



## **REFORM TO DEDUCTIONS FOR EDUCATION EXPENSES**

### **RESPONSE BY AUSTRALIAN SERVICES ROUNDTABLE**

**12 JULY 2013**

## Introduction

The then Treasurer's decision in the 2013 Budget to reduce tax deductions for self funded education expenses to a new cap of \$2,000 may have seemed like a quick and easy way to claw back savings and plug the growing budget black hole. It will, however, severely negatively impact the growth of Australia's service industries, compromise national productivity and adversely affect professionals and businesses of all sizes in the services sector, which represents more than 75 percent of Australia's economic activity and more than 80 percent of Australia's workforce.

The Government's proposed actions in this area are bad policy and completely misaligned with the wider critical agenda to grow the economy through high-value services jobs of the future, taking advantage of Asian century growth. This misalignment is sending mixed messages to business and industry in the crucial period leading to a Federal election, and is at odds with recent Government statements about working with the business sector. In addition, the Treasury has adduced no evidence whatever to support assertions that the current deduction scheme is being abused to an extent necessary to warrant such a drastic response.

Most professional services accreditation bodies require members to undertake professional advancement and the acquisition of new knowledge to keep their members skilled and commercially competitive. Professionals seeking further training and accreditation in architecture, engineering, accountancy, law, ICT and a raft of other professions often need to spend much more than \$2,000 in a year to stay internationally competitive in their chosen fields. They are not using the deductions to fund personal travel but instead to seek further professional accreditation, to gain the qualifications required to join professional bodies.

Continuing education of those in the workforce, whether they be small business owners, professionals, trades people, workers on the shop floor or company directors, is vital for a nation like Australia, which must rely on its brain power to compete in the world economy. It helps expand individual skills and capabilities and therefore lifts the economic productivity of the nation as a whole. Imposing a cap on deductions for self-education expenses is a clear disincentive to those seeking to maintain the currency of their trade or professional knowledge and continuing to upgrade

their skills.

Postgraduate education and ongoing professional development are the foundations of a high value services economy. The decision to cap self-education expenses removes an important revenue stream for Australian universities that benefit from high levels of postgraduate education enrolment. With our universities already suffering from cuts in public funding to teaching and research this will make it harder for them to be leaders as the Asian century unfolds.

## **ASR**

The Australia Services Roundtable (ASR) is Australia's only dedicated whole-of-services industry organisation representing the national voice of the Australian services sector. ASR is a member of the Global Services Coalition, a cooperative group of national service industry representative bodies from Europe, the United States/Canada and Asia.

ASR brings together Australia's leading services firms and industry bodies representing all key services sectors. We provide a forum for dialogue for the services sector, including financial services, professional services, IT services, tourism, energy, education, the research community and industry. We are committed to raising the profile of the sector and advocating for sustainable policy responses that drive innovation and productivity domestically and globally.

Sectors represented include financial services (banking, insurance, securities, fund management), professional services (accounting, legal, engineering, architecture), health services, education services, environmental services, energy services, logistics, tourism, information technology, telecommunications, transport, distribution, standards and conformance, audio-visual, media, entertainment, cultural and other business services.

ASR opposes the decision to cap self-education expenses and urges the Government to manage any abuses of the current scheme using better enforcement techniques.

## **ASR Responses to selected consultation questions**

- 1. In your industry or field, are there studies or courses that are compulsory and must be completed in order to meet licence requirements?**
  - a) What is the average amount of the expense?**
  - b) What is the highest amount of the expense?**
  - c) What is the nature of these courses?**

ASR members in professional areas such as accountancy, law, architecture, engineering, financial services, standards and conformance and environmental service are *required to undertake continuing education* to remain able to practise and earn a living in their fields of competence. In addition, it is mandatory for practising professionals to retain licence or registration qualifications. In some cases (lawyers, engineers etc) the continuing education requirements amount to many extra hours (in excess of fifty) of CPD every year.

Given the large number of professional services workers represented by ASR members (the Institute of Architects alone represents 12,000 firms and Consult Australia comprises 48,000 firms), it is difficult to calculate an average course cost across the broad services sector. Some members conduct 1-3 day courses, which commence at \$1,300 per day for their members; added to this for regional attendees will be travel costs.

The nature of courses varies across professional sectors, but all are aimed at continual professional development without which the accountants, lawyers, engineers and IT professionals for example would not be able to work at all.

**2. Is training undertaken in your industry predominantly held in Australia or overseas? Can you provide examples?**

Typically courses are conducted in Australia, in the major capitals.

**3. Should the \$250 no claim threshold under section 82A of the ITAA 1936 be removed when the \$2,000 cap is introduced?**

If the cap is introduced the \$250 no-claim threshold should be removed. In the advanced services sector the cost of self-education will typically be in excess of \$2000 and the threshold limit further decreases the tax deduction available to professionals.

**11. Are there any unintended consequences from the proposed reforms?**

There are several unintended consequences and impacts of this proposal including:

- It fails to take account of the long-term national economic and productivity consequences;
- There is no sector-by-sector analysis and the level of information and evidence supplied in Treasury's discussion paper is inadequate;
- It is a tax on learning, innovation, aspiration, and continuing professional development (a mandated requirement for professional accreditation);
- It is incompatible with achieving a smarter Australia built on a knowledge economy and undermines the nation's key advantages in terms of the safety and quality of services that it

provides;

- Regional Australia will be particularly disadvantaged because of the higher costs involved in further study and professional development;
- It positions Australia at the back of the pack in terms of its capability to ramp up high-value exports from its services sector into the Asian Century countries.

**15. Are there alternative approaches that you would like to see considered? How would they work in practice and are there any precedents in Australia or other jurisdictions?**

The real target of any reform to self-education expenses must be focused on those who abuse the current system; while the Government has argued that the new limit on deductions is aimed at stopping abuses of the system such as claims for expenses like first-class travel to overseas conferences, there are already more targeted ways under the Income Tax Assessment Act to address this issue rather than simply penalising those who are legitimately trying to improve their skills and productivity through education.

Legitimate self-education expenditure must be able to be characterised as having been incurred in gaining or producing assessable income, and simply because a taxpayer claims such an expense does not mean it must be allowed; using assessment tools currently available and based on long-standing case precedents and Tax Rulings, the ATO should be capable of managing all claims. The utilisation of risk-based enforcement techniques will also assist in identifying those who abuse the system.

Instead of capping the level of self-education expenses as proposed, ASR suggests that a more nuanced review of policy by Treasury should close down current avenues for rorts in the scheme. This will help to keep Australia at the forefront of growth potential in high-value services capabilities in the Asian region.