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EXTENDING RELIEF FOR SELF-EMPLOYED TRAINING COSTS

Budget Representation by Association of Taxation Technicians

1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to make representations in relation to the 2023 Budget.
- 1.2 The ATT considers that, as far as possible, employed, and self-employed individuals should have a level-playing field when it comes to tax relief on work-related training expenses. However, currently, self-employed individuals can only obtain tax relief for updating existing skills. We therefore propose that existing tax reliefs for the self-employed should be extended to cover the costs of work related upskilling and retraining. This proposed change would benefit not just the individuals in question, but also ultimately the Exchequer as the resulting new, or more profitable trades will generate additional tax revenues. It may also help to address the current skills shortage seen in some areas of the labour market.
- 1.3 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

2 Our recommendation

- 2.1 We recommend that the tax relief available to self-employed individuals for training be widened to better match the existing reliefs for employees. This would allow relief for expenditure on training which is intended to 'impart, instil, improve or reinforce any knowledge, skills, or personal qualities,' subject to the general condition that expenditure is wholly and exclusively for the purposes of an existing or future trade.
- 2.2 Any such relief should be wider than simply upskilling to improve earnings. Allowing tax relief for re-skilling or retraining in a new field could help individuals to set up new, profitable businesses. It could also help to address existing current shortages in certain parts of the labour market – for example HGV drivers.
- 2.3 If a specific relief for retraining costs were to be introduced for the self-employed, one approach where the training relates to a new trade, rather than the development of an existing trade, could be to allow costs to be deducted as part of an extension to existing pre-trading expenditure rules. This would allow relief for the cost of relevant training undertaken within a period of seven years before the commencement of trade. This

could be relatively straightforward since the rules for pre-trading expenditure already exist. It would also ensure that training costs are not relieved until the related self-employment has come into existence.

3 Background to our recommendation

- 3.1 Under the current system of tax reliefs, self-employed individuals can only deduct the costs of training incurred “wholly and exclusively” for the purposes of their existing business. Broadly, this condition will be met where the training maintains or updates existing skills, but not where the individual is being trained to develop new skills or retraining in another field. Establishing which side of the line any training falls can also be problematic.
- 3.2 Our members report that self-employed clients are often surprised and disappointed to find that relief is not available for the costs of acquiring new skills to develop their business. These clients struggle to understand the reasons for this. They also find it difficult to understand why, if they incorporated their business, it is likely that corporation tax relief would be given in full for the same course on the grounds that the newly incorporated company would be providing training to an employee.
- 3.3 We consider that, as far as possible, employed, and self-employed individuals should have a level-playing field when it comes to tax relief on work-related training expenses. Tax relief for such expenses should be available regardless of whether the individual is learning a new skill or updating an existing skill. Such a tax relief is likely to be seen as an incentive to invest in self-funded, work related training, and would therefore provide a welcome boost to the economy.
- 3.4 Changes to these rules were previously consulted on in 2018¹, with the Government deciding at that time not to extend the existing tax reliefs available. However, in light of the changes to the employment market which have arisen in recent years due to the COVID pandemic and EU exit, and the ongoing economic pressures facing businesses and individuals, we would strongly urge the Government to revisit this issue.

4 Contact details

- 4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Emma Rawson on atttechnical@att.org.uk.

The Association of Taxation Technicians

[XX] January 2023

5 Note

- 5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the

¹ <https://www.gov.uk/government/consultations/taxation-of-self-funded-work-related-training/>

development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 9,000 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.