

Association of Accounting Technicians response to HM Treasury (HMT) and HM Revenue & Customs (HMRC) consultation on Taxation of self-funded work-related training by employees and the self-employed

Association of Accounting Technicians response to Taxation of self-funded work-related training by employees and the self-employed

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation document on “Taxation of self-funded work-related training by employees and the self-employed”, published on 13 March 2018.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities of implementing the proposals.
- 1.4. Furthermore, the comments reflect the potential impact that the proposed changes would have on AAT’s 90,000 students, many of whom are self-financing, as well as AAT’s 50,000 full members, including 4,250 licensed accountants who provide accountancy and business advisory services to more than 400,000 British businesses.

2. Executive summary

- 2.1. **AAT agrees that training costs for individuals, employees and the self-employed should be an allowable deduction for income tax.** The government should introduce this progressive proposal, joining more than two thirds of OECD nations who already allow training to be deducted from taxable income.
- 2.2. **Relief should only be available where training is from approved providers offering formal qualifications or for formal qualifications offered by professional organisations.** This is further detailed below at 3.22.
- 2.3. **AAT questions the necessity of an annual cap given most other countries allowing training to be deducted from taxable income have no such limits.** Limiting the types of training eligible for the tax deduction may be a better way of ensuring sustainability and affordability for public funds. However, if the government persists with its desire for a cap to be imposed then it should be considerably higher than that suggested.

3. AAT response to the questions in the consultation document

Question 1. Do you agree with the lessons that need to be learned from the UK and overseas?

- 3.1. AAT agrees that there are certainly lessons to be learned from previous experience in the UK and current experience overseas but is concerned that some of the obvious lessons appear to be being ignored.
- 3.2. For example, the consultation document acknowledges that, “...more than a quarter of the £36 million tax relief given in 1997 to 1998 related to claims for flying and diving. Horse riding and cookery courses were also popular, with the relief criticised for funding expensive hobbies.” Despite this, the consultation document goes on to state that, “...the government is not seeking views on whether to target any changes at a particular industry or set of skills.”
- 3.3. Likewise, in relation to international lessons, we remain in a minority of OECD nations not allowing training to be deducted from taxable income and we are proposing that a cap be imposed despite two thirds of OECD nations who permit deductions having no cap.

- 3.4. AAT agrees that any tax changes will need to be 'closely defined' to achieve the desired intention. However, the abusive examples given in paragraph 4.6 of the consultation document illustrate that some businesses will seek to exploit the tax systems regardless of how well the tax legislation is defined.

Question 2. Do you agree with the high-level objectives? Are there any others you think are as or more important?

- 3.5. AAT agrees with the high-level objectives.
- 3.6. However, there will be challenges with trying to restrict the relief so that it is not available for 'recreational activities' because of the subjectivity in this distinction. For example, diving may be recreational for some people or necessary for people whose work involves inspecting the hull of a ship. Similarly, there may be issues with trying to restrict the relief so that it is not available for 'personal purposes' where it is difficult to distinguish between a person's occupation from their hobbies.
- 3.7. AAT therefore recommends that any new legislation to define allowable 'training' relies on an objective test (as set out below at 3.27).
- 3.8. AAT understands the rationale for restricting the applicability of tax deductions to those needing to upskill or retrain, particularly for those who want or need to change career, to progress in the work place and improve their earnings. That said, it should be acknowledged that there are numerous other areas which although not considered to be directly, "work-related" are likely to lead to increased chances of employment. These include but are not limited to:
- (i) enabling the third of UK workers¹ who experience mental health issues to receive non-work-related training that may help their recovery and enable them to continue working or return to work
 - (ii) to enable those with a mental disability to receive non-work-related training to live independent lives which may enable them to gain employment
 - (iii) to include Health and Safety training which is strictly speaking not "work-related" but likely to produce significant benefits.
- 3.9. Finally, as highlighted throughout this response, AAT agrees that proposal must be "...*sustainable and affordable*" but that this is not a zero-sum game.
- (i) The potential loss in tax revenue due to allowable training costs will become taxable trading income in the hands of training providers.
 - (ii) There is likely to be increased earnings from those who receive relevant high-quality training which in turn increases tax receipts and
 - (iii) there will be reduced state benefit payments to those who were at risk of redundancy or at risk of losing their own business etc. as increased skills may lead them to secure alternative employment.

Question 3. Do you agree with the high-level design principles? Are there any others you think are as or more important?

- 3.10. Yes, save for the above (3.5-3.9).

Question 4. How could the rules be reformed to allow a tax deduction for self-funded retraining subsequently used in a new employment or self-employment? Do you think a time-limited carry forward would be the best approach and how could this work in practice?

- 3.11. Prior to signing up to the training course, individuals and the self-employed will need to have certainty that their costs will be allowable for income tax and national insurance deductions.

¹ Third of UK workers experiencing anxiety, depression or stress survey finds, Independent, July 2017: <https://www.independent.co.uk/news/health/uk-workers-depression-stress-anxiety-survey-a7827656.html>

3.12. The tax deduction should be linked to the expenditure incurred by individuals and the self-employed during the tax year and fully recoverable or refunded at the end of the tax year. Linking to some uncertain and future employment or having a time limited carry forward is not appropriate as any delays, unnecessary complications or uncertainty as to whether the training costs are tax deductible is likely to negatively impact the very people that this proposal is intended to help.

3.13. It would also add unnecessary bureaucracy, complexity and administrative costs.

Question 5. How could the rules be reformed to allow a tax deduction when the self-employed fund training on upskilling for their existing business?

3.14. For the reasons outlined above (3.11-3.13) AAT does not support the suggestion that the expenditure be carried forward and set against the profits or earnings of the new trade or employment and allowing against future profits or earnings.

Question 6. How could the rules be reformed to allow a tax deduction when an employee funds training on upskilling for their current employment?

3.15. In some circumstances where an employee is training or upskilling with a view to progressing and finding a new employer, the employee will often not want their current employer to know that they are training or upskilling. For example, AAT is often made aware of situations where students do not want their current employer to be advised when they have completed different modules and examinations. In such circumstances, it is unlikely that the employee would want the tax deduction put through the PAYE system.

3.16. Where the employer is aware and the employee has no issues or concerns, the employer may still not want to be involved in arranging payments on behalf of the employee to the training provider.

3.17. There are many other ways of allowing the training costs for employees including:

- (i) adjusting the employee's tax code
- (ii) allowing the employee to make a single or multiple claims as and when their training costs are incurred
- (iii) the employee completing an end of year tax return.

Question 7. To what extent would reforms to tax relief change behaviour so individuals are incentivised to undertake more work-related training? Please explain.

3.18. If the proposal only allows the training costs to be carried forward and set against the profits or income of the new trade or employment then this would limit the efficacy of the proposal and behavioural change would similarly be limited.

3.19. However, if training costs became allowable as and when payments are made to training providers then individuals and the self-employed are more likely to change their behaviour to utilise the opportunity to gain additional skills.

Question 8. Do you think the tax system would be the most effective lever to support employees and the self-employed who want or need to upskill, retrain, and take part in career learning? Please explain.

3.20. If training costs were allowable for tax and national insurance for individuals and the self-employed as and when the costs were incurred and it was either uncapped or had a sufficient limit of at least £2,000 per annum (see 3.39) then it would be the most effective lever.

3.21. This would significantly reduce training costs for individuals, which for most people would be a major factor in deciding whether to undertake training.

Question 9. How could the government target work-related training leading to valued qualifications through approved providers and professional organisations?

3.22. AAT acknowledges that there is a wide spectrum of training available from a wide range of learning providers in the UK but that value for money and tangible benefits to individuals and the UK economy are key criteria in deciding eligibility.

- 3.23. Rather than re-inventing the wheel, AAT suggests focusing on support for training provided by approved providers offering formal qualifications i.e. those that appear on the Register of Regulated Qualifications providing the government additionally allows tax relief for formal qualifications offered by professional organisations approved by HMRC for the purposes of tax deductions related to fees and subscriptions (the HMRC “*Approved professional organisations and learned societies*”² list).

Question 10. How can the scope for misuse be minimised, particularly claims related to recreational activities, and the rules be made enforceable in practice without being resource-intensive for individuals or HMRC?

- 3.24. It will be very difficult to minimise the scope for misuse related to ‘recreational activities’ as the rules should not require HMRC to establish ‘intent’ because a person’s intention may change over time, for example if the intention was to gain skills in a particular area but on embarking upon the training they subsequently find they have little aptitude for the subject. Similarly, the learner may have multiple intentions for the same course e.g. some may be personally interested in a course where the subject relates directly to the industry within which they work.
- 3.25. Currently, there are a number of NVQ courses that could potentially be used for ‘recreational activities’ such as NVQ Courses in Crafts, Creative Arts and Design; Sport, Leisure and Recreation; Languages, Literature and Culture
- 3.26. Education, training and recreational activities are not necessarily mutually exclusive so HMRC are likely to face some challenges in establishing intent here
- 3.27. As a result, AAT recommends that any new legislation, introduced to define allowable ‘training’, relies on an objective test. For example, if the course is an NVQ and is recognised by the government for funding then it would be an allowable training cost that is deductible against income tax and National Insurance.

Question 11. If it is necessary, at what level would any cap on expenditure eligible for tax relief need to be set to make a meaningful difference to the choices made by individuals? Please explain.

- 3.28. It is questionable whether a cap is needed. As the consultation document makes clear, a clear majority of OECD nations allowing this do not impose a cap (14 of 21 nations).
- 3.29. Whilst concerns about affordability and sustainability are reasonable, this ignores the fact that greater investment is likely to lead to greater taxable incomes. In addition, the loss in tax revenue due to allowable training costs to individuals and the self-employed will become taxable trading income in the hands of thousands of training providers.
- 3.30. Although AAT notes that 1.14 of the consultation document states, “*This consultation seeks to understand how any tax changes could apply whether or not they are targeted at a particular industry or set of skills*” if affordability and sustainability are of such importance then limiting the types of training eligible for the tax deduction, rather than imposing a cap, is likely to be a better way of ensuring sustainability and affordability for public funds whilst simultaneously enabling the greatest likely return for the taxpayer.
- 3.31. Whilst AAT does not believe a cap is necessary, should government insist on imposing one then it must be considerably higher than that referenced in the consultation document to make any meaningful impact.
- 3.32. As indicated in the consultation document, some qualifications can cost a considerable sum. An MBA for instance can cost in the region of £75,000³.

² Approved professional organisations and learned societies, updated March 22 2018: <https://www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3/approved-professional-organisations-and-learned-societies>

³ London Business School MBA tuition fees £75,100: <https://www.prospects.ac.uk/postgraduate-study/mba-courses/best-mba-programmes-in-the-uk>

- 3.33. When imposing a cap, concerns about wealthier earners benefitting from the tax system must be taken into account but these must also be weighed against the likely increased lifetime earnings of the individual and the increased tax revenues for the state that are consequently derived. As already indicated, the greater the investment, the greater the potential return.
- 3.34. At the other end of the spectrum, the consultation document gives an example of a cap of £500, which would provide a basic rate taxpayer with income tax relief of just £100. AAT contends that a deduction at this level would be insignificant, fail to change behaviour and unlikely to incentivise most to apply for any tax deduction.
- 3.35. The suggestion that this low cap, “...could then be modified in the future once the government has been able to assess the operation of the relief in practice.” provides no reassurance as the most likely outcome is that a low cap will prove a substantial barrier, ensuring low take-up and then providing justification for government to state that having reviewed its operation it has now decided to completely withdraw the relief based on poor results. This has been the case with several reliefs that are either poorly designed or poorly promoted and then withdrawn due to low take-up, for example the Disincorporation Relief.⁴
- 3.36. By way of background, AAT has thousands of students who are re-skilling and upskilling to either change careers or progress with their existing employer – exactly the type of activity such a deduction is designed to encourage – including over 3,000 students aged over 50.
- 3.37. AAT’s Accounting Qualification, delivered through training providers (e.g. Further Education colleges, Kaplan, BPP etc.) costs between £4,000 and £9,000⁵ The difference in fees charged by training providers is dependent on the type of training (distance learning or classroom based) and the level of tutor support etc.
- 3.38. In addition to the training providers costs, the student will also incur an annual AAT membership subscription of £135 and AAT assessment fees of £675 (16 assessments for the entire course). So, the total cost that a student may incur over their 3-year period of study is likely to be in the region of £5-£10,000.
- 3.39. The costs of similar qualifications in other sectors are comparable and therefore an annual cap of at least £2,000 per annum would appear more reasonable if there is a genuine intention to encourage greater levels of high quality training.

Question 12. Are there complementary or alternative approaches that could ensure any extension is affordable but would still meets its objectives?

- 3.40. As stated above, an alternative approach to a cap would be to target relief at particular types of training.

Question 13. How could any changes be administered so that take-up is maximised, errors are minimised, and the system is not resource-intensive for either individuals or HMRC? Is the existing system involving submitting a paper or online form via the Personal Tax Account and self-assessment appropriate?

- 3.41. The offer must be attractive i.e. no cap or a reasonable cap of at least £2,000 per annum so as not to eliminate the majority of relevant upskilling and reskilling opportunities.
- 3.42. Relief should only be available where training is from approved providers offering formal qualifications i.e. those that appear on the Register of Regulated Qualifications or for formal qualifications offered by professional organisations approved by HMRC for the purposes of tax deductions related to fees and subscriptions (as stated above at 3.23).

⁴ AAT response to OTS discussion paper on Disincorporation Relief, 2017:
https://www.aat.org.uk/prod/s3fs-public/assets/OTS-Disincorporation-Relief-FINAL_0.pdf

⁵ AAT cost of qualifications, 2018:
<https://www.aat.org.uk/aat-qualifications-and-courses/aat-qualifications/qualification-information/cost>

- 3.43. A publicity campaign utilising trusted third party organisations such as AAT, CIPD, CBI, IoD, FSB, professional bodies and educational establishments should be undertaken.
- 3.44. To ease the administrative burden and in keeping with the governments Making Tax Digital agenda, submissions should be online rather than paper based except where exceptions are essential.
- 3.45. The existing system involving an online form via the Personal Tax Account and self-assessment would be acceptable but it would be preferable for employees to be able to make a simple claim through their Personal Tax Account stating the amount of training expenses incurred during the tax year.
- 3.46. Some employees may be able to make their claim through PAYE provided 1) that they are happy for their employer to know that they are undertaking training and 2) their employer agrees (as set out above at 3.15).

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy, at:

E-mail: phil.hall@aat.org.uk Telephone: 07392 310264 Twitter: @PhilHallAAT

Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

