



FINANCIAL
SERVICES
INSTITUTE
of Australasia

12 July 2013

Manager
Individuals Tax Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Manager,

Re: Reform to deductions for education expenses

The Financial Services Institute of Australasia (Finsia) welcomes the opportunity to comment on Treasury's consultation paper, *Reform to deductions for education expenses*.

In this submission, Finsia addresses the following issues related to the proposed reforms:

- > That setting the cap of work-related education expense deductions at \$2000 will undermine the integrity of the finance industry in view of substantial continuing education requirements.
- > That the interactions with the fringe benefits tax system will lead to bifurcation in the labour market.
- > That alternative responses should be considered to address the issue of private benefits.

Education requirements for finance professionals

Finsia's members work throughout the finance industry and many are subject to training requirements under ASIC *Regulatory Guide 146: Licensing: Training of financial product advisers* (RG 146). Clauses 14 and 15 of RG 146 stipulate continuing training requirements for licensees.

Finsia also draws attention to ASIC's proposed reforms to the training requirements for financial advisers outlined in *Consultation Paper 212: Training of financial product advisers: Updates to RG 146*. Under these proposals, new advisers will need to have degree-level competencies in order to provide financial product advice.

ASIC's consultation with industry and professional bodies presently is underway, and Finsia has publicly expressed its support for the proposals.

This consultation is related to the issues outlined in *CP 153 Licensing: Training and assessment framework for financial advisers*, which proposed a national examination and knowledge update review for professionals advising on Tier 1 products such as superannuation, managed investments, derivatives and securities.

Professional associations

Finsia is committed to developing the professional competence of its members and operates a respected professional development program. In addition, Finsia offers the Financial Services Associate — a tailored program for new entrants in financial services that combines a technical overview of Australia's financial markets with education about the professional and ethical behaviours that are required of industry participants. This program costs \$1950 to complete.

While Finsia does not mandate that its members complete a minimum number of continuing professional development (CPD) points to be eligible for continuing membership, our members are guided to complete 20 to 30 hours of professional development per annum. In addition, Finsia advises its members of their obligations under RG 146.

Other finance industry associations — for example, the Institute of Chartered Accountants Australia and the Financial Planning Association — mandate continuing professional development. For chartered accountants, financial planners and other finance industry participants, continuing professional education is a prerequisite for a continuing right to practice.

The cost of continuing education

Treasury modeling reveals that the median claim for self-education expenses in 2010–11 was \$905 and that higher income earners tend to claim larger amounts: [28] and chart 1 of the discussion paper.

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Finsia notes, however, that this analysis does not take account of the sizeable differences in continuing education costs across industry sectors or within them.

As discussed above, finance professionals have substantial, and increasing, educational requirements that are critical to integrity and innovation in the industry.

To take the example of Finsia's continuing professional development program, seminars are priced accordingly:

- > \$47 per hour for members
- > \$93 per hour for non-members.

A Finsia member completing the minimum of recommended CPD per annum will thus spend between \$940–1410 on programs.

As a comparison, we note the Financial Planning Association, which mandates that Certified Financial Planners complete 35 CPD points per annum at an approximate cost of \$900.

While these costs could be covered under the proposed cap, Finsia observes that setting the cap at \$2000 has the potential to inhibit competition in the professional development market among industry associations. This is because most organisations offer tiered pricing for CPD programs based on whether a participant is an association member.

Besides the anti-competitive effects, the proposed reforms distort consumer choice by providing a disincentive for industry professionals to access CPD from a variety of associations. This has consequences for the variety of industry perspectives that professionals are exposed to.

Interaction with the fringe benefits tax system

The proposal to exempt training and education provided by employers through alterations to the 'otherwise deductible rule', in Finsia's view will create distortions in the labour market.

Specifically, the proposed amendments privilege large employers that are better able to cover the education costs of high performing staff. This potentially could lead to the situation where employees are locked in to employment contracts to receive continuing education.

Access to continuing education is of particular importance in those sectors of the finance industry with high levels of self-employment or employment in small firms: for example, financial planning and accounting.

Private benefits

Finsia agrees that the present taxation treatment of training and education expenses has led to unsatisfactory outcomes. As observed at [24] of the discussion paper, in some cases individuals receive significant private benefits on deductions for training and education expenses.

Despite the issue of private benefits, it is Finsia's view that a \$2000 cap is not the appropriate legislative response. This cap is too low in view of the substantial continuing education costs incurred by industry participants.

Finsia suggests that the following be considered:

- > A higher contributions cap; or
- > The introduction of additional integrity measures to prevent the conferral of unreasonable private benefits from training and education expense claims — for example: stipulations as to reasonable travel and accommodation expenses; and/or encouraging enrolment in domestic courses over international ones.

With kind regards,



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