

DLK ADVISORY

NON-DEDUCTIBLE THRESHOLD REMOVED FOR SELF EDUCATION



The government has reintroduced and passed a raft of measures that faced an uncertain fate when the House of Representatives was dissolved and the Senate prorogued due to the calling of the Federal Election earlier this year. One of these measures that have recently passed all stages is the removal of the \$250 non-deductible threshold for work-related self education expenses, which will apply to assessments for the 2022-23 income year and onwards.

Self-education expenses are generally deductible if there is a sufficient connection with the taxpayer's income producing activities, however, the amount of deduction was previously limited by s 82A of the Income Tax Assessment Act 1936 (Cth) (ITAA 1936) so that only the excess over \$250 may be deductible. This deduction limit was an artifact from when the self-education deduction measure was first introduced more than 4 decades ago, which occurred alongside a long repealed concessional tax rebate of \$250. In essence, the original intention of the deduction limit was to ensure that taxpayers did not receive both the tax rebate and a tax deduction for the same set of expenses.

Given that the \$250 non-deductible threshold for work-related self education expenses no longer served its original purpose and only adds compliance complexity and costs for individuals, stakeholders unanimously supported its removal in Treasury consultation.

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Now that the non-deductible threshold for work-related self education expense has been removed, individual taxpayers only need to consider the deductibility of their self-education expenses by reference to s 8-1 of the Income Tax Assessment Act 1997 (Cth) (ITAA 1997). This means that individuals can claim a deduction for self education expenses if the following applies:

- expenditure 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 a provision of ITAA 1997.

With the repeal of s 82A of ITAA 1936, previous expenses, such as childcare expenses and travel expenses, that were not considered to be generally deductible but may still have been expenses for self education and used to reduce the \$250 non-deductible threshold, can no longer be deducted if it does not meet the requirements under s 8-1 of ITAA 1997.

The repeal of the 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. Similarly, self-education expenses incurred before commencing an occupation or to obtain a new occupation will remain non-deductible.

Example

Matt is software programmer and decides to take a course to keep up-to-date with the latest developments in the various programming languages he uses for work. Because the course is expenditure incurred in gaining or producing his accessible income, Matt is eligible to deduct the associated fees. The total cost of the course including materials, tuition, and stationery total \$3,500. Matt also incurs \$250 in childcare expenses in order to attend the course.

With the repeal of s 82A of ITAA 1936, Matt is able to claim the deduction of \$3,500, but not the childcare expenses. Prior to the repeal, Matt is able to use the \$250 in childcare expenses to offset the \$250 non-deductible threshold, so that the full \$3,500 could have also been deducted in that instance. However, with the repeal of s 82A, Matt no longer has to calculate or keep records of his non-deductible expenses to offset the \$250 reduction to complete his tax return, thus lowering the compliance complexity and time required.

CONTACT

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