

Education and training expense deductions for individuals: IRU response to Discussion Paper

It is important for the future prosperity of Australians and the country together that citizens gain the learning and skills that will support them gain and retain employment. With a more dynamic labour market, most people now shift employment fields several times across their working lives.

The Government recognises the importance of Australians gaining post-school knowledge and skills through its major investment in tertiary education across higher education and vocational education and training. It supports individuals through the various HELP elements and by permitting them to deduct education expenses relating to current employment from gross income before tax.

The Discussion Paper explores the potential to widen the tax deduction to the cost of improving skills for future employment rather than just current employment.

Overview

1. The best means to ensure Australians continue to gain new knowledge and skills is to expand funding directly for the provision of courses to interested citizens.
2. Where courses are fee-based, support to students reduces the effective price, thus reducing the financial disincentive to renew knowledge and skills.
3. A tax deduction for fees and other direct costs of study is one, loosely targeted, means to reduce the effective price of study.
4. The need for people to shift employment fields across their working lives means the tax deduction should be available for all study likely to improve future employment.
5. Limiting the deduction to courses delivered by registered higher education and vocational education and training organisations helps protect against misuse of the deduction.
6. In claiming the deduction, each individual needs to be cognizant of the requirement that the study's prime purpose is to improve current or future employment.

The innovative Research Universities

Innovative Research Universities (IRU) is a coalition of seven comprehensive universities committed to innovation and inclusive excellence in teaching, learning and research in Australia.

The members' impact is local and global with a focus on advancing communities through education, resources, opportunities, translational research and enterprise.

Through its members working collectively, the IRU seeks to be at the constructive centre of Australian university policymaking.

The membership is Charles Darwin University, Flinders University, Griffith University, James Cook University, La Trobe University, Murdoch University and Western Sydney University.

Discussion Paper questions

Is a new tax deduction the most effective mechanism to encourage Australians to retrain and reskill to support their future employment and career?

The most effective way to encourage Australians to pursue the educational qualifications to support their future employment is for the Government to expand its support for the delivery of education courses at all levels to all interested Australians.

Given the Government has decided its medium-term funding level, extending the tax deduction to study intended to widen future employment opportunities is a plausible additional lever for the Government to use.

Across 2020 there was an extensive debate about the Government's most recent changes to higher education settings. These are likely to increase the education outcome for Australians compared with continuation of the previous settings.

The changes include greater flexibility for universities to allocate available government-supported places across undergraduate and postgraduate courses. This flexibility may increase the number of funded places in postgraduate programs.

The education expenses tax deduction covers fee-paying courses with no government subsidy.

The value of the tax deduction is dependent on the student's taxable income. Students not in employment are unable to gain value from it while those in the top income tax bracket will reap the greatest value. It is far from evident that those who will be able to claim the larger deduction (due to current income) will be those who will gain the greater increase in future income. That is the weakness of using the deduction lever.

Should any new deduction be targeted to courses delivered by education and training providers registered with the appropriate regulatory bodies?

The registration of higher education providers through TEQSA and of vocational education and training providers through ASQA serves to ensure that potential students know that any provider meets base-level standards for education delivery and operational viability.

It is important that all government programs align to support the use of registered providers.

Other training beyond the formal system is likely to be slight and targeted to immediate employment needs or not be employment-related. These can be reasonably excluded from any broader scope for the tax deduction.

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'?

It should remain a key requirement for the taxpayer to state that education deductions are legitimate expenses incurred to improve employment.

Attempts to classify courses as employment relevant or not will run up against the wide range of skills sets required across the whole economy and each individual's plans and opportunities.

Should deductions be targeted to courses in areas of expected jobs growth, for example as determined by the NSC?

It would not be wise to target particular fields of study associated with predicted areas of employment growth.

Predictions of job growth are a useful guide for individuals considering their future options, with individuals are best placed to make these decisions, including relocating to geographical areas where jobs growth exists.

Because of rapid changes in which fields are seen to have shortages (including by sub-field and geographical area), the ongoing need for new people in all employment fields and the evidence that projections of future employment miss some growth areas and overstate others, no list will be suitable.

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?

The experience of the current deduction suggests few problems with the types of expenses permitted.

How should the tax deduction interact with government funding, subsidies and loans for higher education and VET courses?

The prime alignment of the tax deduction provisions with the main education programs is that a person can either receive a government-supported place, paying a student contribution, or access a full fee place with potential to claim a tax deduction for the fee and to use FEE-HELP to schedule payments to future earnings.

Does the overlap of tax deduction and HELP matter? It would be invidious to force a person to choose one or the other. That would advantage those able to pay the fee upfront, who could assess the relative value of each against those without those funds.

Irrespective of any new education deduction, should the \$250 reduction in expenses be removed?

The Discussion Paper indicates that the \$250 threshold is a remnant of a previous scheme. There is sense in removing it.

Are other measures required to minimise opportunities for tax misuse and abuse?

The Government should continue to emphasise that the deduction relates to employment outcomes, with the ATO able to test claims against that.