IT 271 - Expenditure on self education

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TAXATION RULING NO. IT 271

EXPENDITURE ON SELF EDUCATION

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OTHER RULINGS ON TOPIC: IT 285, IT 312

PREAMBLE Principles originally laid down in Head Office memorandum of 10 July 1964 to assist in determining whether deductions are allowable under section 51 for expenditure incurred on a university or other training course were explained.

RULING 2. The starting point in this area is, of course, the decision of the High Court in FC of T v Finn (1961) 106 CLR 60. In that case, the taxpayer was an architect employed by the State public service in Western Australia. While on long service leave, he made an overseas tour, partly at his own expense, to study developments in architecture. It was not seriously contested that the additional knowledge thus obtained would be likely to increase the taxpayer's efficiency and his prospects of future promotion. However, the Court did not regard this as sufficient to give the expenditure a capital nature and it was held that the cost of the travelling was deductible under section 51.

3. The essence of the Finn decision seems to lie in a recognition that knowledge is continually developing and that a taxpayer in a skilled occupation may need to be continually adding to his store of knowledge if he is to maintain his status. The fact that this process may increase the taxpayer's efficiency in his employment or help him to win promotion is not regarded by the Court as sufficient justification for denying deductions under section 51.

4. The position was taken a stage further by the decision of the Board of Review in 11 CTBR(NS) Case 51, 14 TBRD Case P15, in which the Board of Review No.3 held that an accountant who had undertaken a university course in public administration was entitled to deduct the fees paid. The case was, however, an unusual one because the taxpayer was a public accountant and valuer of some 25 years' standing. He had abandoned the course before the hearing and there could be no serious contention that the course undertaken was likely to lead him to a new field of employment. Not all of the views expressed by the Board members in that case can be accepted as having general application but,

given the finding that the taxpayer had undertaken the course to promote his efficiency in his current employment rather than to obtain a university qualification, the decision was not necessarily inconsistent with the decision in Finn's case, and it was accepted by the Commissioner.

5. The Head Office memorandum of 10 July 1964 was based on these decisions. It was directed that deductions should not be allowed in any case where a course of studies would be likely to open up a new field of employment to a taxpayer. Deductions were to be denied not only in cases where the studies would lead to a formal right to practice in a particular field (e.g. law, accountancy, surveying, valuing) but also in any case where a first university degree was likely to be obtained in due course. As a practical rule, it was to be assumed that the obtaining of a first university degree in any faculty, by giving the taxpayer the status of a graduate, would inevitably open up new fields of employment to him.

6. On the other hand, the memorandum envisaged that the cost of studies for a second degree or post-graduate studies leading to a higher degree would not necessarily be debarred from deduction. Provided that the course was undertaken for the purpose of maintaining or improving ability in an existing occupation, deductions might be allowed if, upon examination of the facts, it could be accepted that the course had not been undertaken to enable the taxpayer to enter into any new income earning occupation.

7. In practice, this means that it can be accepted that a post-graduate course has been undertaken for the purpose of promoting the taxpayer's efficiency in his employment if the course was directly relevant to his duties. Deductions would be allowable under section 51 so long as the course was not one that was likely, in the ordinary course of events, to open up a new field of earning activity, whether in his present employment or in some new employment.

8. The application of these principles can be illustrated by two subsequent decisions given from Head Office.

9. On 16 August 1966 advice was given (Head Office reference J.35/1051) of a decision to accept that public servants who attended, at their own expense, a one-year part-time course in the general principles of automatic data processing might deduct the cost under section 51. The view was taken that a minor course of this nature would merely enable the participants to keep abreast of new developments that they might encounter in the ordinary course of their present duties. On the other hand, it was indicated that a different view might have to be taken where a taxpayer undertook a major course in A.D.P. extending over a much longer period because this might qualify him to take on a wholly different type of job.

10. Recently, a chartered accountant who was already a university graduate in Commerce undertook a management course which would lead ultimately to the degree of Master of Business

Administration. Theoretically, the higher degree might have enabled the taxpayer to obtain a university posting which would not otherwise have been available to him. However, this seemed a remote possibility in his particular case and it was accepted as a fact that the taxpayer's dominant purpose in undertaking the course was to enable him to carry out more effectively his existing duties as a chartered accountant. Accordingly, it was accepted that the cost of the course was deductible under section 51.

11. On the other hand, it would not be accepted that the cost of a post-graduate course is deductible if its nature is such that it would be a reasonable assumption that it had been undertaken to enable the taxpayer to enter a new field. For example, a doctor in general practice would be able to deduct the cost of a refresher course designed to bring his general medical knowledge up to date, but he would not be entitled to deduct the cost of a course which would enable him to practice in some particular field as a specialist.

12. The Board of Review case referred to in paragraph 4 should be regarded as an exceptional case as it concerned studies for a first university qualification. It should not be followed, without prior reference to Head Office, except where the course is relevant to the taxpayer's duties and there is convincing evidence that the course was not the first step towards a university degree. Deductions should not be allowed merely because the taxpayer contends that he does not expect or intend to complete the full course of which his subjects form part.

COMMISSIONER OF TAXATION

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