



Staff training costs deductible, but beware FBT

One of the recognised keys to business success is having knowledgeable, efficient and well-trained staff. But it is not always possible (or is indeed rare) to have potential staff walk in off the street who are a 100% perfect fit. People employed at any business will naturally benefit, to a lesser or greater degree, from relevant training.

The good news for employers is that the costs of much of this training — course fees, some travel costs and so on — can be deductible to the business. The essential thing to not overlook with this however is that providing training can also incur a fringe benefits tax (FBT) liability.

Paying for your employee's work-related course fees is therefore a two-edged sword — a deduction is generated for the training costs, but also constitutes a fringe benefit and is subject to FBT. However, the rules within the FBT legislation allows for a full or partial reduction of FBT payable on the benefit provided that the "otherwise deductible" rule is met.

Simply put, the otherwise deductible rule assumes that if the employee had hypothetically incurred the expense from their own hip-pocket, they would have been able to claim a deduction for the expense themselves. It follows that if the otherwise deductible rule could apply, the employer can reduce their FBT liability to the extent that the hypothetical deduction would have been allowed to the employee. Certain membership fees and subscriptions paid by an

employer are specifically made exempt from FBT (such as a subscription to a trade or professional journal). If there is any FBT expense, however, that amount can be deductible to the business.

But when is an education expense considered to be hypothetically deductible to the employee? This will depend on the type course or education undertaken by the employee. The ATO has provided guidance in brochure form to work out whether course or education fees incurred is deductible to an employee (ask us if you would like a copy).

Generally, the course must have a sufficient connection to an employee's current employment and:

- maintain or improve the specific skills or knowledge the employee requires in current employment, or
- result in, or possibly result in an increase in, income in current employment.

Employees generally cannot claim a deduction for an education expense if it doesn't have a sufficient connection to their employment, even if it might be generally related to the work or it enables them to get a new job.

In most cases, employers will provide for education costs that are beneficial to their business, and so the otherwise deductible rule should apply such that no FBT is payable.