



INDEPENDENT
HIGHER EDUCATION
AUSTRALIA

SUBMISSION TO THE TREASURY:

EDUCATION AND TRAINING EXPENSE DEDUCTIONS FOR INDIVIDUALS

Discussion Paper – December 2020

January 22, 2021



Submission to: The Treasury

Response to: *Education and Training Expense Deductions for Individuals Discussion Paper - December 2020*

Independent Higher Education Australia

IHEA is a peak body for Australia's registered and accredited independent higher education providers (including independent universities and also dual-sector providers) with campuses across Australia.

The majority of Australian independent providers are members and educate students in a range of disciplines including Law, Agricultural Science, Architecture, Business, Accounting, Tourism and Hospitality, Education, Health Sciences, Theology, Creative Arts, Information Technology and Social Science. IHEA members are higher education institutions with both for-profit and not-for-profit models and educate domestic and international students in undergraduate and postgraduate programs.

The Australian independent higher education sector comprises more than 140,000 students and 120 institutions, with independent providers variously accredited to offer courses across the full AQF range.

Membership of IHEA is only open to providers that are registered with the Australian regulator – Tertiary Education Quality and Standards Agency (TEQSA). Membership is also conditional on continued compliance with IHEA's Code of Good Practice.

IHEA's primary goal is promoting equity, choice and diversity for all Australian higher education students.

Executive Summary:

IHEA members are in favour of the government expanding the tax deductibility of education to include courses not linked to a person's employment. This is seen as a positive move towards incentivising Australians to reskill and transition through different careers, recognising the pattern of employees operating in multiple industries through their lifetime.

The limit to the eligibility of courses for this new tax deduction should be that the study takes place at a provider that is registered and accredited by TEQSA, or another appropriate regulator, and that the course is recognised in the Australian Qualifications Framework. This will protect the student and Australian taxpayer as it will ensure that the courses undertaken meet a high-quality standard and will be recognised by Australian employers and so will be likely to achieve the desired employment outcomes of the student.

IHEA urges the government to keep any changes to the tax deductibility of education as simple as possible to ensure the greatest gain from the incentive that is the intended result of the new policy. Trying to define the courses that will be in demand in the future will lead to a stifling of innovation and the addition of unnecessary complications to the system. Ensuring the providers offering the course are registered with the appropriate regulator and that the courses are accredited by them should provide sufficient protection to the student, government, and the Australian taxpayer.

IHEA's response to the discussion 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?

IHEA members are very supportive of the new tax deduction that will make education not necessarily linked to people's current employment eligible to be deducted against one's taxable income.

As education providers, our members understand both the need to encourage retraining and reskilling of Australians to be agile employees in a swiftly changing economy and to remove barriers that disincentivise education undertaken for this purpose.

IHEA members would welcome this new tax deduction as well as encouraging the government to take further steps to incentivise reskilling. Other barriers to students seeking to undertake education include the FEE-HELP Loan Fee that acts as a tax for students who choose to study at independent providers and utilise income contingent loans to do so. Facing these increased costs is a disincentive to study and removing the loan tax would be another way to further incentivise reskilling.

As noted in the Discussion Paper, tax deductions also only benefit those who are already earning income, and the higher the income, the greater the potential benefit of the deduction. It would be useful to initiate policies that can incentivise those on low or no income to reskill by making it more affordable for them. The government should consider other measures that could also be taken to extend the incentive to different cohorts.

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

IHEA members are supportive of the deductibility only applying to accredited courses that are offered by providers that are registered with the appropriate regulator. This will ensure that the quality of the education is assured and that students are protected.

Registration with TEQSA and ASQA means that a provider adheres to standards that are expected in Australian tertiary education. In turn, this ensures that courses delivered by these providers are quality assured and students enrolling in them can be confident in the quality of the education they will receive, and employers can trust the qualification attained. This is an important element of ensuring that the reskilling will be more likely to lead to future employment opportunities.

Without this restriction and criterion in place it would be hard to ensure that the courses eligible for tax deductions are of high quality, are recognised by Australian employers and have been undertaken with the intention of developing skills and training needed to benefit the Australian economy.

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?

There should be flexibility in which courses students can undertake and qualify for the deductions because in a rapidly changing economy it is difficult to assess which courses can lead to employment outcomes. The policy should avoid stifling innovation and entrepreneurship. It is important, though, for the integrity of the system and for the protection of tax-payer funds that mechanisms are in place to ensure that eligible courses are provided by quality institutions and that the qualifications are undertaken for the purposes of improving employment outcomes and opportunities.

Although not all courses may be legitimately undertaken with the intent of reskilling and training for a new occupation, it will be difficult to find a mechanism by which defining "lifestyle and personal development courses" will not restrict some people from reskilling into unique areas

with the intention to taking an innovative approach to developing a career. The benefits of keeping the definition as broad as possible outweigh any negative impacts of expanding it too far.

Attempting to create this definition will also lead to a level of complexity in the system that may be a disadvantage. As compliance becomes more difficult to comprehend, people may be disincentivised to use the deduction because they are unsure of how to comply with the policies. This would counteract the benefits trying to be achieved through the new deduction.

Limiting the deductibility to courses that lead to a qualification listed in the Australian Qualifications Framework (AQF) may be a way to allow for innovation without opening the deduction to any course that is undertaken.

It should be noted, though, that the rise of micro-credentials and short courses not listed on the AQF are and will be a common way for people to upskill and reskill. There are also many quality professional development courses offered by quality providers that may not be AQF qualifications that would fit the criteria of reskilling or retraining that could be made eligible for the deduction. Although these courses are generally less expensive than longer qualifications and so the tax deductibility may be less incentive to undertake this kind of education, it may also be worthwhile examining ways for these shorter courses to be included. This should be done with the restriction outlined above, on the registration of the provider and with other appropriate checks and balances to ensure the quality of those courses.

To ensure that this policy has the most incentive value, to match its intent, the broadest possible definition of courses should be eligible for the deduction.

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

IHEA members are not supportive of limiting the deductions to courses in areas of expected job growth. There is an issue of lag in the determination of jobs that are likely to have future growth by the NSC and those enrolling in education. In a swiftly changing labour market, the student is best placed to determine where they are likely to succeed in transitioning into a new role or career path.

Linking of the course undertaken directly to employment outcomes would be very difficult to achieve, as the employment outcome may not be obtained for some time after the course is completed. This will make record-keeping and compliance more difficult and complex. To achieve the most benefit from the incentive value of this new policy, the range of education eligible for deductibility should be expanded as broadly as possible. Students need to be allowed to determine which courses will provide them with the most benefit to achieve their desired outcomes as they understand their own unique circumstances and likely employment alternatives. This should not be limited only to areas determined by the NSC that may not be appropriate for the individual or their circumstance.

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?

IHEA members do not support making a change to the types of expenses that are able to be deducted. Limiting the deduction to only the tuition fees does not recognise the quantum of the expenses that are incurred to complete qualifications.

Reasonably incurred expenses, such as books, equipment and travel costs should be eligible for the deduction because the principle that makes the tuition deductible also applies to these costs that are also necessarily incurred in order to satisfactorily complete a course of study.

IHEA members support retaining the status quo in relation to this aspect of the policy setting.

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

IHEA members support the policy of allowing an individual to deduct expenses that are incurred to assist with the earning of income to act as an incentive to reskilling and further study.

Students with a CSP at a tertiary provider already receive the benefit of being directly subsidised by Australian taxpayers. This provides a good incentive to complete the course of study and they have already received the benefit of government funding.

If the government's aim with this new deduction is to find a *new* way to incentivise reskilling, then expanding the scope of courses that are eligible for tax-deductibility would seem to meet this intent. Extending the tax-deductibility to courses with a CSP would lead to some students receiving a double benefit from the Australian taxpayer and lead to inequitable treatment of students.

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

IHEA members support government policies that incentivise the completion of quality education and that allow all expenses reasonably incurred to complete that study should be tax deductible and, therefore, that the \$250 threshold should be removed. The reasoning behind the \$250 exemption is unclear and it seems unnecessary.

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

Making the range of courses that are eligible for tax deductibility as broad as possible, while there are restrictions on the type of provider that can deliver them (i.e., an institution registered and accredited by the appropriate regulator) will make the system as simple as possible. The simpler the system and the compliance rules that must be adhered to, the easier it will be to comply and for the ATO to detect misuse and abuse.

There could also be limits placed on the number of courses someone can deduct over their lifetime, or a set period. The setting of these caps, however, should not be too low as to restrict genuine study for the purposes of reskilling and the opportunity to undertake this on different occasions to ensure the flexibility in transitioning between careers, which may occur multiple times throughout someone's lifetime, as is intended by the policy.

The deduction could be made applicable only on completion of the course or units within the course. This would ensure only students who successfully completed their study and so were reskilled or retrained could claim the benefit of the deduction and this would incentivise completion and perhaps reduce instances of misuse.

It is important, however, that the policy is not overly cautious in the restrictions placed on the nature of the education eligible. A balance needs to be struck between protecting the government and Australian taxpayer from major abuse and misuse of the systems while also ensuring that the widest scope of reskilling and retraining is incentivised through the eligibility for deductions.

The current tax policy and requirements for providing receipts and proof of the outlaying of expenses, as well as evidence of the enrolment at an eligible provider should apply and this should provide sufficient protection from misuse or abuse of the new deductions.

9. Are there observations regarding any other tax issues that are raised throughout the discussion paper?

IHEA supports the government's introduction of an exemption to the Fridge Benefit Tax for education provided by employers to workers who are made redundant or are soon to be made redundant for training that is not directly related to their current employment. This is a very positive step and a great way to incentivise reskilling and retraining. Other policies that could provide further incentives to employers to assist with upskilling, reskilling, and retraining their staff should also be investigated.

IHEA thanks The Treasury for the opportunity to provide this submission.

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