



## Monthly Information Newsletter – Tax & Super

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### Self-education – when is it deductible?

There is no specific provision in the income tax legislation that allows a deduction for self-education expenses. Rather the expenditure falls for consideration under the general deductibility provision of Tax Act. In broad terms this allows for, but also limits, deductible expenses to those incurred in the course of earning assessable income. This requires a close nexus between the outgoing and assessable income: the outgoing must be incidental and relevant to the gaining of the assessable income.

#### **Principle 1 - the self-education maintains or improves current skills or knowledge**

Where a taxpayer's income-earning activities are based on the exercise of a skill or some specific knowledge, a deduction for self-education expenses incurred will be allowable where the subject of self-education enables the taxpayer to maintain or improve that skill or knowledge. The High Court decision of *FC of T v Finn* [1961] HCA 61; 106 CLR 60 is a leading authority for this principle. In this case, Finn, a senior government architect, was allowed deductions for expenses incurred on an overseas tour focused on the study of architecture.

This principle requires an assessment of a taxpayer's current skills and knowledge compared against the subject of self-education, and a consideration of how close the subject is to those current (not future) income-earning activities. (The ATO advises the relevant employment activities are the duties and tasks expected of an employee to perform their job and are usually set out in an employee's duty statement / contract of employment.)

#### **Principle 2 – the self-education leads to, or is likely to lead to, an increase in income from current income-earning activities**

If the subject of self-education leads to, or is likely to lead to, an increase in the taxpayer's income from current (but not new) income-earning activities, a deduction for self-education expenses incurred will be allowable.

It is not necessary for the expected increase in income or promotion to be realised for self-education expenses to be deductible, for example, if the taxpayer's employment was terminated before gaining the promotion or increase. However, the expenses should be incurred whilst the taxpayer was employed (even if on leave without pay), and generally with a real prospect or likelihood of leading to such an increase or promotion.

The important thing for taxpayers is to retain their receipts in relation to their self-education. If you have any questions around what expenses are claimable, contact us.

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