



AUSTRALIAN INSTITUTE OF
TRAINING AND DEVELOPMENT

Response to The Treasury consultation on Reform to Deductions for Education Expenses

July 2013

Submitted by: The Australian Institute of Training and Development (AITD)

Submitted to: The Manager, Individuals Tax Unit, Personal and Retirement Income
Division, The Treasury, Langton Crescent, PARKES ACT 2600

Email: selfeducationtaxreform@treasury.gov.au

Submitted on: 12 July 2013

OUR INTEREST

The Australian Institute of Training and Development (AITD) is the association of choice for professionals in training, learning and development. Founded in 1971, our mission is to be a leader in fostering excellence, innovation and professional integrity in training, learning and development for the workplace. AITD is a not-for-profit membership association with over 2000 members.

AITD members are learning and development professionals drawn from all industries in Australia. Our members include trainers, educators, consultants, coaches, course coordinators, mentors, instructors, teachers, facilitators, designers and assessors. What unites our members is a common belief in the value of continuous learning and professional development to build a thriving, adaptable workforce.

AITD is concerned that the cap on self-education expense deductions, announced by the Hon Wayne Swan MP in April 2013, will have a devastating effect, not only on professionals working in training, learning and development and on businesses that provide education and training, but on individuals in all industries seeking to increase their knowledge and skills, and to the Australian economy. This paper details our objection to the proposed \$2000 cap on self-education expense deductions.

SUMMARY OF OUR CONCERNS

AITD members are extremely concerned about the Australian Government's proposed reforms which will implement a \$2000 cap on work-related education expense deductions from 1 July 2014. We believe that this proposal will be detrimental to individuals seeking to improve their skills and knowledge, and to the Australian economy as a whole. Our concerns about this proposed cap are drawn from our strong belief that:

- Australia needs to maintain a productive, skilled workforce in order to be competitive in an increasingly fragile global economy. It is in everyone's interest to ensure Australian workers are highly skilled and adaptable in order to remain productive.
- Education, which has been a prime focus of government reform, does not end when people leave school. Continuous professional development is vital for employees to maintain currency in their knowledge and competence in their skills, which results in a thriving, dynamic workforce.
- Compulsory Professional Development is required in many industries to maintain professional standing, certification, accreditation and/or other authorisation to work. This reform will severely impact on professionals who need to maintain compulsory professional development and association memberships.
- Limiting the amount of deductible self-education expenses will cause many people to reduce and/or cease their training. This will, in turn, impact on their ability to do their jobs and their personal sense of accomplishment gained from mastery of their chosen profession.
- This reform will act as a disincentive to individuals to pursue professional development that is not funded by an employer. Small businesses and not-for-profit employers are often unable to pay for employee professional development, and rely on worker-funded training to meet their need for skilled workers.
- People in rural/remote areas often travel long distances to obtain professional development that is not available locally and will be disproportionately affected by the proposed reform.
- This proposal will adversely affect the people who most need professional development – the people at the start of their careers, returning to the workforce after a period of unemployment, and those who are making a career transition later in life.

In preparing this response AITD has sought the views of our members and this paper consolidates the feedback that our members provided.

DEVELOPING A SKILLED WORKFORCE

AITD is concerned that the planned self-education expense reform is contrary to the Government's education reform agenda and stated aims of developing a skilled workforce for a high-participation economy. In a speech to the National Press Club on 15 July 2010, Prime Minister Gillard said:

I will make education central to my economic agenda because of the role it plays in developing the skills that lead to rewarding and satisfying work – and that can build a high-productivity, high-participation economy.¹

In order to have a high-productivity, high-participation workforce, Australia needs to increase the skills and qualifications of its workers. The requirement for increased skills and qualifications runs across every industry and trade. It is essential that government support the workforce to acquire the knowledge and skills needed, by providing incentives to further education – not adding obstacles that will limit their ability to undertake professional development.

The Productivity Commission, in its report on the *Vocational Education and Training Workforce* (2011), writes that Council of Australian Governments (COAG) is:

... currently pursuing a 'skills-deepening' human capital agenda, with specific targets to increase the proportion of the population that holds a post-school qualification. The policy aims to lift the participation and productivity rates of the working-age population, as a way to mitigate the impact of population ageing and meet the need for a more highly-skilled labour force.²

Continuous education is necessary to build an adaptive and responsive workforce that can meet the challenges of the Australian economy. As our economy shifts with the change in demand for our goods and services, we need to be ready for these changes.

AITD members are greatly concerned that the proposed cap on work-related self-education expense deductions will provide a disincentive for individuals to pursue professional development. In turn, this will limit the ability of Australian workers to adapt to the changing economy and hinder our competitiveness in our region.

The government estimates that "this measure will save \$250.0 million in 2015–16 and \$270.0 million in 2016–17, giving total budget savings of \$514.3 million over the forward estimates period"³ to fund other education reforms. The current government has focused on early childhood education, schools and tertiary education as it implements its reform agenda. Learning does not end on graduation. To build and maintain a productive, skilled workforce, it is vital that life-long learning be promoted and supported by government. This is especially important in a knowledge economy such as ours.

Work-related self-education expense deductions encourage individuals to invest in themselves and their own skill development. This takes pressure off businesses which may not be able to afford to fund employee training. As Australians seek to broaden and deepen their skills and knowledge through self-education - both compulsory and voluntary professional development – the overall economy benefits from a more highly-skilled workforce.

Consequently, the cap on deductions of work-related self-education expenses runs contrary to the government's aims of a high-productivity, high-participation workforce. The government needs to invest in Australian workers to ensure COAG's human capital agenda can be met. If the government is unable to fund that investment directly, at the very least it can provide a tax deduction for individuals who fund their own professional development.

¹ Prime Minister Julia Gillard's speech to the National Press Club 15 July 2010 – Available at: www.theaustralian.com.au/politics/pm-julia-gillards-speech-to-the-national-press-club-moving-forward-to-a-stronger-and-fairer-economy/story-e6frgczf-1225892159728 (accessed 8/7/13)

² Productivity Commission Vocational Education and Training Workforce report 5 May 2011, p 14.

³ Deputy Prime Minister and Treasurer Wayne Swann, Media Release 13 April 2013. Available at: treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2013/048.htm&pageID=012&min=wms&Year=&DocType=0 (accessed 8/7/13)

COMPULSORY PROFESSIONAL DEVELOPMENT

Professional development is compulsory for many professions and a prerequisite in order to retain the certification required to practise. Compulsory professional development is a necessity for doctors, lawyers, accountants, educators and a wide range of professionals where there is a community expectation that the individual will be suitably skilled, qualified and licensed to perform their work.

Over 76% of AITD members surveyed responded that they undertook compulsory professional development in 2012-2013 to retain their professional accreditation. This compulsory professional development is essential in ensuring that professionals retain the currency of knowledge and skills to conduct themselves at the highest standards.

To be employed in the Vocational Education and Training sector as a trainer/assessor, it is necessary to have a Certificate IV in Training and Assessment TAE 40110 qualification. This nationally recognised qualification is offered in various modes and ranges in price from approximately \$1200 to over \$4000 depending on the provider. As this is a mandatory qualification for trainers and assessors, completing this course would use most, if not all, of the capped self-education expense deduction.

Compulsory professional development is not discretionary expenditure and for many professionals it is self-funded and in excess of \$2000 per annum. The proposed \$2000 cap on self-education expense deductions will severely limit the ability of professionals to maintain their memberships in professional associations and will greatly discourage the attendance at any professional development that is not compulsory.

UNINTENDED CONSEQUENCES

In his media release on 13 April 2013, the Hon Wayne Swan MP, then Treasurer, stated that "Without a cap on the amount that can be claimed under this deduction, it's possible to make large claims for expenses such as first class airfares, five star accommodation and expensive courses."⁴ The argument presented for this \$2000 cap is that it will target the top end - like specialists who travel overseas to attend conferences/courses at exclusive resorts. In many instances it is necessary for Australian professionals to travel overseas to obtain specialist knowledge that they cannot obtain locally and this will cost considerably more than \$2000.

Unfortunately, the proposed cap is a broad-brush reform which will adversely affect those at all levels of the Australian workforce; particularly those who can least afford it.

The proposed reforms to self-education expense deductions will have a number of unintended consequences. AITD is concerned that this decision will:

- Impact on individuals living in rural and remote areas who need to travel great distances to obtain professional development.
- Adversely affect small business and not-for-profit organisations, which are often unable to fund employee training.
- Negatively impact the self-employed who not only have to pay for their own self-education, but also lose income while attending training.
- Disadvantage those workers who are most vulnerable: those new to the workforce who need to develop their skills but are least able to afford professional development; those who are returning to the workforce after a period of absence (such as after an injury, parental leave, or redundancy); and, older workers who need to update their skills and qualifications in order to stay relevant in a changing workforce.

⁴ Deputy Prime Minister and Treasurer Wayne Swann, Media Release 13 April 2013. Available at: treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2013/048.htm&pageID=012&min=wms&Year=&DocType=0 (accessed 8/7/13)

- Force individuals to delay training or postpone the development of new skills to ensure that self-education expenditure comes under the cap.
- Affect the viability of smaller training providers as individuals reduce their expenditure on training. Fewer training providers in the marketplace will lessen the diversity of the professional development options available.

When surveyed about the impact of the proposed cap, many AITD members described how they were planning to undertake self-funded post-graduate qualifications which would directly benefit their employer and customers. The proposed cap means that they will either be unable to this study, or will have to spread the completion of this study over a longer period, thereby delaying the benefits of the study.

Members also suggested that they would have to look for online solutions rather than face-to-face solutions to limit costs. While this is a workable solution for some individuals, it is not suitable for those who lack a high speed internet connection and those who respond more from face-to-face tuition.

IMPACT ON AITD AS A TRAINING PROVIDER AND MEMBER ASSOCIATION

AITD offers membership to training, learning and development professionals. Individuals may become members of AITD if they meet one or more of the following criteria:

- tertiary qualifications in training and development or a related field;
- employment in a role involved in learning, education, training and development or a related field;
- a professional interest or active role in training and development or a related field.

AITD encourages its members to maintain and continually improve their knowledge, skills and abilities in order to be leaders in learning and development. AITD offers free or low cost professional development and networking opportunities to its members and non-members. Professionals can increase their knowledge of training and development methods and the issues impacting the learning and development field by participating in professional development activities offered by AITD.

Examples of professional development offered by AITD include an annual conference, learning and development workshops and networking sessions. Such events range in cost from:

- Free networking events and webinars (\$20 non-member rate);
- \$30 for a 2 hour professional development session (\$50 non-member rate);
- \$500 one-day workshop (\$620 non-member rate);
- \$900 two-day workshop (\$1150 non-member rate);
- \$1200 Annual two-day conference (\$1800 non-member rate).

The above costs do not take into consideration the costs of travel and accommodation, or lost income while attending professional development activities.

While AITD members would be able to attend our free events, the proposed cap is likely to impact on their ability to undertake paid professional development, even at the reduced member rate. This in turn will have an impact on AITD's ability to run activities for our members – as these are funded on a cost-recovery basis. While AITD's activities are not compulsory for members, they form a valuable part of a learning and development professional's ongoing education and training.

Membership organisations already face challenges in offering the benefits that members want and need. Limiting the self-education expenses deductions will impact the sustainability of professional membership associations who seek to provide professional development to members on a not-for-profit basis.

ALTERNATIVES TO PROPOSED REFORM

The \$2000 cap on self-education expense deductions will have devastating impact on the Australian economy by placing obstacles in the way of individuals seeking to enhance their skills and acquire new knowledge. AITD strongly objects to the \$2000 cap and requests that the Australian government remove the planned cap on self-education expense deductions. Work-related self-education expense deductions should remain unlimited to be responsive to individual needs.

If the government is convinced that reform is needed to stop perceived rorts, then there are alternatives to the \$2000 cap which would meet the government's needs. For example, travel and accommodation expenses could be reviewed separately and limited to the amounts permitted by the Australian Tax Office Determination for travel and meal allowances. In this way the amount individuals could claim as a deduction would be limited to prevent the claims for 'first class airfares and five star accommodation' without capping self-education expenses overall.

However, if the government believes that a cap to self-education expense deductions is necessary, the level of the cap should be raised significantly. \$2000 is an extremely low and arbitrary amount. When asked about their expenditure on professional development in 2012-2013, AITD members who completed the survey indicated that 24% spent less than \$2000. The majority spent well over the capped rate; with 37% indicating they spent \$2000-\$5000 and 39% indicating they spent more than \$5000. The \$2000 limit is not reasonable or realistic and will act as a deterrent to ongoing professional development.

CONCLUSION

Without a focus on continuous professional development Australia is at risk of a workforce ill-equipped to adapt to changes in the global economy through skill decline and complacency. Individuals who are better trained and have greater knowledge will perform their work to a higher standard and become more accomplished in their roles. They are more likely to secure higher incomes (and therefore generate more tax revenue) and be more resilient and able to adapt when changes occur. Employers benefit from professional development through innovation, knowledge transfer and building a reputation for quality service delivery.

Professional development should be encouraged and supported by government and business. Unfortunately, the proposed cap on self-education expense deductions serves as an obstacle to self-education and sends a message that acquiring new skills and knowledge is not valued.

It is understandable that the Australian government is looking at ways to cut costs as a means of finding resources to fund its education reform agenda and other programs. But the \$2000 cap on self-education expense deductions will have an adverse effect on the Australian economy and is contrary to the government's desire to build a high-productivity, high-participation workforce. AITD strongly recommends that the government stop the implementation of the proposed cap on self-education expense deductions and recognise the important contribution that privately funded self-education plays in the Australian economy.