

SEE Country Questionnaire on the Tax Treatment of Training

Background and motivation

Despite significant budget allocations to education programs in a number of countries in the South East Europe (SEE) region, investors may be discouraged where the skillset (level and/or type of knowledge base) in the local workforce does not fit well with requirements of business operations. Pools of trained labour may be available, but training (skills upgrading) may be required to achieve investment and employment growth. Given direct and spillover benefits of training local workers, where outsourcing is not feasible or desirable, there is significant interest of policy-makers in considering what tax/non-tax policies might be adopted to efficiently encourage such training, and address perceived 'skills gaps'.

Increased skills in the labour market promote employment and workforce mobility. Supporting opportunities for training may help achieve productivity gains through innovation, and a wider, more even distribution of financial and social benefits created by new investment. Indeed, a more balanced set of employment opportunities, and thus a more fair outcome of market activity, supports nation building. Given these positive effects, a key question for SEE country governments to address is what mix of policies (tax and non-tax) could be adopted to ensure that sufficient resources are being dedicated and efficiently allocated to training/skills upgrading.

The purpose of the current questionnaire is gather information on the tax treatment of: income derived from the sale of training services (supply-side tax provisions); and expenses incurred with the purchase of training services (demand-side provisions). Supply-side tax provisions include the treatment, under a business profits tax, of profit earned by providers of training services, and the treatment, under a general sales tax (e.g. VAT), of revenues generated on the sale of training services. Demand-side tax provisions include the treatment, under a business profits tax, of expenses of companies purchasing training services, and the the treatment, under personal income tax, of expenses of individuals purchasing training services for themselves or for their dependents.

The information gathered here will be used to compare OECD and SEE country experience in the tax treatment of training, with an aim to 1) establish an approach/framework for analyzing tax-assisted training expenditure; 2) consider design issues including alternative tax incentive types and delivery mechanisms; 3) identify intended and possible unintended effects; 4) consider the use of tax incentives alongside other types of public support; and 5) report evidence on country experience.

Part I of the questionnaire gathers detailed descriptive information on the tax treatment of training, with respondents asked to provide information for the tax year beginning 1 January 2010.¹ Part II asks for general information on subsidies for training provided outside the tax system, and on the experience of policy makers with previous/current tax treatment, including general findings or views on the effectiveness of tax incentives targeted at training.

Respondents are kindly requested to complete the questionnaire in electronic (Word document) form, and submit the response to steven.clark@oecd.org and erin.hengel@oecd.org.

¹ Where the tax year does not coincide with the calendar year, please consider the tax year that covers a period including 1 January 2010.

PART I. DESCRIPTION OF TAX PROVISIONS

A. Treatment of the Sale of Training Services

- **General sales tax provisions**

1. Does your country have a general sales tax (e.g. value-added tax)? Yes___; No____. If 'No', please skip questions 2-4. If 'Yes', please indicate the basic general sales tax rate ___%.

2. Does a reduced general sales tax rate (or exemption) apply to sales by private companies of qualifying training services? Yes___; No____. If 'Yes', please indicate the reduced tax rate: ___%. Does an exemption apply?² Yes___; No____.

3. If a reduced general sales tax rate or exemption applies, is the reduced rate/exemption restricted to sales by private companies (providers of training services) that are explicitly recognized/authorized by the government? Yes___; No____. Please indicate other criteria determining qualifying/non-qualifying training services:

4. Are sales by public providers of training services (e.g. publicly-funded training institutions) exempt from general sales tax? Yes___; No____.

- **Corporate income tax provisions**

5. Does your country tax corporate profits (e.g. under corporate income tax (CIT))? Yes___; No____. If 'No', please skip question 6. If 'Yes', please indicate the basic corporate tax rate ___% .

6. Are incorporated private providers of training services subject to corporate profits tax? Yes___; No____. If 'Yes', are any special corporate provisions targeted at private providers of training services (e.g. reduced CIT rate, special tax allowances, tax credits)? Yes___; No____. If 'Yes', please describe these provisions and the types of training services that the provisions apply to:

B. Treatment of the Purchase by Companies of Training Services

- **Corporate income tax provisions**

7. If your country taxes corporate profits, can qualifying training expenses³ be deducted from the tax base? Yes___; No____. If 'No', please skip questions 8-9. If 'Yes', does the basic corporate tax deduction for

² For example, under the EU VAT Directive, certain education and training activities are exempted from VAT.

³ 'Qualifying training expenses' refer to costs incurred (fees paid) for training services that qualify for a basic tax deduction.

qualifying training expenses provide for full (100%) deductibility of expenses in the current year?⁴ Yes___; No___. If 'No', please describe the rules determining the percentage amount and timing of the basic corporate tax deduction for qualifying training expenses:

8. Qualifying training expenses – If your country provides a basic corporate tax deduction for qualifying training expenses, in Table 1 please mark with a Y (indicating 'yes') each category (box/cell) of training expenses that are included in qualifying training expenses:

Table 1: Identification of qualifying training expenses (for basic deduction against CIT)
(Y=yes, N=no)

	Full-time employees	Part-time employees	Apprentices
General training (no restriction)			
Training in current activities of the worker (retraining)			not applicable
Training in new activities of the worker that are part of current business activities of the company			
Training in new activities of the worker that are new business activities of the company			

If Table 1 is insufficiently detailed to identify categories of training that qualify / do not qualify for a basic corporate tax deduction, please elaborate further what types of training qualify / do not qualify:

9. Is additional corporate tax relief provided (in addition to a basic deduction) in respect of training expenses – for example, through a 'corporate tax allowance' or 'corporate tax credit' (or other provision) for training expenses (see Annex I)? Yes___; No___. If 'Yes', please describe the additional corporate tax relief provided (i.e. tax allowance, tax credit, other; relevant rates/thresholds, rules determining the allowance/credit amount):

10. If your country provides additional corporate tax relief in respect of training expenses (a 'Yes' answer under question 3 above), in Table 2 please mark with a Y (indicating 'yes') each category (box/cell) of training expenses that qualify for this additional corporate tax relief:

⁴ 'Deductible in full in the current year' means that 100% of training expense paid in year 2010 is deductible against taxable income in 2010.

Table 2: Categories of training qualifying for additional corporate tax relief

	Full-time employees	Part-time employees	Apprentices
General training (no restriction)			
Training in current activities of the worker (retraining)			not applicable
Training in new activities of the worker that are part of current business activities of the company			
Training in new activities of the worker that are new business activities of the company			

If Table 2 is insufficiently detailed to identify categories of training that qualify / do not qualify for additional corporate tax relief, please elaborate what types of training qualify / do not qualify:

11. Are training expenses qualifying for basic deduction and/or additional corporate tax relief limited to training services supplied by recognized external providers?⁵ Yes____; No____.

12. Do provisions that provide tax relief in respect of training expenses (basic deduction, corporate tax allowance, corporate tax credit, other) depend on the size of the corporation purchasing training services? Yes____; No____. If 'Yes', please describe the relevant rules (i.e. asset/income measure for size, relevant thresholds, rates). If qualification depends on firm characteristics other than size, please identify the qualification characteristics/criteria:

- **Personal income tax provisions**

13. Where a corporation purchases training services for employees, is the training regarded as a taxable benefit (benefit-in-kind) to employees? Yes____; No____. If 'Yes', is the benefit-in-kind taxed under personal income tax (Yes____; No____) or (final) wage withholding tax (Yes____; No____).

C. Treatment of the Purchase by Individuals of Training Services

- **Personal income tax provisions**

14. Does your country tax wage income of individuals (e.g. under personal income tax, or (final) wage withholding tax)? Yes____; No____. If 'No', please skip questions 15-17. If 'Yes', can qualifying training expenses be deducted from the tax base? Yes____; No____. Does the basic personal tax deduction for qualifying training expenses provide for full (100%) deductibility of expenses in the current

⁵ 'Recognized external providers' refers to companies that are 1) unrelated to the corporation claiming a training expense deduction, and 2) recognized (listed) by the government as providing training services.

year against personal taxable income? Yes___; No____. If ‘No’, please describe the rules determining the percentage amount and timing of personal tax deductions for qualifying training expenses:

15. Qualifying training expenses – If your country provides a basic personal tax deduction for qualifying training expenses, are qualifying expenses restricted to training in the current profession/vocation of a worker? Yes___; No____. Are qualifying expenses restricted to training in activities carried out in current employment? Yes___; No____.

16. In addition to a basic personal tax deduction for qualifying training expenses, is additional personal tax relief provided in respect of training expenses – for example, through a ‘personal tax allowance’ or ‘personal tax credit’ for training expenses? Yes___; No____. If ‘Yes’, please identify the relevant provisions providing additional personal tax relief and describe main design features (i.e. personal tax allowance, personal tax credit, relevant rates/thresholds, rules determining the allowance/credit amount):

17. Is taxable wage income of an employee that has undertaken training taxed preferentially (i.e. reduced personal income tax)? Yes___; No____. For example, is a personal income tax exemption (or other personal tax relief) provided for wages earned by apprentices? Yes___; No____. If ‘Yes’, please describe main design features of personal tax relief provided:

PART II. EXPERIENCE WITH TAX INCENTIVES FOR TRAINING

18. Does your country provide private training service providers (supply-side) with non-tax assistance (e.g. grants, loans) to encourage the provision of training services? Yes___; No____. If ‘Yes’, please describe the types of assistance provided:

19. Does your country provide companies purchasing training services (demand side) with non-tax assistance (e.g. grants, loans) to help reduce the private cost of and thereby encourage training? Yes___; No____. If ‘Yes’, please describe the types of assistance provided:

20. Please report any general findings or views of tax policy makers on the relative effectiveness of tax measures (including special tax incentives) and non-tax measures supporting training:

Annex I – Examples of Training Tax Relief

1. Corporate Tax Allowance (in addition to corporate tax deduction)

Consider a corporation, resident in country C_1 , that spends 100 Euros in year 2010 on training expenses for its employees ($TEX=100$, where TEX measures training expenses). Country C_1 imposes corporate income tax at 20% ($u=0.20$, where u measures the corporate income tax (CIT) rate). CIT rules permit a basic deduction D in 2010 for the full amount (100% deduction) of training expenses incurred in year 2010 ($D=TEX$, where D measures the basic deduction). In addition, a corporate tax allowance (a deduction from the tax base, in addition to the basic deduction from the tax base) for training expense is also provided, equal to 10% of current training expense ($A=0.10 \times TEX=10$, where A measures the corporate tax allowance for training expenses). The company's CIT liability may be expressed as:

$$CIT = u \times [Y - D - A] \quad (I.1)$$

where u , D and A are defined as above, and Y measures taxable income before taking into account the basic training expense deduction (D) and the corporate tax allowance for training expenses (A).

2. Corporate Tax Credit

Consider a corporation, resident in country C_2 , that spends 100 Euros in year 2010 on training expenses for its employees ($TEX=100$, where TEX measures training expenses). Country C_2 imposes corporate income tax at 20% ($u=0.20$). CIT rules permit a basic deduction D in 2010 for the full amount (100% deduction) of training expenses incurred in year 2010 ($D=TEX$, where D measures the basic deduction). In addition, a corporate tax credit (an offset against CIT liability) targeted at training expense is also provided, calculated as 2% of current training expense ($TC=0.02 \times TEX=2$, where TC measures the corporate tax credit for training expenses). The company's CIT liability may be expressed as:

$$CIT = u \times [Y - D] - TC \quad (I.2)$$

where u , D and TC are defined as above, and Y measures taxable income before taking into account the basic training expense deduction (D). Note that the value of TC (unlike the value of A) is independent of the setting of the CIT rate. In the examples given, the corporate tax credit provides the same level of CIT relief (2 Euro) as the corporate tax allowance in the first example ($uA=0.2 \times 10=2$).

Non-wastable (refundable) vs. wastable (non-refundable) corporate tax credit

A non-wastable corporate tax credit would provide a corporate taxpayer with the cash amount of credit that cannot be claimed in the current year. If for example $Y=D$, so that $[Y - D]=0$, then according to (I.2), the CIT liability after taking into account the corporate tax credit is $CIT=-2$. The interpretation is that the firm would receive a cheque (refund) from the government in the amount of 2 euros. The formula (I.2) assumes a non-wastable corporate tax credit. Under a wastable (non-refundable) credit, the CIT liability would be as follows:

$$CIT = u \times [Y - D] - \min[u \times [Y - D], TC] \quad (I.3)$$

In other words, the credit can only be claimed up to an amount that is the lesser of the CIT liability before taking into account the credit (i.e. $u \times [Y - D]$), and the credit earned on the training expenditure, TC . Credit carry forward rules may allow any excess of TC over CIT liability before taking into account the credit, to be carried forward to offset CIT liability in following years.