

Tax Relief for Training: getting best value from public support

a note from the National Institute of Adult Continuing Education

Current policy on tax relief for training could be more equitable, is not yet delivering best value to Government and needs to be scrutinised closely as part of the Spending Review.

It is estimated that the Treasury forgoes £3.7 billion of income each year by allowing Corporation Tax Relief and PAYE Tax Relief (for self-employed business people) on employer spending on training. No conditions are attached to the granting of tax relief. Employers do not have to account for how it is spent, on what and upon whom.

The National Institute of Adult Continuing Education (NIACE) suggests that this needs to be reconsidered. Tax relief is effectively a public contribution to private employer training expenditure and if £3.7 billion of revenue is foregone by the public purse, it is not unreasonable that the onus should be on employers to demonstrate it is being spent to good effect and is not simply exploited as a loophole by accountants.

It is not suggested that money spent by employers is not well-spent - only that without transparent reporting, it is not possible to know whether it might be better spent and whether relief should not be contingent on some conditions.

Present access to such tax relief is also inequitable as it can be claimed by employers but not by employees wishing to invest in their own career development.

The remainder of this paper adapts material published as part of the 2009 Independent Inquiry into the Future of Lifelong Learning¹ to evidence this case.

¹ Schuller, T. And Watson, D. (2009) *Learning through Life - Inquiry into the Future for Lifelong Learning*. Leicester, NIACE.

Who spends what on lifelong learning?

There are two overall totals of expenditure on adult learning. Both are likely to be underestimates. The two figures are:

- £55 billion: this excludes all the estimated cost of time spent on learning,
- £93 billion: this includes expenditure on provision and the cost of time spent on learning.

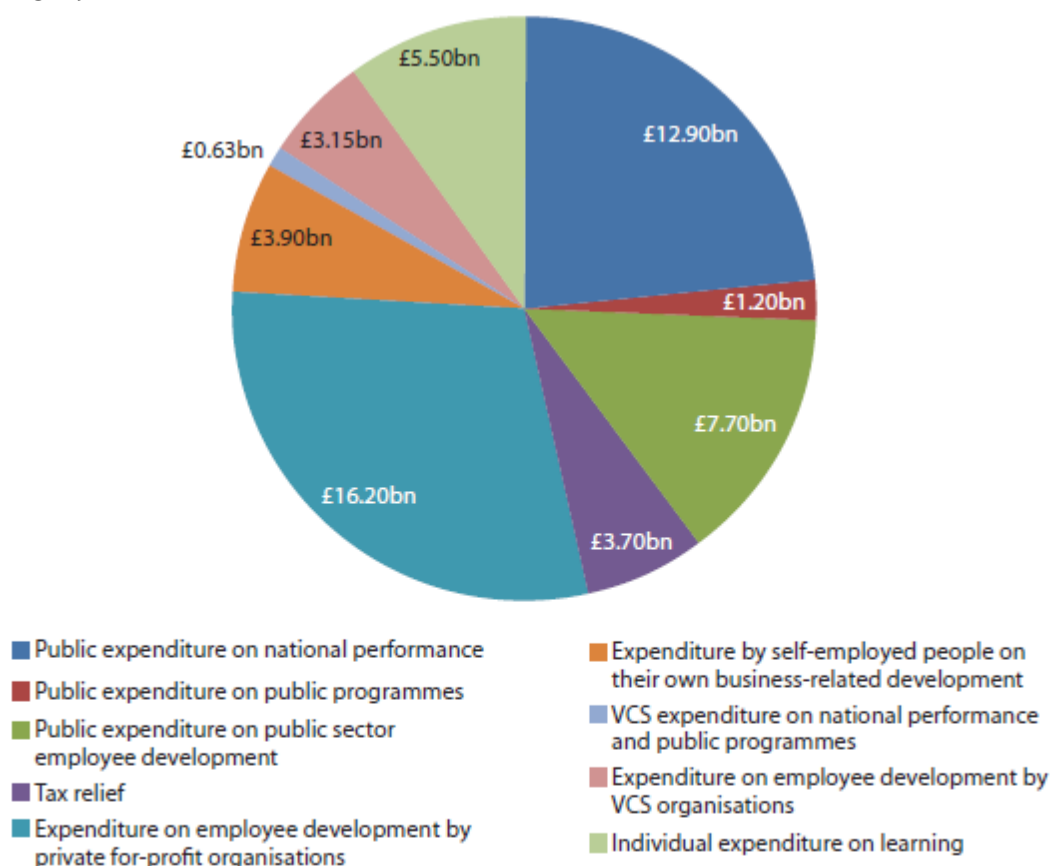
The table below shows how the £55 billion total is broken down and the figure shows the distribution of expenditure on the costs of learning provision.

Table 1: UK Expenditure on adult learning provision by investor and learning purpose 2007-08

	National performance	Public programmes	Employee development
Public sector	£12.9 billion	£1.2 billion	£7.7 billion £3.7 billion tax relief ^a
Private sector ^b			£16.2 billion ^c
Voluntary and community sector	£0.13 billion	£0.5 billion	£3.15 billion ^d
Self-employed individuals	£4.68 billion	£0.82 billion	£3.9 billion ^e
Total	£17.71 billion	£2.52 billion	£34.65 billion
Grand total: £54.88 billion			
<p>^aIncludes Corporation Tax Relief and PAYE Tax Relief (for self-employed businesses).</p> <p>^bThe private sector supports some adult learning for the general public, through union learning centres opened to families and local communities, and Corporate Social Responsibility initiatives to name but two.</p> <p>^cIncludes expenditure on employee development for businesses operated by self-employed people.</p> <p>^dThis includes a calculation of the cost of volunteer training.</p> <p>^eExpenditure by self-employed people on their own business-related training.</p>			
Source: IFLL			

An account of the work on which these figures are based is set out in a more detailed contextual paper by Williams, J. and McNair, S. (2010) *Expenditure and funding models in Lifelong Learning*. Leicester, NIACE.

Figure 1: Distribution of expenditure on the costs of learning provision (£ billion) by category of investor



Note: VCS = voluntary and community sector

Source: IFLL

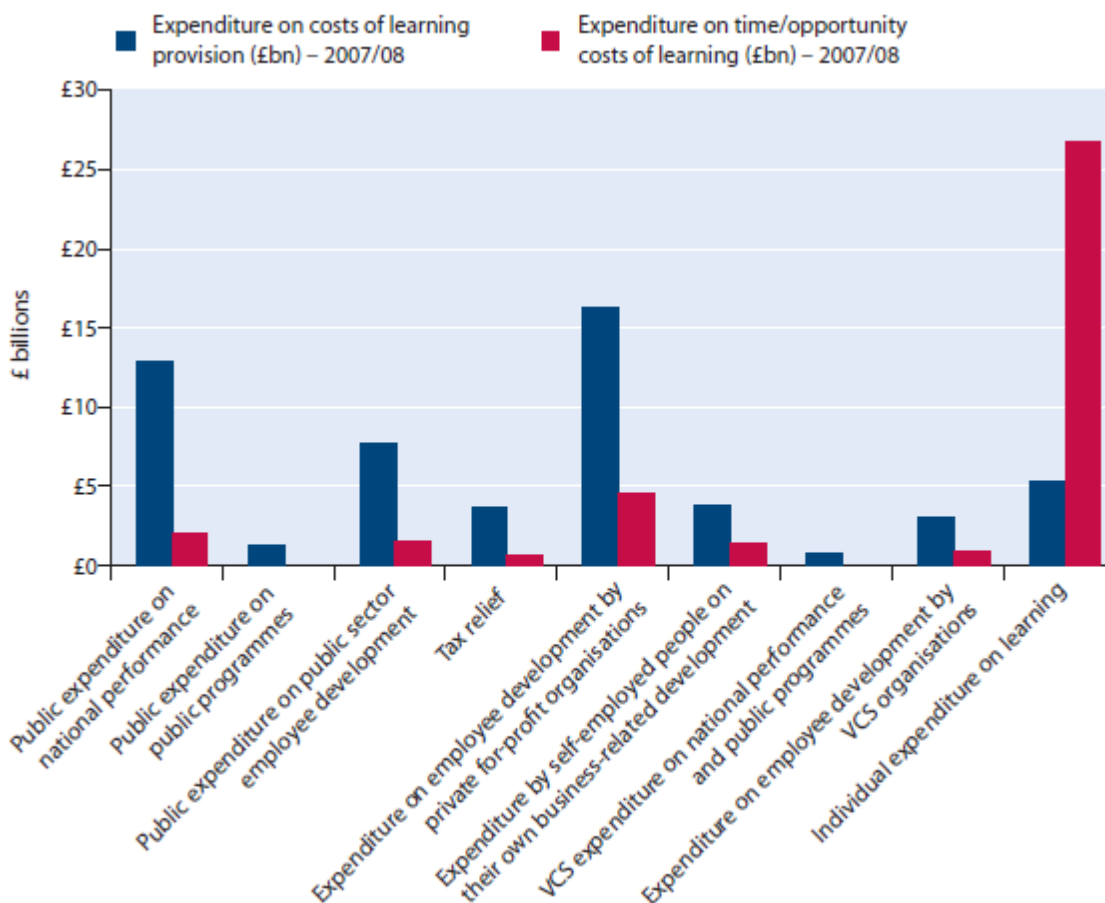
The cost of time

The figure could be far bigger. Economists would, reasonably enough, include the costs of learners' time, on the basis that while they are learning they are not producing. This is the approach adopted by the National Employer Skills Survey (NESS), which reported that in 2007 employers in England² spent £38.6 billion on training, including the wage costs of those undertaking training, both on and off the job. To extend the NESS approach to all learners would add in many billions to the total. One set of our calculations includes that, and this would boost the overall annual total to £93 billion. On this basis, the cost of time accounts for £38 billion, 40 per cent of overall expenditure. Individuals overwhelmingly commit the most - nearly 70 per cent of the total cost of time is met by them, and 19 per cent by employers supporting off-the-job training. Figure 2 below shows this but these calculations are excluded from our overall baseline calculation, because it would unreasonably skew the whole picture. We do not think that an hour's training for a top banker or footballer earning a £1 million salary should be counted as the same investment as, say, five weeks of full-time training for a low-wage employee, even

² (Other figures in this paper are for the UK.)

if that were a realistic prospect. However, we have also excluded employee wages for training done on-the-job, since this may contribute directly to productivity.

Figure 2: Breakdown of expenditure on cost of provision and cost of time by category of investor



Source: IFLL

Estimates of the cost of time spent learning raise some important issues. There is no agreed methodology for calculating the opportunity cost of individuals' time invested in learning. We have adapted the approach used in the National Employer Skills Survey,³ but believe this issue would merit further study (*Learning Through Life* contains further consideration of how co-contributions to learning may be valued).

³ We have used the £12.26/hour wage figure from NESS for economically active people. For others we have used the National Minimum Wage 2007 figure of £5.52/hour.

The key messages of the analysis are as follows:⁴

- Expenditure on *all post-compulsory and adult learning provision in 2007-08 amounts to 3.9 per cent of GDP*. Of this total, £25.5 billion (47 per cent) was public expenditure (including for public sector employees and tax relief for companies on the cost of training). £19.3 billion (35 per cent) was for training of employees and volunteers by private for-profit and not-for-profit organisations, including by companies operated by self-employed people. £9.4 billion (17 per cent) was by individuals, including self-employed people.
- Of the total expenditure on learning provision, just over £20 billion (37 per cent) was on provision in principle available to all citizens (National Performance and Public Programmes). The remaining expenditure of around £35 billion (63 per cent) was only available to employees of the investing organisations.
- Tax relief, including on corporation tax and PAYE, is a major component. It amounts to £3.7 billion annually, or several times the current Train to Gain budget.
- Sixty-five per cent of total public expenditure⁵ on post-compulsory education (£9.75 billion) was spent on HE, three-quarters of which we estimate went to learners under 25.⁶
- Of the £11.8 billion expenditure on provision of mainstream post-compulsory education,⁷ £7.9 billion (67 per cent) went to higher education (HE), £3.9 billion (33 per cent) to further education (FE).
- Approximately 90 per cent (£1.9 billion) of the £2.1 billion maintenance loans and grants/learner support expenditure goes on HE maintenance loans and grants, and just 10 per cent on FE student support.
- Of the £1.2 billion public expenditure on public programmes, £0.3 billion expenditure from the Department for Business, Innovation and Skills (BIS) supports the Adult Safeguarded Learning budget, the LSC Offender Learning Budget and the Science in Society Programme. The balance is principally investment in public services such as libraries and community development.

⁴ A more detailed summary of the findings of the Inquiry's expenditure research can be found at www.lifelonglearninginquiry.org.uk.

⁵ Including maintenance grants and loans.

⁶ Corney, M., Fletcher, M. and Brown, N. for Campaign for Learning (2008) *Higher Education and the Cuckoo in the Nest: Getting beyond the fixation with full-time study by young people*. London, Campaign for Learning. The authors suggest that 70 percent of HE expenditure (approximately £6.8 billion) goes on 17-20 year-old full-time undergraduates.

⁷ Excluding maintenance loans and grants.

Estimates of tax relief on employee training suggest this is a significant public contribution to private employer training expenditure. NIACE urges Government to consider the case for tighter conditions and greater transparency in accounting for tax relief in company accounts. Equally, our work on tax relief has highlighted the absence of general tax relief for individuals investing in their own learning. This appears inequitable.

Tax incentive schemes which reduce the marginal costs of training, increase the propensity of firms to invest in such training. Research for the Inquiry estimates that the current value of tax relief to employers and the self-employed in the UK is £3.7 billion per annum (more than three times the entire Train to Gain budget) The net cost of tax incentive schemes is likely to be lower than the direct subsidy cost, since trained workers earn more (and thus pay more tax) and because of the higher productivity in firms providing training. Some of the costs of schemes are, therefore, offset by increases in corporate and income taxes. To increase equity in training, certain tax incentives could be geared to specific categories of employee, such as those in place in the Netherlands for older employees, in whom businesses may be reluctant to invest.

Tax relief for individuals investing in their own learning merits strong consideration since employers have the opportunity to offset their expenditure on training against corporation tax. Individuals should have similar opportunities. (As an example, tax relief is already available on union subscriptions to the extent that the union activities are deemed to be educational). The definition of learning for individual tax relief purposes should be no less generous than that available to employers - that is more generous than the former Vocational Training Tax Relief that existed prior to the introduction of the original Individual Learning Account scheme.

Conclusion

The point of this analysis of overall expenditure is not to argue for additional money as such. The evidence suggests however that there should be a better balance in the distribution of resources, and that additional money is needed for some areas, in some cases urgently so. Stronger measures are needed, of both fairness and effectiveness, in order to judge how well the resources devoted to lifelong learning in all its forms are used, and how well they are distributed.

Learning Through Life was the first time an overall picture of expenditure on adult learning in the UK had been described in this way. The data on which the research has been based is imperfect and partial, often not designed for the purpose. However, the Inquiry was confident that they represent reasonable 'orders of magnitude' estimates of the pattern of expenditure and the relationships between major parts. As a 'first analysis' it highlights areas for further work. There is a case for Government to consider how expenditure on adult learning is recorded as a basis for encouraging a more strategic approach to future investment decisions.

The National Institute of Adult Continuing Education (NIACE) is an independent non-governmental organisation and charity. Its corporate and individual members come from a range of places where adults learn: in further education colleges and universities, local community settings, workplaces and prisons. The ends to which NIACE activities are directed can be summarised as being to secure more, different and better opportunities for adult learners. NIACE represents the interests of all learners, advocating increased opportunities for adult learning and for better quality provision. It is particularly concerned to advance the interests of those who have benefited least from their initial education and training.

NIACE is ready to answer any questions about any matter covered in this note. Please contact the Office of the Chief Executive.

July 2010