


IT 2364 - Income Tax : the Australian Traineeship System

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TAXATION RULING NO. IT 2364

INCOME TAX : THE AUSTRALIAN TRAINEESHIP SYSTEM

F.O.I. EMBARGO: May be released

REF

H.O. REF: 85/8926-7

DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1209009	TRAINEE ASSISTANCE	23L
	- ASSESSABLE INCOME	25
	- EXPENSES INCURRED	51(1)
	- SELF-EDUCATION	82A
	EXPENSES	
	- LIVING AWAY FROM HOME	
	ALLOWANCE	

PREAMBLE

The Australian Traineeship System (ATS) was introduced by the Commonwealth Government during the 1985-86 financial year to provide a new form of structured vocational training for young people seeking to enter the workforce. The system will complement the existing systems of higher education and professional, technical and trade training. It has been designed to improve the skills of young people by providing a structured combination of vocational training both on-the-job and off-the-job.

FACTS

2. A traineeship is instituted by the signing of a training agreement between the trainee, the employer, the State Training Authority (STA) and the Department of Employment and Industrial Relations (DEIR). The STA is responsible for supervising the agreement. A traineeship combines structured on-the-job training in one or more enterprises with broad-based off-the-job training provided either in a Technical and Further Education institution or other equivalent centre. The minimum duration of a traineeship is 12 months with the equivalent of a minimum of 13 weeks to be spent in approved off-the-job training. Traineeships are generally limited to 16 to 18 year old school leavers with a set percentage of places being earmarked for the long term unemployed and other disadvantaged groups.

3. Under a traineeship agreement the employer is required to pay a trainee wage throughout the traineeship. This wage, to be negotiated by employers and unions, is to be no less than \$90 per week and is determined by a number of factors including the contribution the trainee makes to the productivity of the employer.

4. In order to meet the costs of the off-the-job training component of ATS the Commonwealth Government provides, in respect of each trainee, an amount of \$1700 for training at a

TAFE institution and \$2000 for training at other approved training centres. The amounts will usually be paid by DEIR to the respective State or Territory Governments which, in turn, make the payments to the TAFE institution or other training centre. Payment to off-the-job training centres will comprise an initial payment and the retention of the balance by the Commonwealth until the satisfactory completion of the off-the-job training as certified by STA.

5. Every employer who accepts a trainee and for whom an agreement is completed receives a fee equivalent to a rate of \$1000 per annum per trainee from DEIR to help defray on-the-job training costs. This fee is paid directly to the employer in instalments. An initial payment is made at the commencement of the traineeship and a final component is payable on the successful completion of the traineeship, that is, after some form of competency assessment. For each disadvantaged trainee accepted by an employer an additional fee of \$1000 per annum is paid along with the standard fee.

6. A trainee entering into an approved traineeship arrangement is eligible for a living-away-from-home allowance to meet accommodation costs where the trainee is required to live away from his/her home in order to enter a traineeship or to remain in or carry out some part of it, provided the trainee actually incurs a cost in maintaining accommodation in the new location. The allowance is paid by DEIR directly to each eligible trainee at the rate of \$38.10 per week.

RULING

7. Amounts received by an employer under ATS as on-the-job training fees are considered to be part of the assessable income of the employer. The employer would be entitled to income tax deductions for wages paid to trainees. Liability to income tax in respect of amounts received by training institutions for off-the-job training will depend upon the status of the training institution. Many of the institutions will be exempt from income tax. If the training institution is not exempt from income tax any amounts received by it under ATS in respect of off-the-job training will form part of its assessable income.

8. Amounts received by a trainee as a trainee wage represent assessable income in the hands of the trainee. Incidental expenditure, e.g. equipment, text books, etc. incurred by a trainee in undertaking a traineeship is allowable as an income tax deduction under sub-section 51(1). Having regard to the nature of a traineeship it is considered that it is not a "prescribed course of education" as that term is defined in section 82A of the Income Tax Assessment Act. This means that deduction under sub-section 51(1) is not limited to expenditure in excess of \$250.

9. A living-away-from-home allowance received by a trainee is a fringe benefit under the Fringe Benefits Tax legislation. Subject to the requirement to obtain declarations from the trainees (employees) as described in Taxation Ruling No. MT 2030, however, the taxable value of the fringe benefit would be reduced by the "exempt accommodation component" of the

allowance, i.e., so much as is in the nature of compensation for additional expenses on accommodation that the employee could reasonably be expected to incur. In the case of the living-away-from-home allowance described in paragraph 6, the whole amount of \$38.10 would be the "exempt accommodation component", thus reducing the taxable value to nil for fringe benefits tax purposes. The allowance is also exempt from income tax in the hands of a trainee under section 23L of the Income Tax Assessment Act 1936.

COMMISSIONER OF TAXATION
19 September 1986