

Taxation of self-funded work- related training: summary of responses

Taxation of self-funded work-related training: summary of responses



© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-912809-17-2

PU2210

Contents

Executive summary		2
Chapter 1	Introduction	5
Chapter 2	Summary of responses	7
Chapter 3	Government response	14
Annex A	List of organisations responding to the consultation	18

Executive summary

Budget 2018¹ sets out the government's vision for developing the new skills needed for the UK's long-term prosperity, in order to build an economy fit for the future. The government is committed to creating an environment to support people to develop the skills needed, responding to the opportunities that will be created by longer working lives, automation of low skilled labour and changes to the labour market. It is committed to finding the most effective policy interventions, which ensure value for money and best deliver the government's objectives in boosting aggregate productivity.

The government has considered the case for an extension of tax relief for self-funded work-related training. On the basis of the evidence and the consultation responses, the government has decided not to extend the existing tax relief for employees, the self-employed, or for retraining.

Responses to the consultation were mixed and the government has concluded that there is insufficient evidence that extending tax relief is likely to be effective in incentivising self-funded work-related training. The majority of responses were sceptical about the impact of tax relief in addressing the established barriers to learning, which include:

- the upfront cost
- a lack of time due to work and other commitments

The responses to the consultation indicate extending tax relief might encourage some additional training but it would mostly subsidise investments in skills that would occur even in the absence of government support. This means any impact on the primary objective of boosting the aggregate productivity in the UK would be negligible.

The strong emphasis in the consultation responses on simplicity has been taken into account when considering the merits of a policy intervention through the tax system to incentivise training and boost aggregate productivity. Tax reliefs can be difficult to target because they are of greatest benefit to those paying higher rates of tax and do not benefit non-taxpayers. Tax reliefs are often more complex to administer and for taxpayers to understand than direct spending on skills investment. Evidence from the Organisation for Economic Co-operation and Development (OECD) also suggests that low skilled, low-income taxpayers are also more likely not to claim.

¹ [Budget 2018](#), HM Treasury, October 2018

The government can only introduce new tax reliefs or extend existing tax reliefs when there is sufficient evidence that this is likely to deliver on the government's objectives and there are not other effective policy alternatives.

After close consideration, the government believes other policy interventions will be more effective in delivering support and addressing the barriers to learning. These include launching the ambitious National Retraining Scheme to help those in work, including the self-employed, develop the skills they need to thrive.

The government will work with employers to give workers the opportunity to upskill or retrain. Budget 2018 allocates £100 million for the first phase of the National Retraining Scheme. This will include a new careers guidance service with expert advice to help people identify work opportunities in their area, and state-of-the-art courses combining online learning with traditional classroom teaching to develop key transferable skills. The National Retraining Partnership between the government, the Confederation of British Industry and the Trades Union Congress will focus on job-specific retraining in phase two.

Budget 2018 has announced that the government will fund £20 million of skills pilots. This will include:

- a new £3 million pilot to help employers in Greater Manchester and surrounding areas to address local digital skills gaps through short training courses
- a £10 million pilot in Greater Manchester, working with the Federation of Small Businesses, to test what forms of government support are most effective in increasing training levels for the self-employed
- £7 million match funding alongside employers in Greater Manchester to provide on-the-job training to young people not currently in employment, education or training, and move them into sustainable career paths with employers

The government has also noted concerns about the apprenticeship levy and will introduce a package of reforms to strengthen the role of employers in the apprenticeship programme. As part of this:

- the government will make up to £450 million available to enable levy paying employers to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains
- the government will provide up to £240 million to halve the co-investment rate for apprenticeship training to 5%
- the government will also provide up to £5 million to the Institute for Apprenticeships and National Apprenticeship Service in 2019-20, to identify gaps in the training provider market and increase the number of employer-designed apprenticeship standards available to employers. All new apprentices will start on these new, higher-quality courses from September 2020
- the Exchequer Secretary to the Treasury and the Minister for Apprenticeships and Skills will work with a range of employers and providers to consider how they are responding to the apprenticeship levy

across different sectors and regions in England, as well as the future strengthened role of apprenticeships in the post-2020 skills landscape

After careful consideration of the consultation responses, the government believes these other policy interventions are the right approaches to help those in work, including the self-employed, develop the skills they need to thrive.

Chapter 1

Introduction

- 1.1 A skilled workforce benefits both individuals and the wider UK economy. The government is focused on creating an environment for individuals to develop their skills to boost aggregate productivity in the UK.
- 1.2 The government is committed to supporting adults to secure meaningful and productive employment, and equipping them with the skills they need to maximise their earning potential. This is core to the government's Industrial Strategy¹ as the UK seeks to take advantage of the opportunities from longer working lives, automation of low skilled labour and changes to the labour market.
- 1.3 To further support investments in skills and the UK economy, some tax professionals and business organisations have called for changes to the tax system for self-funded training by employees and the self-employed. They highlighted that:
 - employees receive no tax relief when self-funded expenditure on training is not reimbursed by an employer, other than in limited circumstances when the training is an intrinsic contractual duty of their existing employment
 - the self-employed can deduct the costs of training incurred “wholly and exclusively” for their business where it maintains or updates existing skills but not when it introduces new skills
- 1.4 Autumn Budget 2017² announced that the government would consult on how it could extend the existing tax relief available for self-funded work-related training by employees and the self-employed.
- 1.5 The consultation³ was published on 13 March 2018 and the deadline for responses was 8 June 2018. The consultation took place at an early stage in the policy development process and the government wanted to gain an understanding of:
 - how it can best learn the lessons from previous initiatives, such as vocational training tax relief in the 1990s, and tax deductions for training in other countries

¹ [Industrial Strategy: building a Britain fit for the future](#), HM Government, November 2017

² [Autumn Budget 2017](#), HM Treasury, November 2017

³ [Taxation of self-funded work-related training: consultation on the extension of tax relief for training by employees and the self-employed](#), HM Treasury and HM Revenue & Customs, March 2018

- how it could design an extension to the existing tax relief that focuses on supporting good quality training for those wanting to upskill or retrain, particularly those who want or need to change career
 - how it could design an extension that prevents misuse on recreational activities, is sustainable for the public finances, and is simple to understand and administer
- 1.6 Changes to the tax system for employers were outside the scope of the consultation.
- 1.7 The government's response to the consultation has been informed by written responses and discussions with stakeholders during the consultation period. The government received 32 written responses to the consultation. Officials from HM Treasury and HM Revenue & Customs (HMRC) also met with several stakeholders to discuss the issues and listen to their views. The government is very grateful to all those who took the time to respond to the consultation and meet with officials.
- 1.8 The response is also informed by discussions with international tax authorities and external qualitative research on employees' non-reimbursed expenses.⁴

⁴ [Qualitative research on employees' non-reimbursed expenses tax relief](#), IFF Research, June 2018

Chapter 2

Summary of responses

- 2.1 The government received 32 written responses from a mixture of representative organisations, businesses, and individuals. Some responded to all the questions, some responded only to a handful of the questions, and others provided a general overview of their thoughts. Officials from HM Treasury and HMRC also met with several stakeholders to discuss the issues and listen to their views.

General comments

- 2.2 There was universal agreement about the importance of training to improve productivity in the UK economy. Respondents agreed that highly skilled employees and business owners would help raise living standards, profits and improve productivity. Continuous lifelong learning and professional development were recognised as very important in ensuring the UK has a robust economy and a workforce that can adapt to the changing needs of employers and clients.
- 2.3 Responses generally acknowledged individuals may need to retrain more often than in the past. Responses confirmed that most employers will generally be unwilling to pay training costs that allow individuals to change their career because they will not benefit from their investment in that employee. It was suggested retraining would allow individuals to move on to different vocations where they are likely to have higher job satisfaction and might be more productive.

Responses to specific questions

- 2.4 The summaries below reflect the views raised by those responding to the consultation. The questions and the responses received have been grouped together where appropriate for convenience.

Lessons learned

Question 1: Do you agree with the lessons that need to be learned from the UK and overseas?

- 2.5 The government indicated that it is keen to learn from previous attempts in the UK to use the tax system to support individuals undertaking training and from experiences in other countries.
- 2.6 There was near universal agreement with the lessons identified in the consultation, particularly the need for any tax relief to be designed to prevent misuse of any extended relief on hobbies. There was also recognition of the need to avoid the problems with Vocational Training Tax Relief in the

1990s, which was criticised for funding expensive hobbies because it proved difficult to create a system that delivered the intention behind the rules.

- 2.7 Some responses noted that the UK is in a minority of countries in the 2017 OECD study¹ because it does not provide tax relief for self-funded training by employees through deductions from taxable income. However, others suggested international experiences should not necessarily be relied upon because the variables in different economies makes it difficult to understand whether the same approach would be effective in the UK.

Retraining

Question 4: How could the rules be reformed to allow a tax deduction for self-funded retraining subsequently used in a new employment or self-employment? Do you think a time-limited carry forward would be the best approach and how could this work in practice?

- 2.8 The issues with retraining for a future employment or trade were identified as being very difficult to address. Responses generally recognised the potential for misuse if it is necessary to rely on an individual's intentions to prove that the retraining is being undertaken to learn new skills for a future employment or trade. One response suggested developing objective tests based on commerciality and relevance to the employment or trade, although others highlighted the difficulty in creating tests that will work well in every scenario and be easily understood by individuals.
- 2.9 If the government did want to provide tax relief for self-funded retraining, there was general support for a carry forward mechanism, which was considered to be a feasible approach and alternatives were not suggested. The suggested length of the carry forward ranged from 2 years to 7 years.
- 2.10 However, several responses highlighted concerns that a carry-forward would be very unlikely to change behaviour and would be too complicated. It was suggested that an individual who considers retraining to take up a new career is not likely to be greatly motivated to do so by the prospect of a potential relief several years into the future. Likewise, tax relief would only be realised many years after the training had taken place and would be dependent on whether the business is successful. This was considered to be unlikely to drive current behaviour by the self-employed.

Self-employed

Question 5: How could the rules be reformed to allow a tax deduction when the self-employed fund training on upskilling for their existing business?

- 2.11 There was broad agreement that the expenditure on any training should be incurred wholly and exclusively for the purposes of the trade, although some responses also noted many self-employed individuals need a wider range of skills too. These are skills that enable them to work independently and are not specific to their trade. For example, it was suggested that a graphic designer wishing to undertake a marketing course to improve their marketing prospects should be able to do so under any new rules and be

¹ [OECD Tax Policy Studies: Taxation and Skills](#), OECD, April 2017

eligible for tax relief on the expenditure. It was seen as important that training in these areas would fall under any extended tax relief. Representatives of the creative industries also highlighted the multi-disciplinary nature of many roles in this sector and the need to ensure the self-employed can receive tax relief for a wide variety of skills.

- 2.12 A small number of responses suggested retaining the existing distinction between revenue and capital but allowing the capital expenditure to benefit from the Annual Investment Allowance.² However, most responses suggested that the distinction between revenue and capital could be relaxed for such training to ensure simplicity and the expenditure on new skills for the existing trade would then be treated as an allowable revenue expense.

Employees

Question 6: How could the rules be reformed to allow a tax deduction when an employee funds training on upskilling for their current employment?

- 2.13 Some responses suggested providing tax relief in line with section 251 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003).³ This would mean expenditure on self-funded training and associated costs would qualify for tax relief if it proves useful for the duties of the current or related employment; or qualifies or better qualifies the employee to perform those duties. This was viewed as attractive because it provided simplicity and would mean the tax rules would be the same whether the employer reimbursed the expenditure on the training or not.
- 2.14 However, others acknowledged the difficulties with this approach and suggested it did not seem possible simply to extend the scope of section 251 ITEPA 2003 to cover non-reimbursed training expenses because this can be invoked where the training is likely to prove “useful” when performing duties. It was suggested this would be too subjective and would greatly increase spurious claims and misuse of the relief. The current provision is defined in this broad way to include all genuine training connected with work duties, in a range of competencies, and there is an assumption that most employers would not pay for training unless it is work-related.

Effectiveness of tax relief

Question 7: To what extent would reforms to tax relief change behaviour so individuals are incentivised to undertake more work-related training? Please explain.

Question 8: Do you think the tax system would be the most effective lever to support employees and the self-employed who want or need to upskill, retrain, and take part in career learning? Please explain.

- 2.15 There were mixed views on whether any reforms to tax relief would result in a change in behaviour and lead to more self-funded work-related training.
- 2.16 Some suggested any reduction in the cost of training through tax relief would only make a difference if the rules are simple and communicated

² www.gov.uk/capital-allowances/annual-investment-allowance

³ [Employment income: work-related training \(Section 251\(1\) ITEPA 2003\)](#), Employment Income Manual, HM Revenue & Customs

clearly to individuals who do not have access to professional advice. For example, around a third of self-employed respondents to a 2017 survey⁴ indicated that they would be more likely to undertake training involving new skills if the cost could be deducted for tax purposes.

- 2.17 However, the majority of responses were more sceptical about the impact of tax relief and whether it would incentivise individuals to participate in learning.
- 2.18 Responses highlighted finance as the most significant barrier to individuals undertaking training, particularly the upfront cost. Consequently, several concluded that tax relief is unlikely to change behaviour because a reduced income tax liability on a Self-Assessment many months after the activity or a reduced tax bill through a subsequent change in a PAYE code does not help individuals meet the upfront cost.
- 2.19 Other important barriers highlighted included time, attitudes to learning, a lack of flexible training courses, and the opportunity cost of lost earnings while the training is being undertaken by the self-employed. Again, an extension of tax relief was generally viewed as having a very limited effect on addressing these barriers, which led several to conclude extending tax relief could act as a signal from the government about the importance of training but would be unlikely to motivate many individuals to undertake training on its own.
- 2.20 Some responses also emphasised that tax relief is of no benefit to those with insufficient income to pay income tax. It was suggested that these individuals might be the most in need of upskilling but be the least able to afford it. There was some concern that the main beneficiaries of the relief were likely to be middle and higher earners, who might already be relatively well-qualified, have the means to fund the training without tax relief, and already be motivated to undertake learning without an additional tax incentive. Tax relief would increase the returns on their investment in themselves but would have a negligible effect on boosting productivity because it is likely that the training would have taken place anyway.
- 2.21 Consequently, the majority of responses did not identify the tax system as the most effective lever to support those who want or need to upskill, retrain, or take part in lifelong learning. There was broad consensus that changes to the tax system on their own would not be sufficient to support or incentivise those who want or need to upskill and retrain.
- 2.22 Several responses made alternative suggestions involving direct funding, including increases in the availability of loans or vouchers from the government, reforms of the apprenticeship levy, and variations of a model similar to Tax-Free Childcare,⁵ where the government would pay £2 for every £8 that qualifying individuals pay to a training provider via an online

⁴ [IPSE - survey of the self-employed](#), ComRes on behalf of the Association of Independent Professionals and the Self-Employed (IPSE), April 2018

⁵ www.gov.uk/tax-free-childcare

account. Generally, these were considered likely to be more effective in addressing the barriers to learning.

- 2.23 Some responses also suggested that the effectiveness of any extension to tax relief in incentivising training to boost aggregate productivity in the UK should not be the primary factor in the government's decision about any further action. Some suggested the system would be simpler and fairer if the rules treated expenditure on training by employees and the self-employed more consistently.

Objectives and design criteria

Question 2: Do you agree with the high-level objectives? Are there any others you think are as or more important?

Question 3: Do you agree with the high-level design principles? Are there any others you think are as or more important?

Question 9: How could the government target work-related training leading to valued qualifications through approved providers and professional organisations?

Question 10: How can the scope for misuse be minimised, particularly claims related to recreational activities, and the rules be made enforceable in practice without being resource-intensive for individuals or HMRC?

Question 11: If it is necessary, at what level would any cap on expenditure eligible for tax relief need to be set to make a meaningful difference to the choices made by individuals? Please explain.

Question 12: Are there complementary or alternative approaches that could ensure any extension is affordable but would still meets its objectives?

Question 13: How could any changes be administered so that take-up is maximised, errors are minimised, and the system is not resource-intensive for either individuals or HMRC? Is the existing system involving submitting a paper or online form via the Personal Tax Account and self-assessment appropriate?

- 2.24 The government sought views on the high-level objectives and design principles necessary to guide any extension to the existing tax relief.
- 2.25 To help individuals compete in today's evolving marketplace and ensure the economy is fit for the future, the consultation suggested any tax changes for work-related training should focus on supporting individuals:
- needing to upskill or retrain, particularly for those who want or need to change career, to progress in the work place and improve their earnings
 - undertaking training with approved providers and leading to qualifications
- 2.26 The consultation also suggested that the design of any extension should:
- ensure relief is not available for expenditure on recreational activities or other personal purposes so that the scope for misuse of the relief is minimised
 - be sustainable and affordable for the public finances

- be as simple as possible to understand and administer so that take-up is maximised and errors are minimised
- 2.27 Most responses agreed with these objectives and design principles, with particularly strong support for a simple system that could be easily understood and provide sufficient certainty about whether expenditure will attract tax relief before it is incurred.
- 2.28 There was widespread acknowledgement of the potential for misuse and individuals being able to claim for training courses to pursue their personal interests. A very small number indicated this should be accepted if the alternative is the need to introduce complex rules. However, the majority of responses agreed with the need to protect the system and the Exchequer. Some indicated that ensuring the rules only provided tax relief when the training was “wholly and exclusively” for the purposes of the employment or trade should be sufficient to prevent misuse. This, supported by an active declaration that the training was for these purposes and HMRC’s established compliance processes, was felt to provide an appropriate level of protection. A number of responses also suggested requiring employers to verify that self-funded training by their employee is required for the purposes of the employment. Others emphasised the need for individuals to provide evidence when making the claim, such as including evidence of the training and how it is linked to their employment or trade.
- 2.29 There was also agreement that any extension to the existing tax relief should be sustainable and affordable for the public finances. Respondents generally understood the government’s reasons for considering a cap on the expenditure eligible for tax relief. However, the majority did not favour a cap as a means to ensure affordability for the public finances. It was suggested that high quality, professional training is expensive and a cap would therefore significantly reduce any incentive for individuals to train, upskill or retrain. Limited information was provided about the typical costs incurred by those self-funding training but examples ranged from £100,000 to obtain an Airline Transport Pilot Licence to £150 to undertake training under the Construction Skills Certification Scheme. If the government did decide to introduce an annual cap on expenditure, respondents’ suggestions ranged from £500 to £5,000 but several responses indicated a cap of at least £2,000 would be necessary to make a meaningful difference.
- 2.30 A minority suggested complementary or alternative approaches that could ensure any extension is affordable but would still meet its objectives. These included limiting the relief to the basic rate of income tax, although others indicated this would create a complicated system and opposed it.
- 2.31 There were also mixed views on whether any tax relief should be linked to training leading to qualifications through approved providers and professional organisations. Several respondents emphasised the need to ensure there is sufficient flexibility so individuals can claim tax relief for training that they have determined is important for their professional development. A number of responses suggested this did not always mean pursuing qualifications. These responses emphasised the need for a non-restrictive system to provide flexibility and ensure any system kept pace with the changing needs of employees and the self-employed in the economy.

Others highlighted practical issues with this approach, including the absence of an existing single list of regulated qualifications or approved learning providers across the UK because education is devolved.

- 2.32 Other respondents did think there is a case for targeting qualifications from approved providers. It was seen as an appropriate way of reducing the risk of misuse whilst also ensuring tax relief is available for training with recognised value. There were a small number of suggestions about how this could operate in practice, with responses generally suggesting using existing lists of regulated qualifications and approved providers rather than creating a new framework for tax purposes.
- 2.33 The majority of respondents indicated the existing means of claiming tax relief are appropriate and work well, highlighting the importance of the Personal Tax Account⁶ for those outside Self-Assessment. However, several respondents highlighted the lack of awareness of the existing rules and the need for clearer guidance.

Other issues

Question 14: Are there any issues with the current rules or administration of the existing tax relief for work-related training by employees and the self-employed that need to be resolved?

- 2.34 Beyond the issues being consulted on, most responses indicated that the current rules and administration of the existing tax relief generally work well.
- 2.35 However, the Optional Remuneration Arrangements⁷ featured in some responses. Restrictions were introduced in 2017 to redress the advantages that use of salary sacrifice arrangements allowed. A handful of responses from tax representative bodies suggested that a specific exemption for work-related training provision should be introduced because it might make employers more likely to encourage employees to undertake training.

⁶ www.gov.uk/government/publications/your-personal-tax-account/your-personal-tax-account

⁷ [Optional Remuneration Arrangements \(Section 69A ITEPA 2003\)](#), Employment Income Manual, HM Revenue & Customs

Chapter 3

Government response

- 3.1 The government recognises the importance of engaging fully and openly with individuals, businesses and other organisations on possible tax measures. Open and collaborative consultation ensures that stakeholders and the wider public understand the government's objectives, that any policy changes are well targeted, and that the likely impacts are better understood.
- 3.2 Following the representations from some tax professionals and business organisations for changes to the tax system for self-funded training by employees and the self-employed, this early-stage consultation was very helpful in exposing the challenges and opportunities to inform the government's approach. The government is very grateful to all those who took the time to respond to the consultation and meet with officials.

Extension of tax relief

- 3.3 The government has decided not to extend the existing tax relief for employees, the self-employed, or for retraining. As with all taxes, it will keep this under review but it has concluded that there is insufficient evidence that extending tax relief is likely to be effective in incentivising self-funded work-related training. The responses to the consultation were mixed but the majority of responses were sceptical about the impact of tax relief in addressing the established barriers to learning, which include:
- the upfront cost
 - a lack of time caused by work and other commitments
- 3.4 This is supported by research published by the Government Office for Science in 2017,¹ which indicated that cost and lack of time are reported as common barriers to adult learning for individuals of all skill levels. The research also indicated that individuals with no qualifications are more likely to cite attitudinal barriers, including lack of confidence, lack of interest, and feeling too old to learn.
- 3.5 It was suggested that extending tax relief could act as a helpful signal from the government about the importance of training but it would be unlikely to motivate many individuals to undertake training on its own. The responses to the consultation indicate extending tax relief might encourage some additional training but it would also involve significant deadweight losses, subsidising investments in skills that would occur even in the absence of

¹ [Future of Skills & Lifelong Learning](#), Government Office for Science, November 2017

government support. This means any impact on the primary objective of boosting the aggregate productivity in the UK would be negligible.

- 3.6 The responses also acknowledged that the concerns about potential misuse are legitimate and lessons need to be learned from vocational training tax relief. The government has a responsibility to minimise the opportunities for misuse and ensure tax relief cannot be claimed successfully when the expenditure relates to recreational activities. Some of the suggestions for tackling this would be very resource intensive for individuals and employers, such as requiring employers to verify that self-funded training is work-related. Others would also be very resource intensive for HMRC and require significant increases in compliance activity.
- 3.7 The government has also noted concerns about other potential features that could reduce the scope for misuse, such as a cap on expenditure and targeting the relief on training leading to regulated qualifications. Responses indicated a desire for simplicity and flexibility, which would risk increasing the scope for misuse rather than reducing it.
- 3.8 Extending tax relief for employees and the self-employed would be a very significant fiscal commitment for the public finances. It was suggested in some responses that any cost should be affordable because the Exchequer would benefit in the medium-term from increased tax revenues as a result of increases in productivity. However, this relies on individuals undertaking training that would not have taken place otherwise, which responses suggested is highly uncertain.
- 3.9 The government can only introduce new tax reliefs or extend existing tax reliefs when there is sufficient evidence that this is likely to deliver on the government's objectives and there are not more effective policy alternatives.
- 3.10 As the consultation document identified in the lessons to be learned, there are a wide range of factors for the government to consider when introducing or extending tax reliefs. Tax reliefs can be difficult to target because they are of greatest benefit to those paying higher rates of tax and do not benefit non-taxpayers. Tax reliefs are often more complex to administer and for taxpayers to understand than direct spending on skills investment. Low skilled, low-income taxpayers are also more likely not to claim. The strong emphasis in the consultation responses on simplicity has been taken into account when considering the merits of a policy intervention through the tax system to incentivise training and boost aggregate productivity.
- 3.11 As a result, building on existing initiatives, the government will instead continue to focus on implementing its Industrial Strategy and launching the ambitious National Retraining Scheme. This will help those in work, including the self-employed, develop the skills they need to thrive and support business to adapt as the economy changes.
- 3.12 Budget 2018 allocates £100 million for the first phase of the National Retraining Scheme. This will include a new careers guidance service with expert advice to help people identify work opportunities in their area, and state-of-the-art courses combining online learning with traditional classroom

teaching to develop key transferable skills. The National Retraining Partnership between the government, the Confederation of British Industry and the Trades Union Congress will focus on job-specific retraining in phase two.

- 3.13** To support the development of the Industrial Strategy and alongside the National Retraining Scheme, the government will fund £20 million of skills pilots. This will include:
- a new £3 million pilot to help employers in Greater Manchester and surrounding areas to address local digital skills gaps through short training courses
 - a £10 million pilot in Greater Manchester, working with the Federation of Small Businesses, to test what forms of government support are most effective in increasing training levels for the self-employed
 - £7 million match funding alongside employers in Greater Manchester to provide on-the-job training to young people not currently in employment, education or training, and move them into sustainable career paths with employers
- 3.14** The government has also noted concerns about the apprenticeship levy and will introduce a package of reforms to strengthen the role of employers in the apprenticeship programme. As part of this:
- the government will make up to £450 million available to enable levy paying employers to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains
 - the government will provide up to £240 million to halve the co-investment rate for apprenticeship training to 5%
 - the government will also provide up to £5 million to the Institute for Apprenticeships and National Apprenticeship Service in 2019-20, to identify gaps in the training provider market and increase the number of employer-designed apprenticeship standards available to employers. All new apprentices will start on these new, higher-quality courses from September 2020
 - the Exchequer Secretary to the Treasury and the Minister for Apprenticeships and Skills will work with a range of employers and providers to consider how they are responding to the apprenticeship levy across different sectors and regions in England, as well as the future strengthened role of apprenticeships in the post-2020 skills landscape

Other issues with the existing tax rules

- 3.15** The government has considered the case for revisiting the taxation of Optional Remuneration Arrangements and adding work-related training to the list of exceptions.
- 3.16** The government remains of the view that tax advantaged Optional Remuneration Arrangements are unfair to the vast majority of taxpayers who do not have access to these arrangements. The government legislated to

restrict the tax advantages of these arrangements from April 2017 and has no plans to expand the small number of exceptions. Retraining is an existing exception and a special case because it is targeted at those who are about to leave their current employment, or have recently left, to get another job or set-up a business.

- 3.17 Other exceptions include pension contributions, childcare, cycle to work schemes, and low emission company cars. These all support wider government objectives, which currently rely significantly on the availability of these arrangements.
- 3.18 The government has also noted the concerns raised about the lack of awareness of the current rules and the need for clear guidance, particularly for the self-employed. HMRC will review its guidance and seek to make improvements where possible so it can be more easily understood.

Conclusion

- 3.19 The government remains committed to creating an environment to support people to develop the skills needed for jobs of the future, responding to the opportunities that will be created by longer working lives, automation of low skilled labour and changes to the labour market. It is committed to finding the most effective policy interventions, which ensure value for money and best deliver the government's objectives in boosting aggregate productivity.
- 3.20 The government has considered the case for an extension of tax relief for self-funded work-related training. It has approached the issues with an open mind and has been guided by the consultation responses and available evidence.
- 3.21 After careful consideration of the consultation responses, the government believes other policy interventions, including launching the National Retraining Scheme and the skills pilots, are the right approaches to help those in work, including the self-employed, develop the skills they need to thrive.

Annex A

List of organisations responding to the consultation

A.1 The government received 32 written responses from a mixture of representative organisations, businesses, and individuals. The representative organisations and businesses are listed below.

- The Association of Accounting Technicians
- The Association of Colleges
- The Association of Employment and Learning Providers
- The Association of Independent Professionals and the Self-Employed
- The Association of Taxation Technicians
- The British Airline Pilots Association
- The British Film Institute
- The Chartered Institute of Taxation
- The Crafts Council
- The Creative Industries Federation
- Creative Skillset
- Deloitte LLP
- The Design Council
- The Federation of Small Businesses
- Grant Thornton UK LLP
- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants of Scotland
- The Institute of Directors
- Kingston Smith LLP
- Learnerbly
- The London Society of Chartered Accountants' Taxation Committee
- The Low Incomes Tax Reform Group
- The Open University

- The Society of Authors
- The Trades Union Congress
- The UK200Group

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative format or have
general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk