



With fees ranging up to \$50,000, it pays to check out your eligibility for tax deductions.

Photo: JESSICA HROMAS

POSTGRADUATE AND MBA STUDY

# Tax benefits accrue to the single-minded

Stick to your line of work and you can claim, write **Kate Marshall** and **Tim Dodd**

Claiming a tax deduction for the cost of self-education is popular, and on the rise.

In 2002-03, the last year for which official figures are available, 516,091 taxpayers claimed \$721 million in self-education deductions, compared with the 505,489 taxpayers who claimed \$679 million the previous financial year.

Claiming a tax deduction is one of the most effective ways to reduce the cost of your postgraduate study: and you are entitled to do so provided there is a direct connection between

the course and your job, and the course will improve your prospects in the job.

Given that the fee for a master's by coursework degree is from around \$15,000 up to \$50,000 for a top-of-the-line MBA, tax deductibility can make a big difference to the cost you bear.

In the case of the professions, common courses that are often deductible include accounting, law and actuarial studies. For example, a graduate who is already working as an accountant is able to claim back the cost of a postgraduate

chartered or certified accountant program (assuming the employer is not paying).

And, if your course is tax-deductible, you may also be able to claim a deduction for other course expenses such as textbooks, student union fees, travel expenses to and from the place of study, and a depreciation allowance for equipment such as a computer.

Of course the tax deduction is only of value if you are working and paying tax. So full-time students will not benefit. And the other thing to

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# Tax tips for single-minded

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note is that tax deductibility does not apply to someone who is studying with the aim of changing careers or taking up a new business opportunity.

Once you have determined your eligibility, the next step is to decide whether you will take advantage of the federal government's Fee-Help scheme, which offers a subsidised loan to pay course fees.

Every Australian is allowed to borrow up to \$50,000 from the Fee-Help scheme over their lifetime. But if you have the cash it may not be a sensible option because course fees are 20 per cent higher for Fee-Help students.

Another benefit of Fee-Help is that the student can claim deductibility for the cost of the course immediately, even though repayments will be made later. So, for example, course fees for semester 2, 2004 and semester 1, 2005 are tax deductible in the 2004-05 income year.

But under the Fee-Help rules you do not make loan repayments if your annual income is under \$36,184. If you earn between \$36,185 and \$40,306, you will repay 4 per cent of your income in that year, rising in steps up to 8 per cent for incomes over \$67,200.

For some students, the provision for allowing full deductibility before making repayments has the potential to bring tax benefits — particularly if they have a high income while they are studying (which maximises the value of the tax deduction). But

should their income then fall — while they take time off to raise a family, for example — they may have several years in which they are not required to make repayments.

It's important to note that while course fees are deductible (provided the course is connected with the student's job), there is no deductibility for fees paid under the government's HECS scheme.

A lecturer in the department of business law and taxation at Monash University, Ken Devos, says that despite the relatively

### **“Courses with a direct job connection are generally deductible.”**

simple rules, there have been some variations in judicial decisions.

“The premise is that the expenditure has to be incurred in gaining or producing assessable income,” Devos says.

“Full-fee courses with a direct connection to the job are generally tax-deductible but some cases in the Administrative Appeals Tribunal have challenged this principle.”

The small business spokeswoman for the Institute of Chartered Accountants in Australia, Sue Prestney, says many classic grey areas are highlighted by a landmark tax ruling in 1998.

“The principles are straightforward but may get blurred when applied to a practical situation that is not a

black-and-white case,” she says.

“You need to establish a connection with the derivation of assessable income.

“You need to be incurring expenditure to maintain or improve your current situation.”

For example, the ICAA has relaxed its professional entry rules to allow graduates with non-related degrees to study in its program to enter the profession, but these non-accountants may not qualify for fee deductibility.

The ICAA is advising these students to speak directly to the Australian Taxation Office to clarify the matter.

In one case, a mine manager retrenched in Australia did a two-year MBA in the US. When he came home, he was re-employed as a mine manager by another company at a much higher salary. The Administrative Appeals Tribunal's decision to allow the cost of the MBA as a tax deduction was overturned by the Federal Court because it ruled that the course had helped the mine manager obtain new employment.

In another case involving a dentist who did a postgraduate degree in periodontics, the ATO ruled out a tax deduction on the basis that if the dentist “was attempting to carry on a different income-earning activity or business”, he or she would be in the same position as someone who studied in order to obtain a job.

But a judge commenting on the case conceded there were competing views and did not reach a final conclusion.



Students have to study their own situation carefully to ascertain their eligibility for available tax deductions.