

DLK ADVISORY

SELF EDUCATION EXPENSE THRESHOLD TO BE REMOVED



With the introduction of a recent Bill, the government is finally following through on its promise to remove the \$250 non-deductible threshold for self-education expenses. While self-education expenses are generally deductible if there is a sufficient connection with the taxpayer's income producing activities, the amount of deduction is currently limited by s 82A of the ITAA so that only the excess over \$250 may be deductible. This \$250 non-deductible threshold has a long history, it was first introduced in 1975 alongside a concessional tax rebate of \$250 for expenditure on self-education.

What was the purpose of the non-deductible threshold?

In effect, the non-deductible threshold was designed to ensure that taxpayers do not claim both the tax rebate and get a tax deduction for the same set of education expenses. However, the concessional rebate was repealed in 1985, but the non-deductible threshold illogically remained, and it has only taken the government 36 years to get around to removing it.

The non-deductible threshold currently applies to expenses of self-education necessarily incurred by an individual for or in connection with an organised course of education provided by a school, college or university, on a full or part time basis.

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Some expenses that are not considered to be generally deductible may still be expenses of self-education and may reduce the non-deductible threshold. For example, childcare costs related to attending self-education activities are not generally deductible as they are considered to be private or domestic, but may reduce the non-deductible threshold up to the \$250 limit.

So, what does the removal mean for you?

Following the removal of the non-deductible threshold, individuals can continue to claim self education expenses if the expense is incurred in gaining or producing assessable income, the expense is not private, domestic or capital in nature, and the deduction is not prevented by legislation. Therefore, it is expected that the current deductibility standards will continue to apply.

For example, expenses incurred in maintaining or improving a taxpayer's skills and knowledge in their present occupation should be deductible, particularly if they are likely to lead to a pay increase, but childcare costs can no longer be claimed. Similarly, self education expenses incurred before commencing an occupation or to obtain a new occupation will likely remain non-deductible.

The repeal of \$250 non-deductible threshold will also not affect the types of self-education expenses that are deductible. For example, the costs of textbooks, stationery, and professional journals will still be deductible, while certain student contributions and payments to reduce HELP, financial supplement and other higher education debts will remain non-deductible.

For taxpayers claiming self-education expenses after the removal of the non-deductible threshold, records of deductible self-education expenses will still need to be kept but records no longer need to be kept for any non-deductible self education expenses that was used to offset the non-deductible threshold.

Remember, the amendment is not yet law, therefore, the current non-deductible threshold will continue apply until the Bill passes Parliament and receives Royal Assent.

CONTACT

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