Response from ICAS

Taxation of self-funded work-related training

8 June 2018
About ICAS

1. The following submission has been prepared by the ICAS Tax Board. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members. The Institute of Chartered Accountants of Scotland (‘ICAS’) is the world’s oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

Introduction

2. ICAS welcomes the opportunity to respond to the consultation ‘Taxation of self-funded work-related training’ issued by HM Treasury and HMRC, in March 2018.

General comments

3. ICAS acknowledges that the objective of this consultation is to seek views on improving the way the tax system supports self-funded training and explore whether, and how, to extend the scope of tax relief currently available to employees and the self-employed for work-related training costs.

Response to specific questions

Question 1: Do you agree with the lessons that need to be learned from experiences in the UK and overseas?

4. Tax credits are the most unpopular of all the choices made by the OECD countries and given the experience of HMRC in administering working tax credits in the UK to date, it is unlikely to be heralded as a success if these were to be extended to work-related training.

5. Tax relief for training is the most popular option within the OECD countries, and yet is only available for those who wish to undertake training in relation to their current employment.

6. Generally speaking, we agree the ‘lessons learned’ as listed are a reasonable selection of practical conclusions, which could be said to apply in the UK as well as overseas.

7. Tax reliefs are inefficient as they require a human interface at HMRC and a general basic understanding of the taxation system by the employee or trader.

8. Now that there is devolution, the UK may also need to consider its processes for bringing in new policy/legislation/guidance. This is because of various areas of overlap between devolved and reserved matters. Something that *prima facie* appears to relate to reserved tax may affect a devolved policy, such as training funding in Scotland. This requires closer working between the UK and devolved administrations.

9. By way of example, concerns have been expressed over the way in which the apprenticeship levy was introduced. This is a UK wide levy, but apprenticeship training is a devolved matter. The apprenticeship levy also appeared to be introduced without the knowledge of the devolved administrations. and the fact that apprenticeship levy is funded differently in Scotland to the rest of the UK has caused confusion amongst employers.

Question 2: Do you agree with the high-level objectives? Are there any others you think are as or more important?

10. Yes, in the main. However, to ensure the sustainability in terms of public finances and spend, it might be a good idea to cap tax relief on general training and upskilling to an annual limit, and limit relief to basic rate across the UK. Tax relief on courses aimed at re-skilling in the event of redundancy, adult education and apprenticeships could be given
a higher or unlimited level of relief. Training undertaken for the purposes of maintaining a professional qualification (CPD) should continue to be completely tax-exempt.

Question 3: Do you agree with the high-level design principles? Are there any others you think are as or more important?

11. Please see the response to Question 2 above.

Question 4: How could the rules be reformed to allow a tax deduction for self-funded retraining subsequently used in a new employment or self-employment? Do you think a time-limited carry forward would be the best approach and how could this work in practice?

12. We believe a time-limited carry-forward would be the best way forward for re-training in a new employment or self-employment, subject to our comments regarding redundancy in point 10. In practice, the individual in self-employment could account for tax relief through self-assessment and the employed individual could potentially account for it through the PTA, which would trace a new employment within the account.

Question 5: How could the rules be reformed to allow a tax deduction when the self-employed fund training on upskilling for their existing business?

13. The legislation should be re-written to ensure it is enshrined in primary legislation, and guidance updated accordingly. The legislation could be changed to account for the purposes of current or future trading activity, time-limited and substantiated in the record-keeping of the business to show that the newly acquired skills have been utilised within a determined time frame.

Question 6: How could the rules be reformed to allow a tax deduction when an employee funds training on upskilling for their current employment?

14. The rules could be reformed by amendment to primary legislation to ensure that not only is relief allowed in connection with training on the contractual duties of the employment, but extended to upskilling and broadening of a career to take on new duties within the same grade or within a promotion scenario. However, for situations where the employer pays for the training, the employment contract could also be amended to compliment any new legislation. It could encompass an expectation that training should be undertaken in the event of it being necessary for the purposes of the employment or in preparation of future role development such as a broadening of the current role or a promotion.

Question 7: To what extent would reforms to tax relief change behaviour so individuals are incentivised to undertake more work-related training? Please explain.

15. It is likely that behaviour would be affected positively and more individuals may be encouraged to take up work-related training, but until the reforms have been made and the relief mechanism has been agreed, complete with rates, caps etc, it would be impossible to gauge the extent to which people would be incentivised by this measure. If the tax relief is generous, it is likely there will be more take up – however if it is not generous enough, it is likely many people will fail to take much notice of it. Some may take up the training and not bother claiming the relief, and some may decide they cannot afford to take up the training at all.

Question 8: Do you think the tax system would be the most effective lever to support employees and the self-employed who want or need to upskill, retrain, and take part in career learning? Please explain.

16. It could be that it is easier to offer any tax relief to work-related training organisations who offer qualifying courses so that they can (and actually do) reduce the price of training courses which are designated for business related training or upskilling. Failing this, tax relief is a mechanism which is generally understood by the public and, if communicated correctly across the working population, could be effective in engaging with people to undertake further training and education.
17. Another consideration which may assist the process and present an alternative may be to increase the £10,000 threshold under Section 180 ITEPA 2003 to allow employers to fund training costs via tax-exempt loan.

**Question 9:** How could the government target work-related training leading to valued qualifications through approved providers and professional organisations?

18. The government could liaise with the approved training providers to find out how the training providers could be incentivised to offer more work-related training and upskilling courses – perhaps by way of a tax incentive for the educational establishment depending on the number of courses sold.

**Question 10:** How can the scope for misuse be minimised, particularly claims related to recreational activities, and the rules be made enforceable in practice without being resource-intensive for individuals or HMRC?

19. If an online application form were used, proof of the course being attended could be attached to this. The government could ask educational bodies to certify courses as being for non-recreational purposes. Our comments at paragraph number 16 above refer.

**Question 11:** If it is necessary, at what level would any cap on expenditure eligible for tax relief need to be set to make a meaningful difference to the choices made by individuals? Please explain

20. A range of caps could apply depending on the level of the course or qualification being attained. These could be published on GOV.UK.

**Question 12:** Are there complementary or alternative approaches that could ensure any extension is affordable but would still meet its objectives?

21. Discussed at 14 and 15 above.

**Question 13:** How could any changes be administered so that take-up is maximised, errors are minimised, and the system is not resource-intensive for either individuals or HMRC? Is the existing system involving submitting a paper or online form via the Personal Tax Account and self-assessment appropriate?

22. Eliminating paper forms for all but the cases who cannot interact online will minimise resources on both sides, providing the online forms contain sufficient explanatory material alongside them.

**Question 14:** Are there any issues with the current rules or administration of the existing tax relief for work-related training by employees and the self-employed that need to be resolved?

23. The online guidance available needs to be as user-friendly as possible, as interactive as possible and possibly contain some examples of how tax relief calculations work to enable further understanding by individuals.