


TR 1998/9A2 - Addendum - Income tax: deductibility of self-education expenses incurred by an employee or a person in business

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Addendum

Taxation Ruling

Income tax: deductibility of self-education expenses incurred by an employee or a person in business

This Addendum amends Taxation Ruling TR 98/9 to reflect changes to the law resulting from the repeal of inoperative provisions by the *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* and amendments, made since the ruling was issued, to section 26-20 of the *Income Tax Assessment Act 1997* and section 82A of the *Income Tax Assessment Act 1936*.

TR 98/9 is amended as follows:

1. Paragraph 22

Omit the paragraph (and associated heading); substitute:

Decline in value

22. You can deduct an amount, under section 40-25 of the ITAA 1997, for the decline in value of a depreciating asset that you held during an income year and used, or had installed ready for use, for a taxable purpose. If the subject of self-education enables you to maintain or improve skills or knowledge or is likely to lead to an increase in income from your current income-earning activity, you can deduct an amount for the decline in value of depreciating assets you use for self-education purposes. You must reduce your deduction by the extent to which you use the asset for a purpose other than a taxable purpose (subsection 40-25(2) of the ITAA 1997) or if you held it for only part of an income year.

2. Paragraph 23(b)

Omit 'text books'; substitute 'textbooks'¹.

¹ Note: in some circumstances expenditure on a textbook may be a capital expense with a deduction allowed for the decline in value of the textbook under section 40-25. See Explanation at paragraph 87.

3. Paragraph 24

Omit:

- (a) a higher education contribution payment made under Chapter 4 of the *Higher Education Funding Act 1988* (section 26-20 of the ITAA 1997);

Substitute:

- (a) a student contribution amount or debt repayment amount specified in section 26-20 of the ITAA 1997;

4. Paragraph 26

Omit:

Expenses of self-education include those expenses that are 'necessarily incurred' in connection with a prescribed course of education, but do not include payments made under the Higher Education Contribution Scheme (HECS) or the Tertiary Student Financial Supplement Scheme.

Substitute:

Expenses of self-education, as defined in subsection 82A(2) of the ITAA 1936, include expenses that are 'necessarily incurred' for or in connection with a prescribed course of education, but do not include a student contribution amount or an amount in repayment of a debt as specified in that subsection.

5. Paragraphs 78 to 83

Omit the paragraphs (and associated heading); substitute:

Decline in value

78. You can deduct an amount, under section 40-25 of the ITAA 1997, for the decline in value of a depreciating asset that you held during an income year and used, or had installed ready for use, for a taxable purpose. A taxable purpose includes the purpose of producing assessable income.

79. If the subject of self-education enables you to maintain or improve skills or knowledge or is likely to lead to an increase in income from your current income-earning activities, you can deduct an amount for the decline in value of a depreciating asset you use, or have installed ready for use, for self-education purposes. For example, you can deduct an amount for the decline in value of assets such as technical instruments and equipment, computers, calculators, professional libraries, filing cabinets and desks if the self-education satisfies the principles outlined in paragraphs 13 and 14. You must reduce your deduction by the extent to which you use the asset for other than a taxable purpose. For example, if you use the asset 30% for private purposes and 70% for taxable purposes in an income year you reduce your deduction by 30%.

80. You must choose to work out the decline in value of a depreciating asset using either the prime cost method or the diminishing value method (section 40-65 of the ITAA 1997). Decline in value using the prime cost method is worked out as a percentage of the cost of the asset. Decline in value using the diminishing value method is worked out, in the income year in which you first use the asset, or first have it installed ready for use, as a percentage of the cost of the asset. In subsequent years it is worked out as a percentage of the sum of its opening adjustable value and any amount included in the second element of its cost incurred in that year. The effective life of a depreciating asset is used to work out an asset's decline in value. You may choose to use the Commissioner's determination of the effective life of a depreciating asset or you may make your own estimate (section 40-95 of the ITAA 1997). Taxation Ruling TR 2011/2 provides further guidance on the effective life of depreciating assets.

81. If you held the depreciating asset for only part of an income year, for example because you purchase it part way through the year, your deduction for its decline in value is apportioned on a pro rata basis.

82. You can deduct the cost of a depreciating asset in the year you started to hold it (for example, by purchasing it) if its cost is \$300 or less and the conditions in subsection 40-80(2) of the ITAA 1997 are met. Broadly, the conditions are that you use the asset predominantly in deriving non-business income, it is not part of a set of assets costing in total more than \$300, and the total cost of the asset and any other identical or substantially identical assets you held is \$300 or less. This means you cannot deduct the cost of individual items of a set, each costing less than \$300 or less, if the set itself would have cost more than \$300. Whether a depreciating asset is part of a set is a question of fact. The deduction for an asset under subsection 40-80(2) does not take into account the number of days you held the asset during the year. This means an immediate deduction is available for such assets in the year of purchase.

83. In working out the decline in value of a depreciating asset, its opening adjustable value is its cost to you less the amount of any decline in value that would have been allowed if the asset had been used, since you first started to hold it, for a taxable purpose (section 40-85 of the ITAA 1997). You cannot use an arbitrary figure when determining the cost of a depreciating asset for the purpose of working out its decline in value (*Case R62 84 ATC 454*; 27 CTBR (NS) *Case 113*).

6. Paragraph 85

Omit:

However, under section 26-20 of the ITAA 1997, no deduction is allowable for a higher education contribution payment made under Chapter 4 of the *Higher Education Funding Act 1988*. Such payments are made by a student to cover the cost of a course of study at a tertiary educational institution. Also, AUSTUDY Supplement loan repayments and Open Learning Agency of Australia charges are not allowable.

Substitute:

However, you cannot deduct a student contribution amount paid to a higher education provider under the *Higher Education Support Act 2003*: paragraph 26-20(1)(ca) of the ITAA 1997. Such payments are made by a student to cover the cost of a course of study at a tertiary educational institution. Repayment amounts for a Higher Education Loan Program (HELP) debt or a Student Financial Supplement Scheme (SFSS) debt are also not deductible: paragraph 26-20(1)(cb) and paragraph 26-20(1)(d) of the ITAA 1997, respectively.

7. Paragraph 87

Omit the paragraph; substitute:

87. Reference books and textbooks are generally used during the course of study and, in most cases, only in the year of purchase. In such circumstances, you can deduct the cost of the books under section 8-1 of the ITAA 1997. However, if you intend to use them for a number of years as reference material for income-earning purposes, you deduct an amount for the decline in value of the books under section 40-25 of the ITAA 1997. In some circumstances an immediate deduction for books costing \$300 or less may instead be available by meeting the conditions in subsection 40-80(2) of the ITAA 1997 (see paragraph 82).

8. Paragraph 122

Omit the paragraph; substitute:

122. Subsection 82A(2) of the ITAA 1936 expressly excludes the following amounts from being classified as expenses of self education:

- a student contribution amount paid to a higher education provider under the *Higher Education Support Act 2003* (HESA 2003);
- an amount in repayment of a debt to the Commonwealth under Chapter 4 of the HESA 2003 (a HELP debt); and
- an amount in repayment of a debt to the Commonwealth or a participating corporation under Chapter 2B of the *Social Security Act 1991* or Part 4A of the *Student Assistance Act 1973* (an SFSS debt).'

9. Paragraph 125

(a) Omit:

Capital cost of computers: where there is a need to own and use a computer to fulfil the requirements of a prescribed course of education and the computer is acquired and used for this purpose, the capital cost of the computer is regarded as an expense 'necessarily incurred'.

Substitute:

Cost of computers: where you own and use a computer to fulfil the requirements of a prescribed course of education and the computer is acquired and used for this purpose, the cost of the computer is regarded as an expense 'necessarily incurred'.

(b) Omit:

Capital cost of filing cabinets, desks and books comprising part of a professional library: where there is a need for such items to fulfil the requirements of a prescribed course of education and the item is acquired and used for this purpose, the cost is an expense 'necessarily incurred'.

Substitute:

Cost of filing cabinets, desks and books comprising part of a professional library: where you need such items to fulfil the requirements of a prescribed course of education and the item is acquired and used for this purpose, the cost is an expense 'necessarily incurred'.

10. Paragraph 144

Omit 'depreciation'; substitute 'decline in value'.

11. Paragraphs 145 and 149

Omit 'Depreciation'; substitute 'Decline in value'

12. Paragraph 146

(a) Omit 'As depreciation is not in the nature of an actual 'expense' (it is not an outgoing)'; substitute 'As the decline in value of a depreciating asset is not an expense'.

(b) Omit 'depreciation'; substitute 'the amount of the decline in value of a depreciating asset'.

13. Paragraph 148

(a) Omit 'depreciation'; substitute 'an amount for decline in value'.

(b) Omit '42-15 of the ITAA 1997'; substitute '40-25 of the ITAA 1997, respectively'.

14. Paragraph 152

(a) Omit 'for depreciation on the computer'; substitute 'for the decline in value of the computer under section 40-25'.

(b) Omit 'Depreciation'; substitute 'The decline in value'.

15. Paragraph 155

Omit 'depreciation'; substitute 'the decline in value'.

16. Detailed contents list

Omit all occurrences of 'Depreciation'; substitute 'Decline in value'.

17. Subject references

Omit:

- depreciation

Substitute:

- decline in value

18. Legislative provisions

Omit:

- ITAA97 42-15
- ITAA97 42-120
- ITAA97 42-125
- ITAA97 42-130

Insert:

- ITAA97 26-20(1)(ca)
- ITAA97 26-20(1)(cb)
- ITAA97 26-20(1)(d)
- ITAA97 40-25
- ITAA97 40-25(2)
- ITAA97 40-65
- ITAA97 40-80(2)
- ITAA97 40-85
- ITAA97 40-95

19. other Rulings on this topic

- (a) Omit 'IT 2685; TD 92/142; TD 93/159;'
- (b) Insert 'TR 2011/2'

This Addendum applies on and from 6 June 2012.

Commissioner of Taxation**6 June 2012**

ATO references

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