


# ***TGR 93/2 - Training guarantee: meaning of 'sole or principal object' and 'significant object' as they relate to an 'eligible training program'.***

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## Training Guarantee Ruling

Training guarantee: meaning of 'sole or principal object' and 'significant object' as they relate to an 'eligible training program'.

*This Ruling is not a 'public ruling' in terms of Part IVAAA of the Taxation Administration Act 1953. Training Guarantee Rulings do not have the force of law. Each decision made by the Australian Taxation Office is made on the merits of each individual case having regard to any relevant Ruling or Determination.*

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### What this Ruling is about

1. This Ruling explains the meaning of the phrases 'sole or principal object' and 'significant object' in sub section 27(1).
2. Eligible training expenditure must be incurred in respect of an eligible training program. Under sub section 27(1) of the *Training Guarantee (Administration) Act 1990* (the TGAA) a training program is an eligible training program if all of the following points are satisfied:
  - (a) the program is a structured training program; and
  - (b) the **sole or principal object** of the program is to develop, maintain or improve employment related skills of employees or other persons; and
  - (c) a **significant object** of the program is not recreation; and
  - (d) a **significant object** of the program is not a matter that is not directed towards the development, maintenance or improvement of employment related skills of employees or other persons.'
3. This Ruling does not consider the meaning of the phrase 'structured training program' nor does it address 'eligible training expenditure'.

## Ruling

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### **(a) Sole or principal object**

4. 'Sole or principal object' means that the employment related training object must be the main object and must outweigh in importance all other objects put together.

5. If a training program has one object that object must be exclusively employment related training. If a training program has several objects the main object must be employment related training.

6. Whether or not the 'sole or principal' requirement is satisfied depends on the facts of the particular case. We accept generally that the test is satisfied if the time allocated to employment related training accounts for more than half of the total time allocated to all objects of the program. In calculating the time allocated, activities that take place outside normal working hours should be excluded where those activities do not relate to employment related training. Where employment related training activities occur outside normal working hours these activities should be included as time allocated to employment related training.

7. In cases where the allocation of time test is inappropriate, the employer will need to establish a reasonable basis to support the contention that the sole or principal object is employment related training.

### **(b) Significant object**

8. A 'significant object' is one which is independent of the employment related training and is an important end towards which the training program is directed. A training program will not be an eligible training program if it comprises recreational or non-training related objects which are significant in the context of the training program as a whole.

9. In determining whether an object is significant it is necessary to look at each case on its merits. Where a training program involves some recreational or non-training related activities, some of the relevant factors could be:

- the subjective intention of the employer and/or program designer;
- the objective intention, inferred from the circumstances surrounding the training program;

- the level of expenditure incurred on recreation or non-training related activities as a proportion of the total expenditure on the training program;
- the time allocated to recreation or non-training related activities in proportion to the total time spent on the training program; and
- the attention devoted to recreational or non-training related activities in any brochure or other documentation.

10. An eligible training program could include recreational activities or non-training related activities. Provided that it can be shown that these activities are a means to achieving the training object or that they are incidental to that object, the program will not be regarded as having a significant object that is recreation or non-training related.

11. Where a training program includes structured, on-the-job training, any incidental productive activity resulting from the program is not an object of the program. The productive activity is part of the training program and is taken to be 'directed towards the development, maintenance or improvement of employment related skills.'

## **Date of effect**

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12. This Ruling (that is, the final Training Guarantee Ruling based on this Exposure Draft Training Guarantee Ruling) sets out the current practice of the Australian Taxation Office and is not concerned with a change in interpretation. Consequently, it applies (subject to any limitations imposed by statute) for years of income commencing both before and after the date on which it is issued.

## **Explanations**

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### **(a) Sole or principal object**

13. The *Explanatory Memorandum* to the TGAA (at p. 50) states that 'sole or principal' 'means that while a training program may include objectives and outcomes other than those of developing, maintaining or improving employment-related skills the latter objective ("the training objective") must outweigh all others put together.'

## (b) Significant object

14. The words 'significant' and 'object' are given their commonly understood meaning. The *Macquarie Dictionary* provides the following definitions:

**significant** 'important; of consequence.'

**object** 'the end towards which effort is directed.'

## Examples

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### Example 1

15. A company hires a consultant to train its managers in strategic planning. At the conclusion of the program the managers will have obtained the skills required to undertake strategic planning and will also have prepared a strategic plan for the company (the training method includes the development of an actual strategic plan).

16. The principal object of the program is for managers to be trained in strategic planning. While the production of a strategic plan could also be seen as an object it is regarded as being incidental to the training object.

### Example 2

17. Employees of a company attend a three day workshop in employment related training. The training is conducted between 9.00 am and 5.00 pm on each day with a one hour break for lunch. At the conclusion of each day there is an organised period of recreational and socialising activities.

18. Because these activities are conducted outside normal working hours, they are not regarded as part of the training program and are not a 'significant object' of the program.

### Example 3

19. A company runs a training course for its salesmen in new selling techniques. The course is conducted from 1.00 pm to 9.00 pm.

20. The training is employment related and therefore the full eight hours would be regarded as eligible training. It is irrelevant that some of the training takes place outside normal working hours.

**Example 4**

21. A group of accountants attend a four day 'Corporate Budgeting' training program from Monday to Thursday at a ski chalet. Training is conducted from 7.00 am to 12.30 pm on Monday and 7.00 am to 2.00 pm on Tuesday, Wednesday and Thursday. On Monday afternoon the agenda includes a one hour ski lesson followed by three hours snow skiing.

22. A brochure advertising the program emphasises the recreational aspects of the program and highlights the following:

- training will conclude by at least 2.00 pm on Tuesday, Wednesday and Thursday allowing 3 hours before ski lifts close;
- the all-inclusive price includes; lift tickets for each day, ski and clothing hire as well as the Monday afternoon ski lesson.

23. Using the allocation of time approach it can be concluded that the principal object of the program is employment related training. However, the circumstances indicate that recreation is a significant object of the program and therefore it does not qualify as an eligible training program.

**Example 5**

24. An employer who manufactures taps transfers one of his employees to the 'forging' section of the factory. In order for the employee to learn the new job, the production foreman spends 1/2 an hour instructing the employee on operating the forging press. Following the period of instruction the foreman stands alongside the employee for a 2 hour period providing further advice and assisting the employee with any problems that arise.

25. Although the 2 1/2 hour period results in the production of a number of tap components, the principal object is the employment related training of the employee and the productive output is not a significant object as it is merely incidental to the training object.

**Example 6**

26. An employer, who runs a shop selling underwater diving equipment arranges for one of her employees, a salesperson, to undertake a one day SCUBA diving course. The reason for arranging the course is that the employer believes that the employee, who has no

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previous diving experience, would gain a greater product appreciation and therefore be a better salesperson as a result of undertaking the course.

27. A SCUBA diving course might normally be described as a recreational activity. However, in these circumstances (considering the employer's line of business and motive) the principal object in undertaking the course is employment related training. Any recreational aspect is part of the training program or at least no more than incidental to the training object.

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## Commissioner of Taxation

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- principal object
- significant object
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