Dear Ms Abbot,

Self-education expenses $2,000 tax deductibility cap consultations

I write on behalf of the University of Sydney to advise that, notwithstanding our grave concerns about the likely impact of the Government’s proposed changes to the tax deductibility of self-education expenses on our students, many of our educational programs and the economy, we will not be providing a detailed submission by today’s deadline. We are in the process of surveying potentially affected students about the proposal and will provide an evidence-based follow-up submission once we have received and analysed those results, along with application and acceptance data as they become available.

It is difficult given our current data limitations to predict accurately the likely impact on the University’s operations of a $2,000 cap. However, early feedback from our student surveys and reports from faculties suggest that the availability of the deduction may be a significant factor in the study decisions of many full-fee paying domestic postgraduate students across a wide range of programs.

In 2014 we had budgeted to have just under 4,000 equivalent full-time domestic full fee paying students, paying average calendar year fees of $27,000. A 10 percent reduction in projected revenues from this cohort of students alone would cost the University $23 million over the two years 2014 and 2015. Based on the initial results of our survey, we anticipate that large numbers of these students would currently claim the tax deduction for a proportion of their fees and eligible associated expenses, and that as a result the average claim of our students is likely to be far higher than $2,000 in any given financial year.

Our survey results to date suggests that many students in their 20s and 30s in low to average income brackets are making significant investments in self-education directly related to the current employment. Some examples of initial student responses to the proposed cap include:

- “It would make me seriously think twice about undertaking further study through a university.”
“This will discourage people to complete post-graduate studies thus lowering the standard of that industry.”

“It is a disincentive for further study. I am at the beginning of my career and putting a cap on self-education expenses makes it impossible for me to pay for further up-skilling of my professional skills and still put food on the table.”

“Further education needs to be encouraged, the long term benefits far outweigh the short term gains the government is hunting for here.”

“As a teacher I found it difficult to find the money to fund my Masters.”

“I am required to undertake 100 hours of continuing professional development as part of my registration. This and the requirement to stay up to date in my profession mean that the proposed cap would make achieving this very difficult.”

We therefore strongly dispute the Government’s claims that the overall impact on taxpayers with genuine expenses is likely to be minimal, and suggest that more attention needs to be given to the impact on taxpayers with different income and study profiles. Treasury’s current explanation of the likely impact is based on consideration of the median value of claims across different income categories and study types ranging from relatively inexpensive vocational and continuing professional development programs to high cost masters degrees and MBAs. More attention needs to be paid to the likely impact on those taxpayers who fall above, or well above, the average claim point in each income bracket, and in particular those with modest incomes who are undertaking high cost study in courses that sit at the highest levels of the Australian Qualifications Framework (AQF). This is where our domestic fee paying profile lies and where logically the impact on individuals of a cap at the level of $2,000 will be felt most severely.

A cut to the University’s revenues of more than $10 million annually (and growing over time) will inevitably result in job losses, reduced income, pay-roll taxes GST revenues for governments, and flow-on impacts for other University activities. It is entirely possible that for some courses, particularly where students are predominantly self-supporting domestic students on modest incomes, their very viability will be threatened. In an operating environment where the University faces a raft of budget cuts, reductions in revenues from courses that are currently profitable will inevitably reduce our capacity to sustain loss making, but nevertheless socially important, courses in areas such as health and education, or grow them into sustainable programs. We have for example already noted a significant reduction in domestic applications in some courses since the cap was announced (compared to the same period in previous years), and we are concerned that the proposed introduction of the cap may already be discouraging many potential students from commencing higher level degrees.

We, and our staff in potentially affected areas, are particularly surprised and disappointed by the way that this proposal was developed and announced, apparently without consultation with the federal Ministry responsible for innovation and higher education, or with the students, professions, businesses and education providers who will be affected. Over the last decade or more, a coherent suite of policies administered by different agencies have supported entrepreneurialism in educational innovation and the development of a multi-billion dollar services export industry. The five pillars of this policy framework have been:

1. the availability of an uncapped self-education expenses tax deduction;
2. favourable FBT arrangements;
3. the opening up of HECS style loans for certain postgraduate full fee courses;
4. student visa arrangements that have encouraged the internationalisation of the higher education sector; and
5. funding and regulatory arrangements that have at once forced and encouraged universities to offer full fee paying courses at the postgraduate level.
There are likely to have been significant spillover benefits for the domestic knowledge and skills development from these policy settings and we are concerned that the effective removal of one of these key pillars so far as applies to university-level education programs, will have consequences for the tax-base that will eventually far outstrip the relatively modest short-term budget savings that Treasury has predicted over the forward estimates.

The impact of the cap on these drivers of economic activity should be modelled and communicated publicly before any such reform is made into law. Moreover, consideration must surely be given to grandfathering the introduction of any such cap to at least allow currently enrolled students who made their study decisions based on the continuing availability of the deduction, to complete their studies without financial penalty.

We understand that Universities Australia and the Group of Eight Universities will make submissions on behalf of their respective memberships, and we support those representations. We also support many of the arguments that will be made by numerous professional associations and student groups on behalf of their members.

We expect to have the full results of the faculty student surveys about the proposed changes shortly, and will look to provide considered input to these consultations as soon as possible. We will continue to engage with this policy development process once the next Parliament is formed and the incoming Government undertakes detailed consideration of the full implications of this proposal on the economy as a whole and the higher education sector in particular.

We trust these initial comments are helpful and look forward to providing Treasury with more detailed evidence in support of our arguments shortly.

Yours sincerely

(signature removed for electronic distribution)

Tim Payne
Director, Policy Analysis and Communication
Office of the Vice-Chancellor and Principal