Submission to Treasury consultation on changes to tax concessions for self-education expenses

The Group of Eight (Go8) is pleased to make a submission in response to the Treasury discussion paper ‘Reform to deductions for education expenses’, released at the end of May. Like several other peak bodies representing business and industry groupings and professions, as well as universities, the Go8 is very concerned about the Government’s plan to cap tax deductions for self-education expenses. We believe that this initiative has not been well thought out. It is not based on strong evidence. It will not achieve its stated aim. It is likely to have unintended negative consequences that are out of proportion to the projected savings. To achieve the policy goal of targeting tax concessions better, while supporting essential training, Government should retain tax deductions for fees without a cap, while limiting claims for other categories of expenses.

Key points

- This initiative has been announced without proper consultation with stakeholders in the professions, the business community, the education and training sectors, and relevant Government portfolios (e.g. the Innovation Department)
- The initiative is intended to address ‘rorts’ (excessive claims for expenses that are not genuinely related to education and training) but Government has provided no evidence that ‘rorts’ are occurring on a significant scale
- The policy will not achieve its stated aim, namely to target tax concessions better to support education and training: a single cap is proposed for self-education expenses without regard to the type of expense. Tuition fees will be treated in the same way as other expenses.
- This initiative will discourage lifelong learning, upskilling and continuous professional development. This will have a negative impact on the skills and knowledge available to the Australian labour market, on the adaptability and resilience of employees and firms and on productivity growth
- For these reasons, this policy change is likely to have negative flow-on effects on the economy that are out of proportion to the projected savings
- Changes will be applied retrospectively to current students: this is unfair
- Decreases in participation and demand for professional postgraduate courses and consequent impacts on university revenue resulting from this change will compromise universities’ capacity to offer consistently high quality courses across a range or areas. The impact will go well beyond full-fee postgraduates to affect students more generally, including those in Commonwealth-supported places.
- Likely declines in fee revenue will be particularly damaging at a time when public funding for universities is unlikely to increase, and is subject to ‘efficiency dividends’. In these circumstances, it is unfair to reduce universities’ opportunities to maintain and grow revenues from private sources.
- Business and industry peak bodies and most professional associations, as well as universities, have publicly opposed the proposed change in very strong terms. The Government has misjudged the impact of its proposal and the reaction of stakeholders. This demonstrates that the plan is a political and policy error.
Lack of consultation and planning
The proposed change to tax concessions was announced suddenly and unexpectedly. It does not appear that the Innovation portfolio was adequately consulted about the policy issues involved and the likely effect of the proposed change. There was no consultation with professional bodies, employers or the education and training sector. The Government’s announcement fails basic tests of procedural competence.

The policy is poorly thought out. It appears to be driven by fiscal as much as by policy motivations: that is, the goal of the policy is simply to save half a billion dollars.

The purpose of the Treasury consultation on this policy initiative is not entirely clear. To announce a significant policy change that will affect thousands of people, include it in the Budget and then consult about its implementation seems a strange and inefficient way to proceed. It does not suggest strong confidence in the coherence or evidentiary basis of the policy or its effect on stakeholders.

Lack of evidence of ‘rorts’
Evidence for the policy is signally deficient. The policy has been justified on the basis of ‘rorts’, by which unspecified numbers of taxpayers are claiming large deductions for travel and accommodation expenses allowed under current tax law. No evidence has been presented that this is in fact occurring, much less to indicate the size of the alleged problem. The limited data that have been made available (for example, at Chart 1 in the discussion paper) do not disaggregate claimed deductions by type of expense, so travel, accommodation and other expenses cannot be separated from tuition fees. Furthermore, the data presented in the chart refer to expenses claimed in relation to formal education and training, rather than for work-related conferences etc, which appear to be the subject of Government claims of ‘rorts’ (e.g. very expensive travel and accommodation that is somewhat tangentially related to attendance at conferences and continuous professional development courses). This clearly shows there is a disconnect between policymaking and evidence.

The published data show median claims only, so it is impossible to know the distribution of amounts claimed, and any claims that might be regarded as excessive. Nevertheless, aggregate data available from the Australian Taxation Office on total claims and numbers of claimants suggest that really large claims for deductions are only being lodged for a few hundred people (out of a total of over 100,000). In any case, it is by no means self-evident that even small numbers of unusually large claims are all made in respect of the kind of expenses (‘first class airfares’ and ‘five star accommodation’) that were mentioned in the former Treasurer’s press release as the targets of this policy initiative.

The policy will not achieve its stated aim
Because there is no connection between the proposed cap and the actual behaviour of taxpayers, this initiative will not achieve its stated policy aim, namely, ‘to better target this concession while still supporting essential training’.
Imposing a single cap on all self-education expenses, without regard to the different types of expenses, achieves neither of these aims. If deductions for travel, accommodation and similar incidental costs are the policy problem, then surely it is these expenses that an effective solution must limit. It is hard to see how limiting claims for tuition fees will ‘support essential training’. It is more likely to have the opposite effect.

Imposing an arbitrary cap in this way does nothing to target the concession to genuine educational expenses. Deductions for genuine educational expenses will be arbitrarily limited to $2000, without any evidence that this is a sensible or adequate level, and without any detailed empirical comparison with students’ actual expenses. At the same time, a cap will still allow claimants to deduct $2000 (or part of that amount) for expenses that may not be ‘genuine educational expenses’. Finally, it is possible that setting a cap on claims for deductions may even encourage some claimants to claim up to the cap, where their claimed deductions might have been lower in its absence.

**Negative impacts on learning, skills and productivity**

Imposing a cap on tax deductions for self-education expenses, including tuition fees, will have a negative impact on lifelong learning, upskilling and continuous professional development.

The proposed $2000 cap has the very serious negative consequence of reducing allowable claims for such expenses to a level that would affect the attractiveness and viability of further study in the higher education sector. This is particularly true of study undertaken part-time by employed people in fee-paying coursework Masters programs. Students in these courses can currently claim their course fees as deductible expenses, whether they pay them up-front or defer them through FEE-HELP loans. The proposed cap would not cover even one unit of study in many coursework Masters programs.

Capping tax concessions will adversely affect participation in professional postgraduate courses. This will reduce the supply of skills to Australian businesses, limiting their ability to innovate and compete. Negative impacts will disproportionately fall upon small and medium enterprises, which lack capacity to offer extensive in-house training programs or to pay their employees’ university course fees, and upon individuals funding their own education.

The policy will undermine lifelong learning. It will reduce employees’ adaptability to labour market change and curtail productivity improvement – the most necessary and important factor in raising Australia’s economic performance.

It will restrict continuing professional development – one of the keystones of professional practice. This will disadvantage individuals working in the professions and shift the cost of continuous professional development (and maintaining professional registration) unfairly on to professionals themselves. Much more worrying, though, is the potential threat to professional standards: it will be harder for professionals, professions and the community at large to ensure that professionals’ standards of practice and knowledge are keeping up with the latest developments. This is of particular concern in the health professions. Issues related to maintaining continuous professional development, while very real and very important, are beyond the scope of the current submission, and of the Go8’s expertise.
Professional associations have made strong representations on these issues. Universities Australia hosted a major meeting of 20 professional associations in Canberra on 8 July, which agreed to a communiqué urging the Government to reconsider its proposed cap on tax deductions. Since then, additional organisations have joined. The following bodies have signed the communiqué:

- ACPET
- Associations Forum
- Australasian Institute of Mining and Metallurgy
- Australasian Society of Association Executives
- Australian Computer Society
- Australian Council of Midwives
- Australian Dental Association
- Australian Doctor
- Australian Healthcare & Hospitals Association
- Australian Institute of Architects
- Australian Institute of Company Directors
- Australian Library and Information Association
- Australian Medical Association
- Australian Music Therapy Association
- Australian Nursing Federation
- Australian Podiatary Council
- Australian Rural & Remote Allied Health
- Australian Services Roundtable
- Australian Sonographers Association
- Australian Veterinary Association
- Congress of Aboriginal and Torres Strait Islander Nurses
- Consult Australia
- Council of Australian Postgraduate Associations
- Council of Private Higher Education
- CPA Australia
- Engineers Australia
- Financial Services Council
- General Practice Registrars Australia
- HealthCert International
- Human Genetics Society of Australasia
- Institute of Chartered Accountants Australia
- Law Council of Australia
- Leading Age Services Australia
- MDANational
- Medical Observer
- National Aboriginal Community Controlled Health Organisation
- National General Practice Supervisors Association
- Optometrists Association Australia
- Pharmaceutical Society of Australia
- Pharmacy Guild of Australia
- Planning Institute Australia
- Professions Australia
- Royal Australian and New Zealand College of Psychiatrists
- Royal Australian College of Physicians
An alliance of professional associations is running a campaign to ‘scrap the cap’ and has set up a website (www.scrapthecap.com.au) to disseminate information and seek signatures for a petition, and to gather examples of how professional and students will be affected by the proposed change. The alliance represents a broad group of professions. Universities Australia and the Australian Council for Private Education and Training are also members of the ‘Scrap the Cap’ alliance.

The list of bodies that have come out against the Government’s proposal shows the breadth of the opposition.

Universities themselves will suffer some of the same negative impacts as the professions. Academic, and other, staff will be deterred from undertaking further learning and professional development. More importantly, the proposed cap on tax concessions will make it harder for universities’ academic staff to participate in the conferences, sabbaticals, workshops and exchange that are essential to research, research collaboration and academic capacity building. It will be more difficult for individual academics, and for the university organisational units that employ them, to finance these important activities if strict and arbitrary limits are applied to tax deductions against the expenses involved. This is especially true in a university funding environment where the Government has been cutting funding, for example by applying arbitrary, across the board efficiency dividends.

The former Treasurer’s rhetoric about ‘rorting’ of current tax concessions, as well as the very partial data presented in the Treasury discussion paper, imply that the biggest beneficiaries of current arrangements are the wealthy (and undeserving). In reality, however, the Government’s proposal will particularly disadvantage a range of professionals in different areas, and at different income levels. The proposal raises serious equity issues.

The Associations Forum has expressed concern¹, noting that many of its members are charities and not-for-profit organisations which, as they are not in a financial position to contribute to the cost of their employees’ training and upskilling, rely on tax concessions to make continuous training and development – including participation in conferences – affordable to their employees.

The Associations Forum makes particular mention of costs that will be faced by nurses, as professionals with modest income but serious requirements for continuous professional development. The same will apply to many teachers. There is a clear equity issue here. While the Treasury discussion paper implies that claims for amounts approaching the new cap are concentrated in high income brackets, the effect of the proposed change will penalise lower paid professionals most severely. A crudely designed, uniform cap will be regressive and will deprive lower paid professionals in particular of the chance to progress and move upwards in their professions.

A further equity issue which professional bodies, especially in health fields, have pointed out affects regional and remote professionals. Unlike their colleagues in major capital cities, regional professionals often have to travel to undertake professional development, and formal education, related to their employment. Current tax rules allow them to claim their travel expenses as part of their legitimate educational expenses, which they clearly are. This will be more difficult under the proposed new regime. This is another case in which the impact of the proposed change will affect different groups of people in systematically different ways, creating real equity issues.

A decline in participation in professional postgraduate programs will, by limiting lifelong learning and further skills development, threaten to close one of the main avenues to productivity improvement. Upskilling is vital to productivity improvement at the levels of the individual, firm, profession and industry, and of the nation as a whole. Since productivity growth has been sluggish, and even more because there are signs that the mining investment phase of the China boom has come to an end, it would be extremely short-sighted to introduce any policy measure that threaten improvements in skills and productivity. The proposal to cap tax deductions for self-education expenses is such a measure. It is likely that the negative flow-on impacts of on upskilling and productivity growth will cost the economy more than this measure is projected to save.

Changes will apply retrospectively – and unfairly – to current students
In addition to deterring prospective students, the proposed changes will disadvantage people who are already studying. Changes will be applied retrospectively to current students, imposing costs unexpected when they commenced their courses, and possibly prolonging or disrupting their studies.

Impact on student demand and participation will compromise universities’ capacity to offer courses
Sudden changes to tax deductibility of self-education expenses – especially for tuition fees – are likely to have a significant negative effect on demand for professional and other postgraduate coursework programs. This puts a large proportion of universities’ business at risk. The resulting reduction in revenue will compromise universities’ capacity to offer consistently high quality education across a broad range of fields and levels of study. It should be noted especially that this negative impact will extend well beyond full-fee postgraduate programs themselves: some departments at Go8 universities are concerned that likely reductions in fee-paying enrolments and thus revenue will reduce the variety and comprehensiveness of postgraduate coursework (for both fee-paying and Commonwealth-supported students), the viability of some postgraduate programs, and even the quality and viability of programs for Commonwealth-supported undergraduates.
The same staff teach both postgraduate and undergraduate courses, and both Commonwealth-supported and fee paying students, so any job losses will affect courses and students across the board. Some faculties report that there are likely to be flow-on effects to Commonwealth-supported undergraduate programs, in the form of bigger classes, fewer choices and opportunities for students and worse study conditions.

It is difficult to estimate or model the effect of the proposed change. This is itself a big part of the problem: impacts on universities are unpredictable and may be volatile. Universities have to plan, however, for a significant impact. It may be prudent to plan for the worst. Of course, this will affect universities’ planning and structuring of course offerings.

The financial impact at a large university with a comprehensive range of professional postgraduate coursework programs is likely to be tens of millions of dollars, though the actual amount is likely to be volatile and unpredictable from year to year.

In an environment where the Government’s budgetary situation is likely to result in little opportunity for increased public funding of universities in real terms (witness the ‘efficiency dividend’), it is important that in the absence of increased public funding, universities are not hampered in the ability to increase and diversify their other sources of income. This is especially pressing if Government is serious about its aspiration to maintain leading universities in Australia, and to improve their position in international rankings. Achieving this ambition depends on universities growing their resources in line with international competition. The proposed cap on deductibility of education expenses hampers universities' ability to maintain and grow non-public revenues at a time when public funding is being reduced. These two factors, particularly when being implemented at the same time, make the revenue positions of universities impossible to sustain. The inability to offset reduction in public funding with growth in other revenues will result in reductions in expenditure at all universities, generally in the form of job losses.

Finally, in many programs a decline in domestic participation in coursework Masters programs is likely to lead to a decline in international demand both because studying with Australian students is a key attraction for international students, and simply because decreases in revenue will force universities to reduce and narrow their course offerings. Needless to say, decreases in international participation will lead to further falls in revenue and their flow on effects across universities.

In 2011 (latest available data), there were more than 14,000 equivalent full-time domestic students in fee-paying places in coursework postgraduate programs in Go8 universities. Since 68% of students in coursework postgraduate programs study part-time, the number of individual students in much higher. Assuming that the same relationship between full-time load and enrolment numbers holds for full-fee students as for coursework postgraduate programs overall (probably a conservative assumption, as it is likely that more full-fee students are studying part-time while working full-time), then the number of full-fee paying domestic students in coursework postgraduate programs in Go8 universities is likely to be nearly 45,000.

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\(^2\) Note that statistics are not available on individual students by HELP liability status and fee type: these are only available for full-time equivalent load.
In any case, 14,000 full-time equivalent domestic students in fee-paying coursework postgraduate programs represent 57% of domestic student load at this level of study in Go8 universities. These students account for nearly one-third (31.8%) of total postgraduate coursework load (including international students). They are 7.8% of all domestic student load and 5.6% of total load. These are significant proportions of Go8 universities’ teaching and learning activities.

In 2011, Go8 universities earned over $300 million in revenue from domestic postgraduate coursework programs (excluding Commonwealth-supported places). This represents 3% of total revenue from continuing operations, or 6% of revenue associated with teaching and learning.

A 25% reduction in revenue from domestic fee-paying coursework postgraduates would cost Go8 universities over $75 million (at 2011 volumes and prices). This is more than twice as much as the impact of a 2% efficiency dividend on ‘CGS and other grants’ to Go8 universities ($36 million). Even including cuts to Research Block Grants from a 2% efficiency dividend yields a total cut of $53 million – decidedly lower than the potential impact of the cap on tax deductions.

Intelligence from professional faculties in Go8 universities suggests that the cap on tax deductions will lead to:

- Accelerated completion by some current students, reducing fee revenue in the out years for universities and possibly compromising the quality of the educational experience for individual students;
- At the same time, withdrawals and deferrals by current students who are deterred by large increases in effective costs;
- Longer completion times for those students who do not either rush to complete their courses or drop out;
- Decreases in new commencements; and
- Some negative flow-on impact on international enrolments.

Go8 professional faculties have pointed out that the cost of studying a single unit in full fee courses often exceeds the proposed $2000 cap. This is an important fact in lengthening times to completion. One faculty predicts drop out rates of 25 per cent. For those students who do not drop out, completion times are expected to increase by 12 months.

Some faculties are predicting declines in commencements of 25 per cent and point out that fee revenue of tens of millions of dollars is at risk from the proposed changes. Others are expecting definite decreases in revenue of $5 million per year.

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3 Figures are derived from DIICCSRTE Higher Education Finance Statistics 2011, by adding ‘FEE-HELP – Australian Government payments’ and ‘Fees and charges – Fee-paying non-overseas postgraduate students’.
Whatever the effect in 2014 and 2015 turns out to be, considerable uncertainty surrounds the implementation and impact of the tax deduction caps. For this reason, universities will have to be cautious and allow for negative impacts on revenue in planning their budgets and course offerings. In itself, this means the change to tax concessions will negatively affect universities’ operations, even if the actual impact (in terms of enrolments and revenue) turn out to be less drastic than anticipated.

**Recommendation**

The Go8 recommends that, instead of capping all deductions for work-related self-education expenses at $2000, Government should follow through on the logic of the initial announcement and make changes that target tax concessions better, supporting necessary education and training, while reducing unnecessary claims for other expenses that may not be directly related to the cost of education.

Government could move to tighten the rules for tax deductions by limiting or eliminating deductions for travel and accommodation expenses, where these are not directly related to education, training, continuous professional development, or conferences. This would be more complicated, and some difficult decisions on matters of detail would have to be made in a careful way that did not have unintended consequences. In principle, this would be the clearest way to realise the Government’s professed policy goal, though in practice it would be difficult. This solution may be too complex, and impose unacceptable administrative and compliance costs.

The easiest, administratively simplest way to do this would be to allow taxpayers to claim deductions up to the full amount of their tuition fees, and to limit deductions for all other allowable expenses.