

TAXREP 11/04

DELIVERING AN INCENTIVE FOR MEMBERSHIP BODIES TO PROVIDE WORKFORCE DEVELOPMENT: A DISCUSSION PAPER

Memorandum submitted in February 2004 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to a discussion paper published by HM treasury and the Inland Revenue in December 2003

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INTRODUCTION

1. We welcome the opportunity to comment on the discussion paper *Delivering an incentive for membership bodies to provide workforce development* published in December 2003.

WHO WE ARE

2. The Institute of Chartered Accountants in England and Wales (ICAEW) is the largest accountancy body in Europe, with more than 125,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
4. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter 'TAXline' to more than 11,000 members of the ICAEW who pay an additional subscription.

GENERAL COMMENTS

5. We support the view that skills have an important role to play in increasing productivity through a better trained workforce. Indeed, one of the requirements for continuing membership of the ICAEW is for members to undertake regular Continuing Professional Development (CPD).
6. This discussion paper is concerned with how to encourage further training of the UK workforce. This is a laudable aim, but the paper appears to confuse this aim with the quite separate policy concerning tax relief for subscriptions to professional bodies.
7. For example, we are surprised that having identified a particular problem with the training of low-skilled workers (paragraph 2.2), the paper did not then address this issue specifically but instead focused on the existing tax relief given for

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subscriptions paid by members to professional bodies. By definition, the members of professional bodies will usually be more highly skilled.

8. We are disappointed that this paper only questions the tax relief for professional subscriptions. We believe that this focus is too narrow to address the problems set out in section 2. The question of tax relief for all work related training, whether paid for by the employer, the employee, or the self-employed, needs to be tackled together.
9. The problem to which this consultation paper seeks to find a solution is how to encourage training within the UK workforce. We do not believe that the answer to this lies in disallowing or limiting tax relief for membership subscriptions.
10. We believe that the solution should be to introduce a properly targeted relief to encourage work-related training.
11. The policy reasons that lie behind the introduction of the existing relief focussed on protecting the public interest. The policy reasons appear just as valid today as they were when they were introduced. In our own profession, the public interest is best served by being able to identify advisers who have attained a qualification through rigorous study and training, supported by relevant work experience. This is followed up by a post qualification requirement for continuing professional development and the observation of professional and ethical standards and guidelines.
12. The paper is concerned only with training and does not address the need for the professional bodies to encourage their members to keep up professional (in other words quality) or ethical standards to protect the public. Quality and training go hand in hand, so a tax deduction for the subscription fee that pays for training should help to improve the quality of the work of the whole profession.
13. Although ethics is bound up in the training function, it is also linked to the self-monitoring role of the professional body. We believe that it is also important for the professional bodies to promote ethical behaviour. The section of the fee that pays for this function should also be given tax relief, on the grounds of public protection.
14. Tax relief for membership subscriptions to professional bodies uses the tax system beneficially to encourage maintenance of professional standards. We believe that if there is a perceived problem with content of the list of bodies listed in the Table in s 343, ITEPA 2003, or the criteria for relief under s 344, then that is a separate and specific issue which should be addressed as such.
15. Para 2.2 states that 'survey evidence also suggests that people are often poorly informed about the value of training'. We are interested to discover how this is measured. Certainly the tax system is not over generous in relief for training. If a worker pays for his own training or exam fees, s 336 ITEPA 2003 does not normally allow a tax deduction for those costs. If, however, his employer pays for, or reimburses, the employee for the same training, the employer will normally

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get tax relief for those costs either under s 74 or s 588, ICTA 1988. This anomaly should be corrected.

16. We question the statistic stated in Paragraph 2.24. It estimates that only one million people currently benefit from the relief. The ICAEW alone has 125,000 members. Although we are the largest professional accountancy body, it seems unlikely that our members comprise 12.5% of the UK professional workforce. We suggest that the figure has included only employees who claim the deduction from earnings taxable under Schedule E, and does not include the many thousands of self employed professionals who claim a deduction from their Schedule D Case II adjusted profits.

SPECIFIC COMMENTS

17. In the paragraphs which follow, we have addressed the specific issues on which comments have been requested, referring to the relevant paragraphs in the consultation document given in italics.

Paragraph 3.6 Issues to consider for a qualifying body

18. The criteria for relief under s 343, ITEPA 2003 will necessarily require that the body requires or encourages its members to undertake CPD. It is less clear whether such a body should actually be required to provide that training itself. In many cases, free market forces operate beneficially to ensure that a wide range of courses and other career development materials are already offered by third parties. It would not be sensible, nor even possible, for this range to be replicated by each professional body. For example, our members may attend seminars run by the Inland Revenue, which we would hope to continue to allow as part of their annual CPD requirement.
19. This paragraph also considers the proportion of costs of the professional body directly attributable to training. This is not an accurate means of measuring the commitment to CPD. Many of our own courses are run by volunteers. It is common for professional speakers to lecture at our conferences for a nominal fee. The problem of how to value volunteer time has long been a challenge for charities, but it applies equally to training given by professional bodies.
20. The extent to which a body requires and monitors the CPD undertaken by its members is perhaps a better measure of the degree of emphasis placed on this area.
21. In addition to CPD, the emphasis placed on maintaining quality and ethical standards should also be taken into account.

Paragraph 3.9 – Issues to be considered in monitoring entitlement to approved status

22. Tax relief could be given to all professional bodies that meet three aims:

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- requirement for a certain quality standard to be met before membership is permitted, for example, an exam or an approved body of work;
 - members are required to maintain quality and ethical standards through continuous training; and
 - random inspection of training records to ensure that these standards are met.
23. It should be easy for a professional body to certify that it meets these simple criteria to be included on a list of approved bodies. Monitoring should take the form of a self-certification by each professional body, say every five years.
24. If a professional body merges with another body then the new body should certify that the aims are met by the combined body.

Paragraph 3.11 – Issues to be considered in delivering relief to individual members

25. We see no reason why the system for giving tax relief for professional subscriptions should be changed. This would merely introduce further complexity which we do not think is justified.
26. Giving basic rate tax relief at source would place an additional administrative cost on professional bodies, which would then need to recover the tax deducted. It would also give the Inland Revenue more direct control over the income, and more knowledge of the individual and collective membership of the professional bodies, than we think necessary or desirable.
27. It is also likely to make it complicated for employers who wish to pay professional subscriptions on behalf of their employees. If the employee could not claim a deduction under s 343, ITEPA 2003, some employers might then cease paying professional subscriptions on their behalf. This might then cause a reduction in the number of members of professional bodies.
28. There are occasions when a member of a professional body will continue to pay a subscription although they are not earning, for example due because of sickness or maternity leave or during a period of unemployment. Tax relief given at source may then need to be recovered or else a specific relieving provision would need to be made.
29. If tax relief is withdrawn for subscriptions to certain professional bodies, the employer would risk PAYE penalties if he continued to pay a subscription to a non-qualifying body on behalf of an employee. The employee would have a taxable benefit in kind which was not declared on the P11D, (because the employer assumes the subscription is covered by a dispensation for allowable expenses).
30. The rules for allowing relief for training and subscriptions paid by employees and the self employed should be aligned.
31. When considering any changes to the rules for tax relief the Government must ensure the rules for deductions for income tax and tax credits are aligned.

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32. Given that the policy purpose for providing tax relief for professional subscriptions has not changed, we see no reason why tax relief should be capped or limited to the basic rate of tax.

Paragraph 3.14 Widening the scope of approval of sub-groups

33. We can see that there will be cases where a sub-division of an organisation could qualify for tax relief. If there is a sufficiently clearly defined population, we believe that such relief should be granted.

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