

IT 2405 - Income tax: self-education expenses - expenditure incurred on textbooks

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TAXATION RULING NO. IT 2405

INCOME TAX : SELF-EDUCATION EXPENSES - EXPENDITURE
INCURRED ON TEXTBOOKS

F.O.I. EMBARGO: May be released

REF

N.O. REF: 84/16431-3

DATE OF EFFECT:

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SUBJECT REFS:

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SELF-EDUCATION EXPENSES 51(1)
TEXTBOOKS

OTHER RULINGS ON TOPIC : IT 285

PREAMBLE

Paragraph 17 of Taxation Ruling No. IT 285 states that where an income tax deduction is allowable under sub-section 51(1) of the Income Tax Assessment Act for the cost of a course of study the cost will include, in addition to any fees paid, other relevant expenditure incidental to the course including the cost of textbooks.

2. In a decision reported as 28 CTBR (NS) Case 31; Case S21, 85 ATC 236, Taxation Board of Review No.1 had occasion to consider whether expenses incurred by a director of a building society in connection with a Graduate Diploma in Professional Accounting course were allowable as an income tax deduction. The Board allowed the taxpayer's claim other than in respect to the cost of textbooks which it held to be expenditure of a capital nature, although the Board indicated that an income tax deduction for depreciation on the textbooks would have been allowable, the grounds of objection were not sufficiently wide to cover the point.

3. In reaching its conclusion that the cost of textbooks was expenditure of a capital nature the Board recognised that the question was not without difficulty and that there was much to be said for the view that the cost of textbooks in the particular case was of a revenue nature rather than of a capital nature. In the ultimate the Board was influenced by observations made by Lord Denning M.R. in *Mundy v Furlong* [1977] 1 Ch 359 at p.365. The case concerned expenditure by a lawyer in building up a library. Lord Denning indicated that the cost of textbooks in the circumstances having a life of four to nine years was capital expenditure.

4. The question has arisen whether the decision of the Taxation Board of Review warrants any change in the approach set out in Taxation Ruling No. IT 285.

RULING

5. The allowance of an income tax deduction for the cost of textbooks where a taxpayer is pursuing a course of study the

overall costs of which are allowable as an income tax deduction is a matter of long standing. In Canberra Income Tax Circular Memorandum No.525, which issued in 1946, prior to the exemption given to income from scholarships by section 23(z) in 1952, consideration is given to the income tax deductions allowable to scholarship holders. In paragraph 5 it is stated that expenses which the holder is required to meet in fulfilling the terms under which a scholarship is granted are regarded as incurred in gaining or producing the assessable income derived under the scholarship. Paragraph 6 goes on to state that, while some textbooks and equipment purchased in the fulfilment of the terms of a scholarship might be regarded as having a permanent value, and expenditure thereon would strictly be an outgoing of a capital nature, no attempt should be made to dissect claims for the cost of textbooks and equipment on a capital-revenue basis as the amount of tax involved in the majority of cases would be negligible.

6. There is a difference between the nature of the cost of textbooks acquired to establish or supplement a professional library and the cost of textbooks purchased by a student. In the former case, they are acquired as reference books and the purchaser would, no doubt, expect to use them on a regular basis for a number of years. In contrast, textbooks used in a course of study would ordinarily be used on a regular basis only in the year of purchase. In many cases they are disposed of on completion of the unit of study. In other cases they are retained for reference in future years. In practice, however, it is usually the case that little reference is made to them in future years. Their "enduring character" is minimal.

7. Because of the difference perceived in the preceding paragraph it has been decided that the existing approach to the cost of textbooks can be maintained without any disrespect to the decision of Taxation Board of Review No.1. This means that, if the facts of the claim support the allowance of a deduction for the cost of the course of study then a deduction may also be allowed for the cost of textbooks incurred in relation to the studies.

COMMISSIONER OF TAXATION
28 May 1987