



**CHARTERED SECRETARIES  
AUSTRALIA**

*Leaders in governance*

15 May 2013

The Hon Wayne Swan MP  
Deputy Prime Minister and Treasurer  
Room MG47  
Parliament House  
CANBERRA ACT 2600

By email: [ministerial@treasury.gov.au](mailto:ministerial@treasury.gov.au)

Dear Mr Swan

***Reforms to self-education expense deductions***

Chartered Secretaries Australia (CSA) is the peak body for over 7,000 governance and risk professionals in Australia. It is the leading independent authority on best practice in board and organisational governance and risk management.

Our Members have primary responsibility to develop and implement governance frameworks in public listed, unlisted and private companies, and not-for-profit and public sector organisations.

***Executive summary***

Our Members have serious concerns with the Australian Government's proposal to introduce a \$2,000 a year cap on tax deductions for work-related self-education.<sup>1</sup> Our reasons for being concerned by this regressive policy are that:

- there is an increased and increasing demand for professional expertise across all sectors and industries
- ongoing education improves the economy by bringing greater intelligence to the workplace
- the policy runs counter to research that shows that Australia needs to invest more in education and skills — the government itself has recognised this need in various papers it has issued
- limiting the right to claim expense deductions on self-education is counter to this increasing demand for the professionalisation of the population and its benefits to the economy
- further, this proposed measure will worsen the adverse gender balance already prevalent in senior executive and board roles and have an adverse affect on those embarking on their careers and those living in rural and remote regions
- unintended consequences will by far exceed the benefits of saving money through implementation of this initiative
- the ATO data referred to as support for a cap of \$2,000 is a misleading statistic, as it takes no account of the real costs of maintaining professional accreditation, which is required in many sectors.

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<sup>1</sup> The Hon Wayne Swan MP, Deputy Prime Minister and Treasurer, Media Release 2013 No. 048, 'Reforms to self-education expense deductions', 13 April 2013

### ***Professional development improves productivity and the economy***

The government's policy runs counter to all research findings on the need to invest more in education and training, as it will lead to a decline or stagnation in the overall skill levels of Australian employees. Professional skills do not sit only with lawyers, accountants and governance and risk management practitioners. Professional expertise and skills need to be developed continually for all employees, be they blue or white collar workers. There are limits to the capacity of small businesses to provide educational support for their staff. This is also true of sole traders. Whether an electrician, plumber, doctor, nurse or accountant, Australian workers need to keep their skills up-to-date.

We note that CPA Australia has released a new book on Australia's international competitiveness, titled, *Australia's Competitiveness: From Lucky Country to Competitive Country*. It is the most comprehensive research conducted on the subject to date. One of its key findings is that Australia needs to invest more in education and training and a highly skilled workforce to increase its competitiveness levels and become a knowledge economy.

The government's White Paper on *Australia in the Asian Century* also refers to the government's 'relentless focus on Labor's five pillars of productivity', one of which is 'education and skills'. While the White Paper spends more time discussing secondary school education, it does make the point that education does not stop at an early age.

Other research confirms the importance of ongoing education. Australian Bureau of Statistics data<sup>2</sup> shows that long-term unemployed are less well-educated than others. Government investment in education and training are crucial in assisting modern economies to keep pace with the changing skill demands of restructured industries. The government's current policy is that education and training after secondary school are primarily an individual responsibility. However, this ignores the reality that placing the entire responsibility to fund ongoing training and education on economically disadvantaged groups such as women, the young, those in rural or remote regions and the chronically unemployed inflates Australia's skills deficit. The capacity to claim expenses on self-education is the one means of assistance available to such groups.

The Grattan Institute's recent report, *Productive Cities*, notes that the share of the economy held by the agriculture, mining and manufacturing sectors is changing. As noted in the report, 'One of the most significant long-term shifts in advanced economies is towards knowledge-intensive activities. These take place across all sectors of the economy.' Knowledge-intensive activities tend to involve customised problem solving, which requires significant intellectual effort. Ongoing education and professional development is central to such intellectual effort. Reducing support for ongoing education will result in more people being left behind, leaving Australia more vulnerable to long-term structural unemployment.

The government advises that it values the investments people make in their own skills and recognises the benefits of a tax deduction for work-related self-education expenses. However, it has announced by media release that, under current arrangements, these deductions are unlimited and provide an opportunity for people to enjoy significant private benefits at taxpayers' expense.

However, the government seems not to recognise that the 'private benefits' are in fact public benefits, as the ongoing education of the population:

- ensures Australian workers keep their skill up-to-date
- enhances skill development which in turn improves the economic productivity of the nation

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<sup>2</sup> ABS 2011

- ensures Australian workers can meet the changing skill demands of restructured industries
- provides for increased capacity in problem-solving which enhances Australia's shift to a knowledge economy.

In order to support the ongoing professionalisation of the Australian workforce, and improve the economy by bringing greater intelligence to the workplace, Australia needs to assist Australian workers to invest more in education and skills. The investment undertaken by individuals in contributing to greater professional expertise benefits the nation and economy and should be assisted by government policy, not undermined by it.

***The adverse affect on gender balance in the workplace, those embarking on their careers and those in rural and remote regions***

The representation of women at senior executive and board levels underpins a desire to improve long-term performance and utilise the full range of human capital available to the organisation.

However, despite growing support for improving gender diversity on boards and in senior executive roles, the limited gender balance of Australian corporations was demonstrated by the *Australian Census of Women in Leadership 2012*<sup>3</sup> (the Census). The *2012 GradStats* report by Graduate Careers Australia also shows that the current graduate gender pay gap across all occupations is 9.1 per cent<sup>4</sup> — a generation of working women is being created who will never be able to catch up to their male peers either in salary, superannuation or hierarchy.

Women are participating in professional development across all sectors in order to demonstrate their capacity to undertake senior executive roles. Given that women are already struggling to be remunerated on equal terms with men, the policy being introduced by the Australian Government further undermines women's capacity to enhance their professional skills and expertise. It adversely affects a financially less well-off section of the population in their quest to develop themselves professionally.

The policy to limit self-education expense deductions also particularly affects adversely those embarking on their careers who undertake formal professional development pathways in recognition of their need to build knowledge. The policy limits access to professional development opportunities for this group of employees, who are financially less well-off due to their having commenced their careers and are at the lower end of the wage scale, which in turn inhibits their career progression. The policy therefore inhibits the ongoing professional development of Australian workers generally.

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<sup>3</sup> Equal Opportunity for Women in the Workplace Agency (now the Workplace Gender Equality Agency), 2012, *Australian Census of Women in Leadership*, Australian Government. The report showed that the number of women on the boards of Australian Securities Exchange (ASX) 200 companies had increased to 12.3 per cent in 2012, up from 8.4 per cent in 2010. However, this change in gender balance was not mirrored at the senior executive level, with only 9.7 per cent of senior executive roles in ASX 200 companies filled by women in 2012 — a very modest rise from 8.0 per cent in 2010. When coupled with a further finding from the Census that there are 60.6 per cent of ASX 200 companies that do not have any female executive key management personnel (the accounting standards term essentially relating to the senior executive team having the authority to direct or control the activities of a company), the report shows a dispiriting lack of progress on improving gender balance outcomes in Australian companies.

<sup>4</sup> Workplace Gender Equality Agency: *2012 GradStats* report by Graduate Careers Australia shows median full-time employment starting salaries for male graduates are \$55,000 (up from \$52,000 in 2011), compared to \$50,000 for women (no change from 2011), that is, young male graduates receive on average \$5,000 more than their female counterparts.

Placing a limit on the self-education costs that can be recovered also carries the greatest disadvantage for people travelling from rural and remote locations, or Western Australian and North Territorian attendees who are required to travel to the eastern seaboard cities for the major conferences in order to obtain the accreditation points required to remain in their profession. In effect, the policy penalises those in rural and remote regions whose access to ongoing professional development will sustain greater costs than those living in cities, given that the fees attached to tuition do not cover the attendee's costs of travelling to the training venues, accommodation expenses or lost income opportunities for the self-employed and small business owners.

Moreover, we note that the Gonski education study showed that secondary education in Australia is two years behind that of China. The Australian Government has committed to introducing the reforms recommended in the Gonski report, in order to ensure that our secondary education provides opportunity to young Australians, regardless of economic background. Yet the Australian Government's proposal to introduce a \$2,000 a year cap on tax deductions for work-related self-education seems to assume that education completes at the end of high school and that it is not also necessary to provide for access to ongoing professional development to those in the workforce, regardless of economic circumstances.

### ***Compulsory professional development***

In many professional spheres, continuing professional education is required in order to retain a practising certificate. Professional associations recognise that ongoing professional development is the maintenance and continuous improvement of knowledge, skills and abilities. Such professional associations have requirements in place for their members to obtain sufficient ongoing education to maintain their professional accreditation and membership. It is essential that in the relevant field of expertise, professionals are regarded as promoting and practising the highest standards.

The cost of continuing professional development (CPD) is compulsory, that is, it is not discretionary expenditure for a variety of professional groups, for example, accountants, lawyers, doctors and engineers.

We note again that the policy will serve to make attendance at seminars very insular, by limiting access to CPD to those living in rural and remote regions and also those living in other states. For example, those living in rural or remote areas will be dissuaded from travelling interstate and overseas to gain a wider perspective. For example, doctors will be discouraged from attending international conferences presenting the latest research and techniques — Australia suffers from the tyranny of distance and the majority of conferences on the latest practice in certain fields are generally held overseas, not in Australia. This is counter-productive and will also have a negative impact on both the airline and accommodation sectors.

### ***Examples of unintended consequences***

#### ***Example 1***

The recent reforms to the financial planning industry, introduced by the Australian Government, demand that all financial planners and representatives undergo training. Without such professional development, financial planners will be unable to offer financial advice — ongoing education is therefore a requirement of the changed regulatory framework. This is also true of the mortgage broking industry.

The costs of this professional development will not be able to be met by many in the industry if their claims of self-education expenses are limited to \$2,000 per annum. There will be pressure on employers to cover the costs. This in turn will place greater emphasis on the consolidation of the financial planning industry, with the likelihood of only four or five 'brands' offering financial planning over time. This runs counter to the policy initiative introduced by the Labor Government of ensuring choice for Australians in relation to financial planning.

**Example 2**

The Australian Government has introduced reforms to the regulatory framework of the not-for-profit sector. The Australian Charities and Not-for-profit Commission (ACNC) commenced on 3 December 2012, and currently the governance standards for this sector are before parliament. Financial reporting regulations are due to be introduced to parliament soon.

There is a strong recognition across the sector that many will need to undertake education in governance and risk management, to ensure accountability to stakeholders as to the prudent financial management of the organisation and its sound stewardship. Not-for-profit organisations need to demonstrate that they are compliant with the governance standards.

The not-for-profit sector is under-resourced and often volunteer-staffed. Education will often not be paid for by the organisation itself. It is individuals who wish to contribute to the not-for-profit sector who will undertake education. Limiting their access to self-education expense deductions will deter them from undertaking such professional development, at the very time when stakeholders, the ACNC and the government itself is looking for greater transparency and accountability from the sector. To shine a spotlight on the not-for-profit sector, which is financially under-resourced, and then make it difficult for those in the sector to undertake further education to meet enhanced regulatory and stakeholder demands, is counter-productive.

**CSA as a professional association offering education to its Members**

In our own case, CSA Members recognise that there is an increased demand for enhanced professional expertise in governance in all sectors. Those who wish to practice governance can only join this organisation upon completion of either:

- a two-year fully accredited Applied Graduate Diploma in Governance, or
- a six-subject Certificate in Governance Practice, Certificate in Governance and Risk Management and Certificate in Governance for Not-for-Profits.

The postgraduate qualification is undertaken by those with experience and skill who need to deepen their understanding and knowledge of governance and risk management. Those developing senior careers in governance and risk management undertake the Graduate Diploma.

The Certificate courses are undertaken by those new to the field who are required to embark on education in governance and risk management in order to fulfil increased responsibilities within the workplace.

That is, membership of CSA is not 'chequebook' membership. It is dependent on the completion of rigorous and fully accredited education.

In both instances, the professional responsibilities attached to implementing sound governance frameworks in Australian organisations demands a level of knowledge that can only be gleaned through education. Once membership has been attained, Members must undertake CPD, which provides them simply with the right to earn their income by virtue of their profession.

CPD is the maintenance and continuous improvement of knowledge, skills and abilities. It is compulsory for all CSA Fellow, Associate and Certificated Members.

CPD plays an important role in:

- educating Members on the latest developments in governance, risk management and compliance
- keeping Members' skills current
- reassuring regulators, employers and the wider community that CSA Members have the technical knowledge and skills to be effective governance professionals.

Examples of CPD offered by Chartered Secretaries Australia include face-to-face attendance at professional development events, such as courses, seminars, updates, conferences/conventions, workshops and masterclasses — such events range in cost from:

- \$405 for a half-day training courses
- \$810 for a full-day training course
- \$970 for a one-day conference
- \$2,345 for a two-day conference and
- \$2,850 for a two-day conference and two workshops.

As can be seen, the costs of maintaining professional accreditation can be significant, and will vary according to the level of skills education that is required. These costs do not take into account the costs of travelling to the venue, accommodation expenses or lost income opportunities for the self-employed and small business owners.

### ***CSA recommendations***

CSA Members support a proper review of self-education expense deductions, as we recognise that the government is considering all aspects of revenue in the current economic climate. However, we are very concerned that the policy to cap self-education expense deductions at \$2,000 is knee-jerk reaction that has not taken into account the negative impact it will have on the Australian economy overall as it discourages employees from undertaking further education and training to improve knowledge and skills. It is difficult to see how Australia can continue to move to being a knowledge-based economy if we discourage our workers from undertaking ongoing education and professional development.

### ***Do not limit access to education but place a limit on ancillary expenses***

**CSA Members recommend** that there should be:

- no limit to the expense deductions attached to the education
- an upper limit on any ancillary expenses attached to that education, with ‘reasonable’ expenses being accepted so that non-east coast, non-city-based dwellers are not the ones most disadvantaged by the government’s change of policy.

The benefits of this approach are that:

- the need to provide for continuing professional development across the workplace will not be hindered
- those most in need of ongoing education in order to provide for opportunities in the workplace, such as women, the young, those embarking on new careers and those based in rural or remote areas will not be adversely affected
- providers of educational courses that combine training and ancillary expenses in their fees will be forced to provide a break-down of the costs of the tuition and the ancillary expenses for tax deduction purposes.

If the government is concerned that ancillary expenses are being abused, it can set a limit that only economy class airfares will be recognised, as well as reasonable daily living expenses for the relevant city set out in the tax rules.

### ***Set the cap higher than \$2,000 per annum***

Should the government be committed to implementing a cap, **CSA Members recommend** that it must be set higher than \$2,000 per annum.

We note that the Treasurer’s press release quoted a figure of the typical claim for formal qualifications being less than half the proposed cap at \$905. CSA Members are of the view that using the average of \$900 is a misleading statistic. This figure does not differentiate between education and ancillary costs, between employer-funded and self-funded costs, and between mandatory education and voluntary or top-up costs.

Furthermore, it does not acknowledge that the self-employed and small business owners fund all of their own self-education, some of it made compulsory by increasing government regulation and professional membership accreditation minimums. These individuals, who are considered the backbone of Australia's taxpaying population, do not have the luxury of financial support from a big business employer.

One subject in CSA's Graduate Diploma of Applied Corporate Governance is \$1,950. Given that this is a two-year course, the total costs amount to over \$8,000 over 24 months. The cost of a six-subject Certificate course is \$2,430. We also note that the cost of one subject in a MBA is \$2,000 to \$3,000.

These are the realistic costs of maintaining professional accreditation and investing in skills education. CSA Members are firmly of the view that the cap being set will discourage Australian workers from undertaking further education.

We would be more than happy to meet with you to discuss our comments.

Yours sincerely

A handwritten signature in black ink, reading "Tim Sheehy". The signature is written in a cursive, flowing style.

Tim Sheehy  
CHIEF EXECUTIVE