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The Treasury

Sent via email to: selfedconsultation@treasury.gov.au

22 January 2020

**BDO submission on “Education and training expense deductions for individuals”:**

We refer to the Treasury’s invitation to consult on the Education and training expense deductions for individuals, which was released in December 2020.

Below is a summary of the BDO recommendations and more detailed comments to the discussion questions are provided in the appendix attached to this letter.

- BDO recommends that the new tax deduction should not be introduced as it would add complexity to an already complex tax system. An alternative mechanism should be considered in place of a new tax deduction such as a direct grant monitored by the Federal Department of Education, Skills and Employment.
- BDO recommends that if a new deduction is introduced, then consideration should be given to the associated cost of administration and the added complexity.
- BDO notes that care would be needed not to discriminate against certain courses that require high non-tuition fees.
- BDO recommends the \$250 reduction in education deductions is removed.
- BDO considers the nature of the tax deduction would lead to possible risks of tax misuse or abuse and therefore would require some measures to minimise tax misuse or abuse.
- BDO supports the 2020/21 Federal Budget proposal to introduce the FBT exemption for education and retraining costs not connected to the employees current employment.

Should you have any questions, or wish to discuss any of the comments made in our submission, please do not hesitate to contact me on 02 9240 9736 or [lance.cunningham@bdo.com.au](mailto:lance.cunningham@bdo.com.au).

Yours sincerely,

Lance Cunningham  
BDO National Tax Director

## APPENDIX 1

### **Discussion question 1: Given the significant government funding provided for education and training, is a new tax deduction the most effective mechanism to encourage Australians to retrain and reskill to support their future employment and career?**

BDO does not generally support the proposal as it runs counter to proposals to simplify the tax system and the call for genuine tax reform.

While BDO supports the encouragement of individuals to undertake training and education to change into a more lucrative and/or productive occupation, our view is that the tax system is not the right forum to achieve this purpose. Providing income tax deductions to encourage people to take on more training that is not related to their current income earning activity is fundamentally divergent from the general deduction principles of not allowing income tax deductions for private or capital expenses in section 8-1 of the Income Tax Assessment Act 1997 (Cth).

While there are some other income tax deductions that allow certain capital expenses as deductions, these situations are generally in a business context where the capital costs are directly related to the current business activities, which is not the case in relation to the proposed deductions.

We also note that an income tax deduction for such expenses would provide less benefit for people on lower marginal tax rates and these are generally the people in most need of retraining.

BDO is of the opinion that alternative mechanisms should be used to encourage individuals to retrain to move outside their current occupation. For example, the Government could provide a direct cash subsidy to either the individuals or the education/training service providers with the scheme being monitored by the Federal Department of Education, skills and employment.

***BDO recommends that the new tax deduction should not be introduced as it would add complexity to an already complex tax system. An alternative mechanism should be considered in place of a new tax deduction such as a direct grant monitored by the Federal Department of Education, Skills and Employment.***

### **Discussion question 2: Should any new deduction be targeted to courses delivered by education and training providers registered with the appropriate regulatory bodies?**

### **Discussion question 3: Should any new deduction be further targeted to study or training that has a vocational outcome, such as VET courses based on industry Training Packages, for example to exclude 'lifestyle and personal development courses'?**

### **Discussion question 4: Should deductions be targeted to courses in areas of expected jobs growth, for example as determined by the NSC?**

As indicated in the response to question one, BDO does not support the introduction of the proposed deduction, however, if the Federal Government decides to provide an additional income tax deduction, we would answer "yes" to all of questions 2-4. However, we note this would mean further administrative burden and additional expense to:

- register the service providers;
- identify the appropriate courses; and
- monitor whether the correct courses are being claimed.

This additional administrative burden is one of the reasons for not supporting the introduction of the deduction as it further complicates the tax system and is inconsistent with the view that Australia requires genuine tax reform.

We agree there would have to be restrictions on service providers and which courses would be eligible further adding to the complexity of the proposal. Further consideration would need to be given with respect of accreditation periods (i.e. the time period which the service provider has been in existence).

***BDO recommends that if a new deduction is introduced, then consideration should be given to the associated cost of administration and the added complexity.***

**Discussion question 5: Is there any reason to change the types of expenses that are able to be deducted? For example, should any new deduction be limited to tuition fees?**

There does not appear to be a clear reason why the deductions for these expenses should be limited to tuition fees only. Some courses may have higher non-tuition expenses e.g. some courses may require expensive textbooks or travel expenses for field trips that would be discriminated against if the expenses were limited to tuition fees. However, we can see that allowing of a wide range of expenses related to the education or training may be difficult to monitor and this is also one of the reasons for not recommending this deduction be introduced.

***BDO notes that care would be needed not to discriminate against certain courses that require high non-tuition fees.***

**Discussion question 7: Irrespective of any new education deduction, should the \$250 reduction in expenses be removed?**

For the reasons outlined in the discussion paper, we agree that the \$250 reduction in expenses should be removed. It is counterintuitive to providing relief to taxpayers and that the original purpose of the reduction was to offset a \$250 rebate that is no longer in existence and the threshold no longer achieves its intended purpose. We support the removal of the \$250 reduction irrespective of whether the proposed extension to education expenses is introduced.

***BDO recommends the \$250 reduction in education deductions is removed.***

**Discussion question 8: Are other measures required to minimise opportunities for tax misuse and abuse?**

In our responses to the majority of the questions above, many compliance measures have already been proposed to mitigate abuse of the tax deduction.

Further difficulty arises in that the onus is on the taxpayer to prove or substantiate entitlement to tax deductions. This would cause difficulty for individuals to obtain evidence to prove that expenses incurred in retraining and reskilling would relate to their intended future employment, which in some cases may not even eventuate for example due to conditions such as oversupply of labour in a particular industry.

However, if the proposed deduction is introduced, we do support the provision of appropriate guidance for taxpayers with comprehensive examples.

***BDO considers the nature of the tax deduction would lead to possible risks of tax misuse or abuse and therefore would require some measures to minimise tax misuse or abuse.***

**Discussion question 9: Are there observations regarding any other tax issues that are raised throughout the paper?**

BDO supports the change to the Fringe Benefits Tax (FBT) exemption announced in the 2020/21 Federal Budget for employers that provide retraining and reskilling benefits given to redundant, or soon to be redundant employees, where the benefits may not relate to the employees current employment.

A key point about this FBT approach is that it is an incentive that employers can utilise to retain staff.

BDO supports the FBT exemption for employee education and training because it is generally easy to demonstrate the nexus between deductions and the connection to the business of the employer. In addition, such expenses would not generally be seen as a replacement of a remuneration benefit for an employee, particularly where salary packaging is not allowed as proposed in the 2020/21 Federal Budget announcement.

We support the proposed FBT exemption and the exclusion for salary packaging arrangements. However, the exclusion for salary packaging arrangement runs counter to any proposal to provide an income tax deduction for individuals as the FBT otherwise deductible reduction would, in effect, override the rule against salary packaging. If the proposed income tax deduction is introduced and the FBT changes do not allow a salary packaging benefit, it will further complicate the FBT regime with respect of education expenses. Ultimately the introduction of a new income tax deduction would unnecessarily complicate both the income tax and FBT regimes.

***BDO supports the 2020/21 Federal Budget proposal to introduce the FBT exemption for education and retraining costs not connected to the employees current employment.***