPE) events held in capital cities. The introduction of a cap will further burden on those living away from capital cities.
- The proposal to introduce a cap on self education expenses is contrary to the recommendation contained in the Henry Review (page 59 of Australia's Future Tax System Tax Review, report to the Treasurer, 2009 colloquially referred to as Henry Review).
- Encouraging ongoing professional development provides a better equipped workforce to support our long term economic development. How is Australia to keep pace with the rest of the world if the time devoted to professional development declines? What will be the impact on productivity over time? What will encourage highly skilled people to be increasingly skilled? Have the economic risks and potential unintended consequences been taken into account in the policy change?
- Australia's reputation in certain fields such as scientific, engineering and medical will be diminished if they do not attend overseas conferences. Attendance at overseas conferences is considered essential in order to share information developed outside of Australia. The requirement to keep up to date with international developments is particularly relevant to many professions. The results over time would be a reduction in the quality of work performed and a diminution of Australia's reputation.
- New young professional entrants starting their careers will be adversely affected by the proposed changes. Reducing the tax benefit will limit access to professional development opportunities for this group who are financially less well-off. The young and those just starting new careers who least can afford the cost of education will be adversely impacted. Also a focus on the median amounts claimed by all taxpayers fails to adequately acknowledge that self-education expenses will not be uniform across the whole of a taxpayer's career, making an arbitrary amount inequitable.
- The proposed changes will have a significant adverse effect on the financial viability of educational programs (particularly post-graduate programs) offered by the tertiary education sector and professional accounting bodies. The marketplace requires current and prospective employees to undertake work related post graduate courses and/or courses required to meet entry



requirements for admission as members of professional accounting bodies. The proposed cap is likely to slow down, postpone or withdraw further studies by taxpayers. The proposed measures will potentially inhibit people from pursuing further education to attain professional designations.

- Many professionals and employees are required to undertake further training to ensure their knowledge remains up to date. In fact many professionals are required to undertake continuing professional development to maintain their licence or registration and/or professional body designation. A number of regulatory authorities (Tax Practitioner Board, ASIC) impose a minimum quantity of professional development and education each year. Members of professional accounting bodies are also required to do 40 hours of CPE per annum. CPE costs vary, from \$60 to \$200 per hour, excluding travel, meals and accommodation costs. The arbitrary threshold of \$2,000 could easily be exceeded by merely seeking to maintain a necessary registration and/or professional designation.
- Many employers are now requiring employees to contribute some, if not all their conference expenses, especially Government and semi-government organisations whose budgets have eroded over the years. Alternatively the employer may pay for some of the cost and allow the employee time off with pay. Associations are already experiencing reduced numbers at their educational events due to fewer members being able to obtain employer funding. The percentage of self-funded delegates is slowly increasing. A cap on self-education expenses will exacerbate this trend. The introduction of an arbitrary cap on education expenses will result in a quantum reduction in attendees for educational courses. Higher out-of-pocket expenses could force workers who do not have education paid for by their employer to seek out cheaper and lower quality courses.
- The proposal adversely affects the competitiveness of Australian professional workers in an ever increasing global marketplace. Capping the deductibility of self education will inhibit the building of skills in this highly competitive region. It may lead to greater numbers of foreign workers under 457 visas in future years.
- Sustainability of the not-for-profit sector will be put at risk as many of these organizations rely on courses, conferences and seminars to maintain profitability. The introduction of a cap will have a detrimental impact on the number of attendees which will adversely impact one of the main revenue generators for the not-for-profit sector. As a consequence some of these not-for-profit entities will need to call on further financial support from the Government, negating some of the initial cost savings.

- The definition of education expenses in the discussion paper includes books and journals within the proposed cap. It fails to recognise that these publications can largely constitute the “tools of trade” of participants in many occupations. The \$2,000 cap thus imposes a limitation on knowledge based occupations that will not apply to the “tools of trade” of other occupations.
- The proposed reforms treat sole traders and partners in partnership differently to employees. The proposed cap will not apply to training or education expenses paid by the employer for their employees. This is highly discriminatory towards these types of taxpayers and represents inconsistent tax treatment for essentially the same education expenses. Professionals in small business undertake self education mainly to continue to perform their current roles or to up skill in order to perform one’s existing role to a higher level. Many small business professionals derive their income from personal exertion which requires them to maintain their skill base in order to continue performing their services at the level expected by their clientele. Without this investment in one’s self, their income earning capacity is diminished. The ability to provide a quality service can only be achieved through ongoing professional activities.
- Employees from small and medium sized enterprises will be at a disadvantage compared to employees from larger corporations who have access to in-house training, and employers’ willingness to pay for some of their education fees.

### Alternative way forward

Whilst we strongly oppose the introduction of a cap on education expenses, we would support policy changes to ensure only legitimate reasonable education expenses remain tax deductible. A targeted measure would minimise many of the unintended consequences of introducing an arbitrary cap. We are yet to be convinced that the above perceived rorting is widespread. The discussion paper does not provide any quantitative evidence to substantiate the concerns raised. Assuming the assertion can be justified by more than anecdotal evidence, we would support specific targeted measures.

One of the reasons advanced in support of the reforms is to stop claims for first class travel and five star hotels. There are more refined ways to stop this behavior without punishing people who are trying to lift their educational standard. The cap represents a very blunt instrument to achieve some of the Governments objectives of cutting extravagant education expenses. In preventing large deductions it also penalises all other taxpayers who are endeavouring to improve their qualifications or skills without incurring extravagant expenses. There are more targeted options to consider which will not affect genuine claims for reasonable legitimate education expenses.

Some of the options which could be considered are:

- Specific legislative amendment that targets the type of self education expenses the Government deems excessive without limiting legitimate expenses.
- The Australian Taxation Office (ATO) could rewrite its existing ruling on deductibility of self education expenses (Taxation Ruling TR 98/9) which sets parameters for what it considers reasonable for each component of expenses that can be claimed. As well as disallowing certain types, it could also provide further guidance in TR 98/9 to clarify apportionment issues where a trip has a dual purpose. (i.e. Help taxpayers distinguish between situations where the taxpayer has a dual purpose versus a trip that has dominant purpose of attending a conference and a incidental private purpose such as taking a side trip) It is noted that TR 2004/6 sets out what are the reasonable travel and overtime meal allowance expense amounts that can be claimed.

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