

DLK ADVISORY

REFRESHER ON DEDUCTIBILITY OF SELF-EDUCATION EXPENSES



The ATO has released a ruling which consolidates and updates its previous rulings (now withdrawn) on its view of the deductibility of self-education expenses under s 8-1 of the ITAA 1997. The ruling does not address the repeal of s 82A of the ITAA 1997 which limited the amount of expenses otherwise deductible, or outgoings necessarily incurred by a business. With this release, now is the perfect time for a recap on the current rules for deductibility of self-education.

Under this newly released ruling, self-education expenses include courses at an education institution (whether leading to a formal qualification or not), courses provided by a professional or industry organisation, attendance at work-related conference or seminars, self-paced learning and study tours (whether within Australia or overseas).

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According to the ATO, self-education expenses are deductible if one or both of the following apply and none of the exclusions (see below) apply:

- the individual's income-earning activities are based on the exercise of a skill, or some specific knowledge and self-education enables the individual to maintain or improve that skill or knowledge – this is a question of fact to be determined by all the facts and circumstances of each individual case. For example, if the self-education is too general in terms of current income-earning activities, the necessary connection between the self-education expense and income earning activity is unlikely to exist.
- the self-education objectively leads to, or is likely to lead to, an increase in the individual's income from current income-earning activities in the future – the factors that the courts/tribunals have determined as relevant include real opportunities of promotion, education that is likely to lead to a higher pay grade, bonus, or increase in income.

Exclusions to the deductibility of self-education expenses include:

- new employment or new income-earning activity – an individual cannot deduct self-education expenses if the education is undertaken or designed to obtain employment, obtain new employment, or open up a new income-earning activity (whether in a business or in current employment).
- not currently undertaking income-earning activities to derive assessable income – a deduction will not be available if an individual was not undertaking income-earning activities to derive assessable income (either by employment, carrying on a business or by other means) at the time the self-education expense is incurred. In instances where an individual ceases their income-earning activities part-way through completing deductible self-education, only the expenses incurred while undertaking income-earning activities will be deductible (ie a deduction cannot be claimed for the entire course).
- A deduction cannot be claimed for any government assistance received in the form of rebatable benefits (e.g. Youth Allowance, Austudy and ABSTUDY).

For self-education expenses that are only partly deductible, apportionment is required. According to the ATO, where the self-education expense has distinct and severable parts and some are for an income-producing purpose and others are for some other purpose, the individual must apportion the expense according to its particular purpose. However, where the self-education expense is a single outlay that serves both income-earning and some other purpose, the apportionment should be made on a fair and reasonable basis which will depend on the individual facts and circumstances.

With the return of international conferences for various occupations, the deductibility of expenses such as accommodation, meals and course fees related to self-education is once again coming into play at tax time. In order to maximise your deduction where you have undertaken self-education during the financial year, it is best to consult a tax professional as individual circumstances differ and what is deductible for one taxpayer may not be for another.

CONTACT

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