



Treasury Consultation
Education and Training Expense Deductions for Individuals
Response to Discussion Paper

January 2021

Executive Summary

The University of Melbourne welcomes the opportunity to respond to the Treasury's "Education and training expenses for individuals" Discussion Paper.

The Discussion Paper addresses the possibility of a new tax deduction for education and training expenses incurred by an individual that are not related to her or his current employment. Individuals are already able to claim a deduction for education and training expenses that are related to his or her current employment activities. This deduction encourages individuals to *upskill* within their current job, but does not do anything to encourage *reskilling*, i.e. where individuals undertake training not to enhance their skills in their current job but with a view to changing career paths. The potential new deduction raised in the Discussion Paper would address this gap.

The University of Melbourne strongly supports a new tax deduction to incentivise Australians to reskill. It is clear that reskilling and retraining is becoming an increasingly important part of the skills ecosystem. The results of an employer survey detailed in the World Economic Forum's 2018 *Future of Jobs Report* indicated that by 2022, 54 per cent of employees would require "significant reskilling and upskilling", the majority involving training of less than six months.¹ There is now considerable evidence that Australians will change career paths much more often than they did in the past. In some cases, a change in careers is forced upon individuals due to industry disruption. However, often individuals will seek a career change not out of necessity but with a view to pursuing higher paid work that better aligns with their interests, and attempt to capitalise on opportunities available in emerging industry sectors.

We should also note that a framework that encourages individuals to reskill benefits not only those individuals but the broader economy and society. One of the key challenges to meeting future skills needs is the level of uncertainty as to what those needs will be. While there is a place for skills forecasting, the complexity in the factors that drive changes in the labour market inevitably makes predicting these changes in detail difficult. Given this, allowing Australians to periodically access reskilling opportunities throughout their work lives is a key means of building an adaptable workforce capable of responding to labour market challenges.

Recent Australian Government initiatives have recognised the importance of reskilling to cope with disruption. The federal Government's initiative to fund short courses was a sensible measure that will allow many Australians impacted by the COVID-19 recession to re-enter the higher education system. A new deduction for education and training expenses related to potential future earnings would be a welcome addition to these initiatives.

The following comments respond to the first six consultation questions included in the Discussion Paper. The University of Melbourne acknowledges the broad challenges entailed in introducing a deduction for expenses that are not related to one's current employment, and therefore the need for a cautious approach. A key challenge is to ensure adequate safeguards to address the risk of the deduction being misused without these safeguards impeding the intended benefits of the new deduction. The best way to achieve this balance is to limit the eligibility to courses delivered by TEQSA or ASQA registered providers while taking a non-prescriptive approach to course eligibility. The comments below provide some more detail on this approach.

Recommendations

The University of Melbourne recommends that the Australian Government:

- introduce a new deduction for education and training expenses related to potential future employment, to encourage Australians to reskill where there is a career-benefit to doing so.

¹ p.13. http://www3.weforum.org/docs/WEF_Future_of_Jobs_2018.pdf

- limit eligibility for the new deduction to expenses incurred for courses delivered by providers registered with TEQSA or ASQA.
- avoid seeking to limit course eligibility based on the vocational or professional status of the relevant course, or on the basis of expected jobs growth, given the inaccuracies associated with those approaches.
- adopt a non-prescriptive approach to course eligibility, in which misuse of the new deduction is limited through clear messaging to taxpayers around the requirement that expenses be demonstrably connected to future earnings.
- apply the settings in place for the existing deduction for expenses related to an individual's current employment to the proposed new deduction. This includes:
 - making both tuition fees and other expenses (e.g. textbooks) deductible.
 - for higher education courses, limiting eligibility for the new deduction to non-Commonwealth Supported Students.
 - ensuring the deduction applies to the payment of fees or to the taking on of the HELP debt, rather than to loan repayment.

For further information or to discuss this submission Professor Richard James, Deputy Vice-Chancellor (Academic) can be contacted on (03) 9035 4800 or r.james@unimelb.edu.au.

Response to Consultation Questions

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?

A new tax deduction to encourage Australians to retrain and reskill is clearly warranted. The policy rationale for allowing individuals to deduct education expenses relating to their current employment is that these expenses are incurred in pursuit of an income and should be therefore legitimately be deducted from the individual's taxable income. Since this rationale applies equally to education expenses incurred relating to potential future employment, these expenses should also be deductible.

Recommendation

The University of Melbourne recommends that the Australian Government introduce a new deduction for education and training expenses related to potential future employment, to encourage Australians to reskill where there is a career-benefit to doing so.

What training courses would be eligible for any new expense deduction?

The University of Melbourne recognises that a new tax deduction for education expenses related to future employment may require tighter eligibility settings than the existing deduction for education relating to current employment. The need for training to be related to one's current job (for the existing deduction) acts as a constraint on the types of courses that one can claim deductions for, effectively preventing individuals from deducting for the cost of 'personal interest' courses. In the absence of tighter eligibility settings, a new deduction for education relating to potential future employment may be more vulnerable to misuse.

Even so, it is important to take a carefully considered approach to setting the eligibility conditions for a new deduction. If poorly designed, the new deduction will fail to deliver the intended benefits, and may have a distortive effect on behaviour relating to reskilling by encouraging to enrol in programs that are eligible for the deduction but that do not best align with the individual's skills and career aspirations.

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

In the first instance, the deduction should be limited to courses that are delivered by providers registered with either TEQSA or ASQA. Ensuring that only courses delivered by TEQSA or ASQA registered providers are eligible for the deduction will help safeguard the integrity of the deduction, preventing much of the potential misuse of the deduction. There is scope to widen eligibility to non-registered providers in subsequent changes to the deduction, following a review of the initial impact of the deduction.

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'?

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

The Discussion Paper identifies the key policy aim of ensuring that any new deduction is limited to courses that genuinely enhance the individual's future employment prospects. While the University of Melbourne endorses this aim, there remains a question of how this is best achieved. The Discussion Paper raises two possible ways of limiting course eligibility:

- distinguishing courses that have a vocational or professional outcome from those that do not, and making only the former eligible.
- Limiting eligibility to courses that address areas of expected jobs growth.

There are policy design challenges with either of these options. Limiting the deduction to programs with a professional or vocational outcome is inherently appealing but difficult in practice due to the challenges of drawing a sharp distinction between vocational and non-vocational courses. There are inevitably courses that are broadly vocationally but are undertaken by some individuals for non-vocational reasons, and conversely courses not explicitly vocational but that are undertaken with a view to enhancing one's career skills e.g. some language study may fall into this category. The use of projected skills needs or areas of job growth is likewise problematic. These projections are often inaccurate due to inherent uncertainty in future labour market changes. Such projections therefore fail to represent a robust basis for setting eligibility conditions for the proposed tax deduction.

Moreover, it is likely that market constraints significantly reduce the likelihood of the deduction being misused. The new deduction would only be claimed by individuals who are already earning a taxable income. These individuals are likely to be discerning in their spending on education and training, noting that payment of course fees is made upfront in many cases. While the Discussion Paper suggests the need to address the risk "that unscrupulous providers exploit potential students and deliver poor quality or low value training", a tax deduction is unlikely to allow unscrupulous providers to convince vulnerable students to undertake low-value training. In contrast to the VET FEE-HELP scandal, the risk of misuse of the deduction is more likely to come from higher earning individuals seeking to reduce their tax burden than from vulnerable Australians being exploited by dishonest providers.

It is also worth noting that this risk is made unlikely by the nature of the deduction itself, particularly where it is limited to training delivered by TEQSA or ASQA registered providers (as recommended above). To claim a deduction, an individual will need to demonstrate a plausible connection between the relevant course and potential future earnings. This requirement significantly mitigates the risk of the deduction being used to effectively reduce the cost of 'lifestyle' or 'personal development' courses.

Given the problems associated with some of the proposed ways of limiting course eligibility, and given the risks of the deduction being misused are somewhat limited, we recommend a non-prescriptive approach be taken to course eligibility. The focus should be on articulating to taxpayers the requirement that the relevant expenses be demonstrably linked to potential future earnings.

Should the Government opt for a more targeted approach in the initial implementation of the new deduction, this should consist in setting broad parameters within which education costs are deductible, rather than seeking to define eligibility in terms specific courses or jobs. Possible options include identifying fields of education (FoEs) in which education and training costs attract the deduction, or broad skill areas identified by the National Skills Commission.

Recommendations

The University of Melbourne recommends that the Australian Government:

- limit eligibility for the new deduction to expenses incurred for courses delivered by providers registered with TEQSA or ASQA.
- avoid seeking to limit course eligibility based on the vocational or professional status of the relevant course, or on the basis of expected jobs growth, given the problems associated with those approaches.

- adopt a non-prescriptive approach to course eligibility, in which misuse of the new deduction is limited through clear messaging to taxpayers around the requirement that expenses be demonstrably connected to future earnings.

What expenses should be deductible?

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?

For the sake of simplicity and consistency, the restrictions that currently apply to the existing deduction for education and training expenses relating to current employment should also apply to the new deduction. If the course itself is appropriately related to potential future earnings, then associated expenses (e.g. textbooks) along with course fees should be deductible. Consideration may be given to a cap on the total amount that can be deducted, to provide Government with certainty regarding the budget exposure to the new deduction.

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

In its first iteration, the new deduction should use the same settings that apply to the existing deduction for expenses relating to current employment. For higher education courses, this means making the deduction only available to students not enrolled in a Commonwealth Supported Place (CSP). Students in receipt of a CSP already have their studies subsidised to a significant degree, limiting the case for a further subsidy in the form of a tax deduction.

The deduction should apply to the payment of the fees or to the taking on of the HELP debt at the point of enrolment rather than to the repayment, as per the current settings for the existing deduction.

Recommendations

The University of Melbourne recommends that the Australian Government apply the settings in place for the existing deduction for expenses related to an individual's current employment to the proposed new deduction. This includes:

- making both tuition fees and other expenses (e.g. textbooks) deductible.
- for higher education courses, limiting eligibility for the new deduction to non-Commonwealth Supported Students.
- ensuring the deduction applies to the payment of fees or to the taking on of the HELP debt, rather than to loan repayment.