Using tax incentives to promote education and training
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Foreword

The primary goal of education and training policy is to increase knowledge, skills and competence of the learner. Higher skill levels promote employability and an individual’s chances of remaining in the labour market. The first strategic challenge for European cooperation in education and training (European Commission, 2008a) in the years to 2020 is to foster lifelong learning and learner mobility. Creating and supporting opportunities for lifelong learning is both an objective and a means of achieving quality and efficiency, equity and citizenship, innovation and creativity at all levels of education and training. The Bordeaux communiqué (European Commission, 2008b) on enhanced European cooperation in vocational education and training (VET), closely linked with general and higher education, confirms that VET is essential to lifelong learning strategies. The question is how to ensure that sufficient financial resources are devoted to lifelong learning and mobility?

Cedefop’s previous work on financing education and training has examined sectoral training funds, learning accounts in EU Member States and now is turning to tax incentives. Tax policy might contribute making lifelong learning a reality. The question of how investment in intellectual assets is treated in the tax system plays an increasing role in tax policy in most countries.

The report shows important differences among the countries analysed in the tax treatment of spending on education and training. It underlines the role of tax incentives for education and training and illustrates that tax incentives are appreciated by employers and employees, particularly in reducing education and training costs and for their low levels of bureaucracy. However, tax incentives are often criticised for their high deadweight effects, especially among large enterprises and highly qualified individuals. Additionally, they can be detrimental as they end up favouring those groups already with best access to education and training. It is argued that public authorities should try to introduce specific and deliberated targeted incentives for those groups less favoured, such as small enterprises and their employees, those on low incomes and the low skilled.

Tax incentives should be considered as a supplementary measure rather than the main instrument in the policy-makers’ arsenal. They have to be fine-tuned to other joint financing policies to achieve the best outcome possible.

I believe that this publication not only provides a valuable overview of the use of tax incentives to promote education and training but could also help Member States to learn from one another on matters of joint financing of lifelong learning.

Aviana Bulgarelli
Director of Cedefop
Acknowledgements

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- Cedefop, Peter Szovics for overall coordination and management of the project;
- Ikei Research and Consultancy, Antonio Corral for coordinating the network of national experts and Iñigo Isusi for producing the comparative analysis. The list of national experts involved in the research is provided in Annex B.
- Cedefop would also like to acknowledge the suggestions and comments received from colleagues at the Directorate-General for Taxation and Customs Union and the Directorate-General for Education and Culture, in particular from Florian Wöhlbier and Lucie Davoine.
- This report also benefited from comments by the national tax authorities from Germany, Ireland, France, the Netherlands, Austria and Finland.
- The support, encouragement and generous help of colleagues from Cedefop, in particular Manfred Tessaring and Patrycja Lipińska is gratefully acknowledged. Parts of this report will be presented during the conference on tax incentives for education and training, to be held in Brussels in September 2009.
Preface

Human capital is crucial to achieving economic growth, employment and social cohesion. At the Lisbon European Council in March 2000, government leaders set the European Union (EU) a 10-year mission to become the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion. Lifelong learning is central to the Lisbon strategy, which sets continuous knowledge development and population skills increase as key objectives of the EU agenda. However, more effort is needed to accomplish the benchmark established for 2010 in lifelong learning (participation in education and training of the population aged 25-64 of at least 12.5 % as EU average).

Several European countries have set up tax incentives to foster national education and training activities. The need to provide continuing training for the workforce has led to several cost-sharing (cofinancing) schemes across Europe, including tax incentives, loans, training funds, and individual learning accounts. Therefore, tax policy has been incorporated into some initiatives to enhance incentives and means for financing lifelong learning.

This report is intended to achieve a deeper and more detailed understanding of tax policy incentives used by EU governments to stimulate investment in education and training in a selected number of countries, as well as their main strengths and weaknesses. Specifically, the study explores tax concessions on revenue earned from selling learning services or on expenditure on learning by individuals or companies. The analysis is solely focused on three main types of taxes: personal income tax (PIT), corporate income tax (CIT) and value-added tax (VAT).

The report is structured in five main chapters. Chapter 1 sets the scene, providing information that helps understand the importance of lifelong learning and continuing vocational training in Europe. Chapter 2 provides a general overview of the use of tax incentives to promote education and training in Europe, while Chapter 3 analyses the experiences with such incentives in Germany, Ireland, France, the Netherlands, Austria and Finland. Chapter 4 presents a comparative analysis of these experiences and, finally, Chapter 5 draws a series of conclusions and recommendations.
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Executive summary

Europe can be considered as a knowledge society. Investment in human resources and skills through education and training is widely recognised as one of the key engines for both economic growth and social cohesion. However, the available empirical evidence on lifelong learning shows that training opportunities are unevenly distributed and that there are multiple barriers and market failures that challenge the goal of making lifelong learning a reality for all adults.

The need to foster lifelong learning for all has led to the development of several joint financing schemes across Europe to stimulate investment in education and training, both by individuals and enterprises, including subsidies, loans, training funds, individual learning accounts and, also, tax incentives. Therefore, tax policy has been incorporated into some initiatives to increase incentives and the means for financing lifelong learning.

Tax incentives can be defined as those concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base or the tax due. These are usually intended by public authorities to encourage particular types of behaviour (education and training, in this case) and/or to favour concrete groups (certain individuals or companies). It is important to bear in mind that tax incentives are an alternative to direct government spending for the sake of obtaining given economic and social objectives.

These preferential provisions can be accomplished through different means and typologies of tax incentives (OECD, 2004b):
(a) tax allowances (deducted from the gross income to arrive at the taxable income);
(b) tax exemptions (some particular income is exempted from the tax base);
(c) tax credits (sums deducted from the tax due);
(d) tax relief (some classes of taxpayers or activities benefit from lower rates);
(e) tax deferrals (postponement of tax payments).

This report provides a deeper understanding of tax policy incentives used by EU governments to stimulate investment in education and training, as well as their main strengths and weaknesses. With this purpose, after a preliminary review of the EU as a whole, the study analyses such incentives in Germany, Ireland, France, the Netherlands, Austria and Finland, countries whose experiences in this domain were considered of particular interest.

Specifically, the study explores tax concessions on revenue earned from selling learning services or on expenditure on learning by individuals or companies. The analysis is solely focused on three main types of taxes: personal income tax (PIT), corporate income tax (CIT) and value-added tax (VAT).

It is important to bear in mind that taxation is an issue that remains firmly Member State responsibility, with harmonisation of different tax systems far from being a reality. This situation is especially true for PIT and CIT systems. By way of contrast, the VAT system in relation to education has been harmonised since 1977.
The VAT Directive states that certain activities of general interest linked to education and training activities are exempted from VAT, such as the provision of children’s or young people’s education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto. However, only educational activities provided by organisations recognised by the Member States are exempted from VAT, which implies that the entities covered by the exemption can be different among Member States. Thus, in some countries private organisations providing education and training services cannot apply any exemptions from the general VAT rate for services; this is always the case among public providers.

These differences can also be appreciated when considering the tax treatment of education and training providers in CIT legislation. Private education and training providers are usually not exempted from the obligation to pay CIT, whereas this is not the case for public ones (and also non-profit organisations in some countries). However, there are important disparities among countries in the level of taxation on revenues generated by sales of education and training services.

The general treatment of education and training expenses by CIT has been analysed in six Member States. The expenses incurred by enterprises in training employees in their trade are uniformly regarded as revenue expenditure against profits, which means that these expenses can be deducted 100 % from taxable profits as a cost of doing business. In this sense, education and training costs are just one of the many expense categories that an employer can claim as a deductible expense in profit calculation, so they cannot be strictly regarded as a tax incentive. This general situation is, nevertheless, dependent on different national interpretations, for instance in the supplementary or in-service character of training expenses, the possible impact on individuals' PIT returns (as expenses can be regarded by the tax authority as a benefit-in-kind provided by the employer), etc.

Analysis of the selected Member States shows in three of them the presence of eight tax regulations that allow employers to deduct more than 100 % of education and training costs, adding an incentive to invest in training activities. All these incentives affect or influence income tax returns, either corporate or personal, depending on the legal status of the enterprise. Table 1 illustrates the main goals of these tax incentives: four incentives (1, 2, 7 and 8) encourage general training activities for employees, whereas three (3, 4 and 6) encourage the presence of apprentices in enterprises and, one (5) encourages training activities among entrepreneurs who are not wage earners. Only one incentive is particularly aimed at SMEs; the remainder do not consider enterprise size.

Most tax incentives do not distinguish any specific type of education and training activities supported, but encourage any training that enterprises consider of relevance for the interest of the business. However, in most cases only external training is recognised, this is training supplied by recognised external providers. Finally, it is worth stressing that most of the incentives consist of tax credits, so that they are deducted from the tax due. In any case, differences in the operational details of each tax incentive are very wide.
Table 1. **Tax incentives for education and training expenses carried out by enterprises in selected Member States**

<table>
<thead>
<tr>
<th>Tax incentives</th>
<th>Main goal(s)</th>
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<tr>
<td>1 Training tax allowance <em>(Bildungsfreibetrag)</em></td>
<td>Foster enterprises’ investments in human resources</td>
</tr>
<tr>
<td>2 Training tax credit <em>(Bildungsprämie)</em></td>
<td>Foster enterprises’ investments in human resources</td>
</tr>
<tr>
<td>3 Apprenticeship tax allowance <em>(Lehrlingsfreibetrag)</em></td>
<td>Encourage employment and education of apprentices in enterprises</td>
</tr>
<tr>
<td>4 Apprenticeship tax credit <em>(Lehrlingsausbildungsprämie)</em></td>
<td>Encourage employment and education of apprentices in enterprises</td>
</tr>
<tr>
<td>5 Tax credit for training expenses for entrepreneurs <em>(Crédit d’impôt au titre des dépenses engagées pour la formation du chef d’entreprise)</em></td>
<td>Favour training activities of entrepreneurs who are not wage earners</td>
</tr>
<tr>
<td>6 Tax credit in favour of apprenticeship <em>(Crédit d’impôt en faveur de l’apprentissage)</em></td>
<td>Support the employment and education of apprentices in French enterprises</td>
</tr>
<tr>
<td>7 Tax credit for training expenses of employees in enterprise economy and financial participation <em>(Crédit d’impôt au titre des dépenses de formation des salariés à l’économie de l’entreprise et aux dispositifs d’épargne salariée et d’actionnariat salarié)</em></td>
<td>Support SMEs that carry out training activities for their employees in enterprise economy and financial participation</td>
</tr>
<tr>
<td>8 Payment reduction for education <em>(Afdrachtvermindering voor onderwijs)</em></td>
<td>Encourage enterprises to carry out education and training activities for their employees.</td>
</tr>
</tbody>
</table>

Note: All these tax incentives affect PIT or CIT (depending on the legal status of enterprises), with the exception of the Dutch tax incentive, related to the salary tax paid by enterprises.

Source: Ikei Research and Consultancy.

Tax incentives for education and training expenses incurred by individuals, are available in all six Member States examined. The 12 identified cases cover a wide typology, including seven examples of tax allowances (A, 1, 2, 3, 8, 9, 10 and 12), two of tax credits (C, 4 and 5), two of tax exemptions (6 and 7) and one of tax relief (No 11).

There are important differences in the types of education/training activities supported. Some incentives support education and training either for current employment/occupation or for individuals intending to start a new career. In other cases, only education and training related to current professional or vocational skills are permitted. One incentive (No 6) is solely focused on promoting apprenticeship; the remaining cases are intended to benefit general education activities, most of them tertiary education, but sometimes also primary and secondary education. Also, one tax incentive (No 11) exclusively covers training courses in foreign language and information technology, provided by approved training centres. Some tax incentives aim to foster education and training irrespective of whether the activities are carried out in national institutions or abroad.

The type of individuals benefiting from such incentives varies according to the type of education supported. In most cases, the beneficiaries can only be those taxpayers who are involved in personal education or training activities. However, in two cases, parents can also benefit provided they pay education fees for dependent children. Also, there are cases specifically aimed at tax paying parents who have dependent children following secondary and tertiary education.
There is a large range of costs/concepts supported by tax incentives for individuals. In three cases, the incentives support study loans for tertiary level students. In others, they exempt wages earned by apprentices or by students. The remaining incentives support expenses incurred in education and training, although there are also differences in the expenses accepted, such as only course/tuition fees or also indirect costs.

Table 2.  **Tax incentives for education and training expenses carried out by individuals in selected Member States**

<table>
<thead>
<tr>
<th>Tax incentives</th>
<th>Main goal(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT 1 Deductions of training costs as income-related expenses (Werbungskosten)</td>
<td>Encourage individuals’ expenditure on education and training related to earning an income</td>
</tr>
<tr>
<td>FI 2 Allowable expenses related to costs incurred for maintenance of professional or vocational skills (Vähennyskelpoiset kulut ammatilliset osaamisen ylläpidosta)</td>
<td>Help individuals to engage in maintaining their professional/vocational skills</td>
</tr>
<tr>
<td>FI 3 Study loan allowance (Opintolainavähennys)</td>
<td>Encourage students to take study loan instead of paid work, and therefore make it possible to graduate in a shorter time period.</td>
</tr>
<tr>
<td>FR 4 Income tax credits for education expenses in higher education and in secondary education (Réductions d'impôt pour frais de scolarité dans l'enseignement supérieur et dans l'enseignement secondaire)</td>
<td>Support taxpayers who have dependent children following studies in a secondary school or in a higher education establishment (collège or lycée) (also family policy)</td>
</tr>
<tr>
<td>FR 5 Tax credit on interest burden of loans incurred by students in higher education to finance their studies (Crédit d'impôt sur les intérêts des emprunts contractés par des étudiants en vue de financer leurs études supérieures)</td>
<td>Support students financing their tertiary level studies with a bank loan</td>
</tr>
<tr>
<td>FR 6 Income tax exemption on wages earned by apprentices (Exonération du salaire des apprentis)</td>
<td>Promote apprenticeship in France, and improve the purchasing power of French youngsters</td>
</tr>
<tr>
<td>FR 7 Income tax exemption on wages earned by pupils and students working during school or University holidays (Exonération des salaires perçus par les jeunes exerçant une activité pendant leurs congés scolaires ou universitaires)</td>
<td>Improve the financial situation of students who have a job while studying</td>
</tr>
<tr>
<td>DE 8 Deductions of education/training costs as income-related expenses (Werbungskosten)</td>
<td>Encourage individuals’ expenditure on education and training activities</td>
</tr>
<tr>
<td>DE 9 Deductions of education/training costs as special expenses (Sonderausgaben)</td>
<td>Encourage individuals’ expenditure on education and training activities</td>
</tr>
<tr>
<td>DE 10 Deduction of tuitions fees for own children in private schools (Entgelt für den Besuch einer Ersatzschule oder einer Ergänzungsschule)</td>
<td>Support German taxpayers who have children following studies in certain recognised private schools (also family policy)</td>
</tr>
<tr>
<td>IE 11 Tax relief for tuition fees</td>
<td>Provide a financial stimulus for individuals to engage in training activities</td>
</tr>
<tr>
<td>NL 12 Deduction of educational expenses (Aftrek studiekosten of andere scholingsuitgaven)</td>
<td>Increase the participation of adults in lifelong learning activities through diminishing the cost of education and training for individuals</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.
Despite this relatively frequent (and uneven) use of tax incentives to stimulate enterprise and individual involvement in education and training activities, available data shows they are not the backbone of public education and training policies. In fact, they account for a very small percentage of total public expenditure on education and training, as most Member States opt for direct funding and provision of these services. Additionally, tax policies are largely unconnected with education and training policies, even though in recent years increasing attention is being devoted to this question. Some national experiences show that tax incentives are considered more effective where they are used in concert with other policy measures rather than on their own.

Despite important differences among the countries examined, tax incentives have many positive aspects and are appreciated by employers and individuals, particularly for their reduction in education and training costs and their low levels of bureaucracy. However, tax incentives are often criticised for their high deadweight effects, especially among large enterprises and highly qualified individuals. Additionally, they often have perverse redistribution consequences as they end up favouring those groups already with best access to education/training. It is argued that public authorities should try to introduce specific and well thought out targeted incentives for less favoured groups (small enterprises and their employees, those on low incomes, the low skilled, etc.).
1. Setting the scene: the European knowledge society

1.1. Some data on lifelong learning activities in Europe

Europe can be considered as a knowledge society. Investment in human resources and skills through education and training is widely recognised as one of the key engines for both economic growth and social cohesion. European public policy-makers are placing special emphasis on lifelong learning for several reasons (European Commission, 2007b):

(a) raising the skills and the employability of workers at-risk can reduce social exclusion and income inequality caused by insufficient human capital;

(b) lifelong learning sustaining policies can be a means of keeping older workers, who entered the labour force with low levels of schooling, active in the labour market, thereby sustaining European social protection;

(c) policies targeted towards continuing vocational training and lifelong learning can be crucial to flexicurity, bringing flexibility and security by making internal labour markets more dynamic in the context of constant economic changes but at the same time offering more employment security;

(d) lifelong learning policies are a key instrument for ensuring that workers acquire the skills necessary to learn and innovate in a new era characterised by rapid change and learning, also helping enterprises to become more competitive.

The available empirical evidence on lifelong learning shows that training opportunities are unevenly distributed among countries and individuals, depending on their personal characteristics.

It is possible to argue that there are large variations between countries in the incidence and intensity of lifelong learning activities, with a clear gap between the Nordic countries and some central European countries (Denmark, the Netherlands, Austria, Slovenia, Finland, Sweden or the UK) and some of the southern and eastern ones (Bulgaria, Hungary, Portugal, Romania or Slovakia) (Figure 1).

Lifelong learning activities are also unevenly distributed among specific individuals. Some groups are particularly involved, such as those with higher education, the young or, more generally, men when compared to women (although differences are not that wide and do not apply to all countries). As example, the percentage of those with tertiary education who participate in any learning activity is up to three time higher than those with just primary and lower secondary education levels. Also, the percentage of those people between 25 and 34 years old who participate in any learning activity is twice as high as those more than 55 years old (see also Eurostat’s labour force survey, special ad hoc module on lifelong learning).
The available evidence on continuing training among adult workers (Nestler and Kailis, 2002a,b,c; Eurostat, 2007), confirms the previous results. Employees have more opportunities for employer-sponsored training when they are employed by large enterprises, they are young or they are men. Also, those with higher education or those employed in high-skilled occupations or higher in the hierarchy have greater access to learning opportunities than others. Employers are less likely to include immigrants and involuntary part-time and temporary workers when selecting which employees to train.

There are multiple barriers to achieving the goal of making lifelong learning a reality for all adults. These may include inappropriate pedagogy tools, lack of flexibility in the organisation of studies, inadequate recognition of formal/informal skills and competences, economic and financial barriers or difficulties for individuals to balance better the demands of work, family and learning (time constraints) (OECD, 2004b). Also, it is possible to identify in continuing vocational training activities several market failures (labour market imperfections, capital market imperfections, and information asymmetries) which challenge underpinning employee demands for training or employers' limited supply (OECD, 2003a). These barriers may affect both employers (lack of adequate information on training related issues like training needs, available training supply, potential returns of training investment; poaching practices by competitors; financing difficulties) and employees (lack of awareness of training needs, financial constraints, time to attend training courses, etc.).
1.2. Lifelong learning policy in the EU

Lifelong learning (1) has been especially important in the European political debate since 1996, when the EU declared the European year of lifelong learning. The Lisbon European Council in March 2000 implied a major momentum for the development of a lifelong learning policy in the EU. The Lisbon strategy set the strategic objective for the EU to become, in the next 10 years, the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth, with more and better jobs and greater social cohesion. Lifelong learning was viewed as a core element of this strategy, central not only to competitiveness and employability but also to social inclusion, active citizenship and personal development. The adoption by the Commission of the communication on making a European area of lifelong learning a reality (European Commission, 2001) in November 2001 reinforced, fully in line with the Lisbon strategy, the role of lifelong learning as a key tool for economic performance and competitiveness as well as social cohesion. The Lisbon strategy was relaunched in spring 2005 (European Commission, 2005) making growth and jobs and, in particular, investment in human capital, the number one priority.

In 2001, the Education Council and the Commission endorsed a 10-year work programme called Education and training 2010. This programme constitutes the new and coherent Community strategic framework of cooperation in education and training, where Ministers for Education agreed on several goals and benchmarks to be achieved by 2010 for the benefit of citizens and the EU as a whole: some of these are still far from being

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(1) Lifelong learning can be defined as ‘all learning activity undertaken throughout life, with the aim of improving knowledge, skills and competence, within a personal, civic, social and/or employment-related perspective’ (European Commission, 2001, p. 9).
accomplished (European Commission, 2007a). Several actions were subsequently developed by the European Commission, such as the lifelong learning programme 2007-13 or the activities of the European Social Fund, to improve employment opportunities in the EU by helping people to fulfil their potential by giving them better skills. Also, the framework of actions for the lifelong development of competences and qualifications, agreed by the European social partners, advocates mobilising resources for lifelong development of competences, including tax incentives and deductions for companies and individuals undergoing competence development (ETUC et al., 2006).

Another important milestone in European policy on lifelong learning and training is the Copenhagen process on enhanced European cooperation in vocational education and training. It was launched as the contribution of vocational education and training (VET) to the challenges identified in the Lisbon agenda to improve the overall performance, quality and attractiveness of VET in Europe. Resulting from the Copenhagen declaration of November 2002 (European Commission, 2002) are the resolution on guidance throughout life, principles for identifying and validating non-formal and informal learning, a common framework for quality assurance in VET, and the Europass single framework for the transparency of qualifications and competences.

The first review of the Copenhagen process took place in December 2004 at a ministerial meeting in Maastricht and gave rise to the Maastricht communiqué (European Commission, 2004). This set out priorities for the next phase of the process and, for the first time, introduced national priorities. In December 2006 Helsinki hosted the second review of the Copenhagen process, producing the Helsinki communiqué (European Commission, 2006b). This communiqué calls, among other things, for increased public and private investment in VET by developing balanced and shared funding and investment mechanisms.

The third ministerial follow-up meeting in Bordeaux held in November 2008 agreed to evaluate progress, and to reinforce priorities and strategies for VET within the Education and training 2010 work programme and to reflect on the orientation of the process beyond 2010. Also, the Bordeaux communiqué introduces the new objective of strengthening the links between VET and the labour market, especially in the context of anticipating and matching labour market and skills needs.

In the meantime, the European Parliament and Council have adopted the European qualifications framework (EQF), which acts as a translation device to make national qualifications more readable across Europe, promoting worker and learner mobility between countries and facilitating their lifelong learning (European Parliament and Council of EU, 2008). In line with this, one of the most ambitious objectives for VET in the coming years will be adopting and establishing the European credit system for VET (ECVET) (to support and promote transnational mobility and access to lifelong and borderless learning in VET, by easing transfer and accumulation of learning outcomes achieved by individuals) and the European quality assurance reference framework for VET (EQARF).

Finally, the European Commission is fully aware of the key role that public authorities can play in developing incentives for individuals and enterprises to invest in lifelong learning, using different instruments, including tax incentives, always within the principles of flexicurity (European Commission, 2007b).
2. Review of tax incentives for education and training in Europe

2.1. Definition and types of tax incentives

2.1.1. Definition of tax incentives for education and training

The primary goal of taxes is to raise enough revenue for government activities. However, it is known that governments also use tax laws for achieving wider policy goals; public authorities can introduce tax incentives as part of certain social and/or economic policies.

Examples of such tax incentives are concessions in tax codes, resulting in an accepted loss of government revenue because they reduce either the tax base or the tax due (Bratić, 2006). In other words, they are preferential provisions in the tax norms that result in a conscious reduction of tax revenue, usually intended by public authorities to provide incentives or encourage particular types of behaviour (savings, R&D activities, etc.) or concrete groups (some specific sectors, back-up to families, support to individuals or enterprises for becoming involved in education/training activities, etc.) (Polackova et al., 2004). These tax incentives are often introduced as alternatives to direct government spending (Bratić, 2006).

These preferential provisions can be accomplished through very different means, such as allowances, exemptions, credits, reliefs or deferrals. Typologies will be discussed later in this report.

Whether for individuals or for enterprises, tax incentives are just a part of the policy environment in which various initiatives to simplify financing of lifelong learning operate. Public authorities have developed several strategies for addressing economic and financial barriers affecting the involvement of individual/enterprises in training activities, in addition to tax incentives: grant schemes for enterprises, loan schemes, subsidies for individuals or enterprises, individual learning accounts, support for training leave and part-time study, social partnerships (training funds), and legislative requirements to undertake a minimum level of expenditure, etc.

Tax policy can influence both the economic incentive to invest in lifelong learning and the availability of the financial means for such investment, as well as serving as a mechanism for sharing financial responsibilities among different actors. For some countries, these tax incentives are an important element in their policy to stimulate education and training (OECD, 2004a).

2.1.2. General principles guiding tax policy

The desire to use taxes for more than raising revenue results in the introduction of several tax incentives. However, their introduction (for instance, for supporting training activities among individuals) implies challenges of design so that they do not result in unexpected and
undesired side-effects for other important goals, both economic (affecting the economic efficiency and the productive capacity of the enterprise) or social (favouring specific groups who already invest sufficiently in training activities).

When considering the design of taxes as a tool for achieving wider policy goals, it is important to have in mind several principles that underpin a sound tax policy. A good example of this is given by the list of 10 principles of a good tax policy published by the American Institute of Certified Public Accountants. These 10 principles can be summarised as follows (AICPA, 2001):

(a) equity and fairness: similarly situated taxpayers should be taxed similarly. This principle, usually described in terms of equity, encompasses two different concepts. The concept of horizontal equity provides that taxpayers in similar income conditions should pay the same amount of tax. The concept of vertical equity refers to the situation where taxpayers with the greater ability to pay should pay more tax, favouring the redistribution of resources among the population (although the issue of ‘how much more’ is a topic of debate). This principle of equity is often viewed as a fairness principle, although the use of the word fair in describing a tax might be better used in the context of whether a tax system is perceived as being fair, which helps compliance with the rules;

(b) certainty: the tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined (clear identification and valuation of the tax base). Certainty is important to a tax system because it also helps to improve compliance with the rules and to increase respect for the system;

(c) convenience of payment: a tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. This convenience of payment is important in helping to ensure compliance with the tax system (the more difficult a tax is to pay the more likely that it will not be paid);

(d) economy of collection: the costs to collect a tax should be kept to a minimum (or should be as cost-effective as possible) for both the government and taxpayers. Tax measures that are not practical to administer and enforce (from the point of view of tax authorities) and to comply with (from the point of view of taxpayers), invite uneven application and ultimately risk undermining other goals such as neutrality or equity objectives (OECD, 2004b);

(e) simplicity: the tax law should be simple, both for taxpayers and for those who administer the various taxes, so rules are easily understood and correctly complied with in a cost-efficient manner. Thus, simplicity is important both in improving compliance and enabling taxpayers to understand better the tax rules and consequences of their transactions. Also, simplicity may help to reduce associated costs, both for tax authorities and taxpayers;

(f) neutrality: the effect of the tax law on a taxpayer’s decisions on how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum. This principle suggests that taxes are primarily intended to raise revenue for government activities, so they should not excessively distort economic behaviour by steering investment or consumption decisions in one particular direction or another. In
other words, the effect of the tax law on business and personal decisions has to be kept to a minimum;

(g) economic growth and efficiency: the tax system should not impede or reduce the productive capacity of the economy, either discouraging or hindering economic goals such as economic growth and efficiency, capital formation, and international competitiveness;

(h) transparency and visibility: taxpayers should know that a tax exists and how and when it is imposed upon them and others. In other words, a tax should be made visible to taxpayers, so they may know the true cost of transactions (how much it affects them), their total tax liability and the level of government to which the tax is being paid to;

(i) minimum tax gap: a tax has to be structured to minimise the tax gap, that is to say, the difference between taxes owed and taxes paid (non-compliance). These tax gaps can be caused by several factors: intentional (non-filing, underreporting of income, overstating of deductions, etc.) and/or unintentional ones (complexity of tax provisions, sheer mistakes). To minimise these tax gaps, tax authorities develop several rules to encourage compliance (such as mandatory withholding of taxes at the source or penalties for non-compliance), where these measures need to balance the desired level of compliance and the costs of enforcement/level of intrusiveness of the tax system;

(j) appropriate government revenues: the tax system should enable the government to determine how much tax revenue is likely be collected and when.

In the real world, it is not usually possible to achieve all these 10 key principles to the same degree for all suggested tax changes (2). This situation implies that tax authorities are always obliged to balance the 10 principles to achieve an optimal tax system.

2.1.3. Typology of tax incentives

Tax incentives are introduced to incentive or encourage particular types of behaviour by specific groups. These preferential provisions can be accomplished through very different means and precise fiscal mechanisms.

Diverse approaches are discussed in the literature to classify different types of available tax incentives (3). Incentives can be divided in two main groups. First are those that reduce the tax base (taxable income), with deductibles reducing the tax burden of a taxpayer by the product of the marginal tax rate and the amount of the deduction (therefore, proportional to the marginal tax rate of the taxpayer). Then there are those incentives that reduce the tax due (the product of marginal tax rate and taxable income). In practical terms, it is sometimes difficult to decide on which group or subgroup a given kind of tax expenditure belongs to.

This report uses the tax incentive classification proposed by Sandford (2000), later used by the OECD (2004b) which distinguishes five categories of incentive:

(2) For example, the exclusion of a particular type of economic benefit from taxation may satisfy the principle of simplicity, but not the equity or neutrality ones.

(3) An interesting discussion on this literature can be found in Bratić (2006).
(a) tax allowances: deducted from the gross income to arrive at the taxable income (tax base) (4). The net benefit to be obtained from these allowances depends on the tax rate (whether it is a progressive one or a flat one);

(b) tax exemptions: particular income is exempted (excluded) from the tax base, so it is, therefore, not considered as a taxable income. Tax codes often have certain exceptions for transactions that would otherwise be taxable, usually affecting specific groups of taxpayers (e.g. public grants for students);

(c) tax credits: deducted from the tax due, working as a lump sum deduction. Their net effect is independent from income level and equal for all taxpayers, since a certain amount of money or a certain share of payment is deducted from tax payments for all taxpayers, irrespective of the marginal tax rate. The reduction of tax due is often an alternative method of giving tax relief pursuant to the personal circumstances of the taxpayer, as these tax credits are usually focused on specific groups of taxpayers or activities;

(d) tax relief: tax a class of taxpayers or activities at a lower rate (even at 0 % rate). In some systems tax relief can be deducted from tax due whereas in others it can be deducted from the tax base or taxable income;

(e) tax deferrals: these refer to a specific form of tax incentive that delays payment of taxes.

2.1.4. Potential tax policy influence on investment in education and training

There are two main ways in which tax policy may influence investment in education and training activities: either through the tax treatment of revenue from the sale of learning services or through tax incentives on expenditure in education and training activities (either by individuals or by enterprises) (OECD, 2004b).

The first concerns the tax treatment of revenues that education and training providers receive from those who pay for learning services. It takes the form of taxes on value-added and/or sales as well as taxes on profits, where these taxes become a monetary difference between what the purchasers of learning-related services pay, and what the providers of such services effectively receive as income (especially in the case of VAT).

The second approach to tax policy may influence investment in lifelong learning. Tax incentives can have different forms, such as introducing a tax allowance reducing some amount of expenditure from taxable income, by giving a tax credit against relevant spending or introducing a tax exemption for income accrued by specific groups (such as apprentices). The first two types of incentives may be subject to thresholds (when expenditure is below a limit, tax provisions do not apply) and ceilings (tax provisions do not apply to the expenditure which is above such ceilings).

(4) These tax allowances are especially clear in systems for the taxation of PIT. However, and in the case of CIT, tax rates are calculated on existing profits. In all the analysed countries, education and training expenses carried out by enterprises for the purpose of trade are regarded as revenue expenditure against profits, so the cost of the training is just one of the many expense categories (salaries/wages, travel/subsistence, etc.) that an employer can claim as a deductible expense for profit calculation. Therefore, these deductions for the cost of the training in the CIT cannot be regarded as tax incentives per se as they are just one of many expense categories that an employer can claim as a deductible expense for tax purposes.
This study examines three main types of tax:

(a) personal income tax (PIT), mainly affecting individuals incurring training/education expenditure, as well as some types of legal forms of enterprises (individual entrepreneurs). It may also impact on revenues obtained by individuals (or specific legal status) involved in the provision of education/training services (impact on revenues);

(b) corporate income tax (CIT), mainly affecting enterprises incurring training/education expenditure. It may also impact on revenues obtained by enterprises in the provision of education/training services (impact on revenues);

(c) value-added tax (VAT), mainly affecting enterprises involved in supplying education/training activities (impact on revenues).

Several taxable incomes related to education/training are not considered in this research:

(a) special treatment of donations/contributions/gifts made for educational purposes, either in CIT legislation (examples found in Estonia, Cyprus, Slovenia) or in PIT legislation (the Czech Republic, Germany, Greece);

(b) special treatment of grants and scholarships awarded by public authorities and/or private charitable funds as specified by law, always in PIT legislation (examples found in Greece, Spain, Slovenia, Finland, the UK);

(c) special treatment of other education-related income (in Greece, imputed income from immovable property belonging to public or municipal educational institutions is free of tax, provided that such buildings are used for their housing and in the course of their activities).

2.2. Review of experiences in Europe

Several European countries have developed diverse tax incentives in their PIT, CIT and VAT legislation, to promote both expenditure in education and training activities (either by enterprises or by individuals) and the provision of education and training services. This section provides a general overview of the situation in the Member States, and specifically in the six countries examined in detail: Germany, Ireland, France, the Netherlands, Austria and Finland (see Chapter 3).

It is important to remember that, in comparison to other policy fields, taxation is an issue that strongly remains Member States’ responsibility; harmonisation of the different States’ tax systems is far from being a reality. Member State tax systems reflect national preferences, although subject to overarching Community rules.

This situation is especially true as far as PIT and CIT are concerned. In contrast, VAT has been harmonised since 1977, with the introduction of the sixth VAT Directive (Council of EU, 1977). After a recast, the sixth VAT Directive was replaced by the VAT Directive as from 1 January 2007 (Council of EU, 2006). This is the major piece of VAT legislation with the provisions of the common system of VAT in the European Community, applying to all goods and services bought and sold for consumption within the EU.
This situation implies that in all Member States, as part of the EU VAT system, the structure and scope that Member States apply VAT to goods and services is determined by EU law, including education and training activities.

According to the VAT Directive, certain activities of general interest linked to education and training are exempted from VAT (so they are sold to the final consumer without VAT applying to the sale (5)). More specifically, this refers to the provision of children’s or young people’s education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto, by bodies governed by public law having such as their aim or by other organisations recognised by the Member State concerned as having similar objects. It also covers tuition given privately by teachers and covering school or university education.

Table 1 provides a brief overview of those Member States where tax incentives on expenses on education and training activities for enterprises and for individuals are available in their national PIT and CIT legislation.

### Table 3. Member States where tax incentives for expenditure on education and training activities are available

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(*) Tax incentive available in IRAP (Imposta Regionale sulle Attività Produttive, regional tax on productive activities).

Source: Ikei Research and Consultancy.

A brief description of each country experience is presented next (6).

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(5) When the supply of goods or services is exempt, the supplier does not have the right to deduct the VAT on purchases. Such exemption without the right to deduct means that ‘hidden’ VAT remains included in the price paid by the consumer. This exemption should be clearly distinguished from a zero rate of VAT which certain Member States have a derogation to retain and which means that the final price to the consumer includes no residual VAT.

(6) The following information sources have been used:
2.2.1. Available tax incentives by country

In Austria, it is possible to identify several tax incentives aimed both at enterprises and individuals. Training expenses are treated as income-related expenses reducing taxable income, both for enterprises and individuals. There is an extra tax allowance for companies for training expenses: those that do not make enough profit to benefit from this 120 % tax allowance can alternatively claim a tax credit of 6 % of the actual expense. Also, the Austrian taxation system has an apprenticeship tax allowance and an apprenticeship tax credit to promote company participation in apprentice education.

In Bulgaria, tax incentives for legal entities were introduced in 2007, although these mechanisms are not specifically for training purposes. In fact, the tax credits are envisaged for collective investment schemes and licensed investment companies with a special investment purpose, with approximately 20 % of such schemes being for education and training of those in employment.

In Cyprus, any training costs for staff are tax deductible for SMEs whether this training takes place in Cyprus or abroad.

In the Czech Republic, tax allowances for companies and individuals have been available for training purposes since 1993 and 2007, respectively. The allowance for companies covers education and training leading to qualification deepening (not upgrading), where the maximum deductible sum is 100 % of the training costs. There is a tax allowance for individuals that covers the entire cost of exams up to EUR 400 (though not the costs of training).

In Estonia, tax credits for individuals permit a credit of a maximum amount/share of training expenditure equal to the tax-deductible amount per year per taxpayer, but not more than the yearly taxable income. The credit covers only tuition fees and interest on state-guaranteed study loans; informal education can be credited in addition to formal studies. For legal entities, all direct and some indirect costs of training activities (elaboration of training plans, consultancy activities) can be covered through a tax allowance. Both tax incentives started in 1996.

In Finland, companies are entitled to deductions in respect of expenses in supplementary or in-service training (to maintain and develop skills needed in current employment, so responding to the interests of the employer); these are fully deductible when calculating profits. Finnish taxpayers have the right to deduct expenses incurred in maintaining their professional/vocational skills (supplementary or in-service training) when expenses exceed

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- European Commission, Directorate–General for Taxation and Customs Union, Taxes in Europe database;
- Cedefop, database on national VET systems;
- Cedefop, ReferNet network national reports on progress in the policy priority areas of VET, 2008.
- Cedefop Info, several numbers; Cedefop (forthcoming); EIM business and policy research and SEOR (2005a); ETUC (2006); European Commission (2007c, 2008b).

Information for Germany, Ireland, France, the Netherlands, Austria and Finland, has been obtained from the research itself (for further details see Chapter 4 for in-depth information for each of these countries). These sources might not contain all the information necessary to have a full picture of the incentives in place in Member States. This applies in particular to the 21 countries not analysed in detail. For instance, in the Taxes in Europe database, the level of detail given varies for the different taxes and from one Member State to another, as the information is provided by Member States’ authorities, where Member States provide the information on the main tax incentives but not necessarily on all.
EUR 620. Also, the study loan allowance applies to Finnish taxpayers who financed their studies via a bank loan and, under specific conditions, may deduct annually from their gross income an amount corresponding to the instalment of a study loan that they paid. This is limited to a maximum of 30 % of the loan capital exceeding EUR 2 500, with interest on study loans also deductible.

France offers many tax incentives, both for enterprises and for individuals. Enterprise incentives include tax credits for training expenses for entrepreneurs, supporting apprenticeship, and for training employees in the enterprise economy and financial participation, aimed at SMEs. For individuals, the main tax incentives include: income tax credit for expenses in higher and secondary education, aimed at students with dependent children and influencing PIT returns; tax credit on loan interest incurred by students in higher education to finance their studies, aimed at students in higher education and affecting their PIT declarations returns; income tax exemption for apprentice wages, aimed at apprentices (or their parents) and affecting PIT declarations returns; and income tax exemption on wages earned by pupils, aimed at students (or their parents) and affecting PIT declarations returns. There are also tax incentives for education and training that affect other tax types, such as social security contributions. An example is the exemption or reimbursement of social security contributions on wages paid to apprentices or the exemption of apprenticeship tax for SMEs employing at least one apprentice and in which the total gross wages paid are less than six times the annual minimum wage (SMIC, Salaire minimum interprofessionnel de croissance).

In Germany, expenditure for VET can be deducted from the tax base of PIT of individuals. Expenses regarded as professional or income-related can be fully deductible provided that the education/training is related either to the occupation/job carried out or to retraining preparing for a future occupational change. Expenses for initial VET which are not professional or income-related can be deducted as special expenses up to EUR 4 000 per year; here initial education refers to education courses recognised by a public authority and conclude with an official exam (university studies, apprenticeships, vocational schools, etc.). Also, taxpayers who have children attending certain recognised private schools can deduct 30 % of the tuition fees of these private schools as special expenses.

In Greece, the PIT legislation identifies several deductions from the payable amount of tax. These include 20 % of the annual rent for the taxable person’s dependent children who are studying at a recognised educational establishment in Greece and 20 % of annual expenditure for the provision of home or additional outside tuition at any recognised educational level, including for foreign languages, for each of the taxable person’s dependent children or for himself. The amount of each expense upon which the deduction is calculated cannot exceed 10 % of the untaxed first step of scale. Each expense must be declared in the initial tax return, with each expense calculated in total for both spouses and it is attributed to each one according to their declared income.

Hungary aims to increase the number of students participating in initial vocational education, so the government has recently introduced several fiscal incentives both for apprentices and enterprises. They include:

(a) fiscal incentives for apprentices: with the aim of increasing payment to apprentices with an allowance exempted from taxes calculated at 15 % of the minimum wage in the first
term of the first VET grade (to be increased by at least 10 % in each following term according to the student’s performance and diligence). Since 2007 the amount to be paid in the first term has been increased to 20 % which is supplemented by another 20 % for training provided in vocations in which there is labour shortage, and thereafter the training provider decides on the amount of mandatory increase;

(b) fiscal incentives for those enterprises that provide student contract-based practical training: in 2003 the cost of materials used in student training became eligible for deduction of 20 % of the minimum wage per student per year, the flat rate deduction of costs became possible annually at the minimum wage, and the amount of tax base reduction per student per month was raised to 20 % of the minimum wage. In 2006 the range of costs deductible on a flat rate basis was widened by making social security tax, deductible, and further costs became deductible up to 150 % of the minimum wage. In 2007 the deductibility of materials costs was raised to 40 % of the minimum wage in case of training provided in vocations in which there is labour shortage, and administrative costs related to practical training provision and the deduction of its costs became deductible up to a maximum HUF 15 000 (EUR 51) (1) per student per year, but limited to the annual amount of minimum wage per enterprise.

In Ireland, companies are entitled to deductions in respect of training expenses, wholly and exclusively incurred for the purposes of their trade, against their profits (in calculating corporation tax). The main incentive is tax relief at the standard rate of income tax (20 %) on third-level tuition fees paid for approved courses at approved colleges of higher education, including certain undergraduate courses in Member States and postgraduate courses in Member States and non-Member States. Tax relief is also available on tuition for certain language and information technology courses.

In Italy, and since 2007, certain training costs incurred on new employees can be made exempt from the regional tax on productive activities (IRAP, imposta regionale sulle attività produttive). The IRAP was introduced in 1998 and it taxes the net production value of enterprises: this is, the difference between the value of production and production inputs excluding personnel costs and interest costs as well as losses on bad debts. Since 2008, the basic rate is 3.9 %, which can be augmented or reduced by up to one percentage point by the regional authorities (2).

In Latvia, VET costs can be deducted from PIT since 1993, with modifications in 2008. The maximum amount of training expenditure which may be deducted through tax allowances for individuals is EUR 213.43; any taxpayer is eligible. Meanwhile, tax allowances for legal entities have been introduced in 2006, and the maximum deductible expenditure is the same (EUR 213.43 per employee who has an agreement with the employer and for whom the employer does not have to pay income tax).

In Lithuania, following the policy principles set in the National Education Strategy 2003-12, parliament approved in 2007 an amendment to the law on income tax of individuals

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(1) European Central Bank Euro foreign exchange reference rate for Hungarian forint as at 6 April 2009 (1 EUR = 294.30 HUF).
(2) The non-deductibility of labour and financial costs results in a particularly wide base. Indeed, IRAP raises more revenue than the corporate income tax (European Commission, 2008c).
(Parliament of the Republic of Lithuania, 2003). The main focus of this amendment was to encourage individuals to take responsibility for their qualifications, so it permits recovery of a share of costs where individuals fund their own education. Within PIT legislation, payment for study where higher education and/or qualifications are obtained upon graduation, and also for doctoral studies and art post-graduate studies, undertaken by residents of Lithuania during the tax period, may be deducted from income, up to 25% of the expenditure on training. Where a studying resident of Lithuania is not an income taxpayer or has no possibility to exercise his right to deduct payments for studies, such expenses may be deducted from the income of a family member. Tax allowances for legal entities have been in place since 2005 for initial VET, with amendments in 2008. For continuing vocational training activities, the law foresees the possibility of allowable deductions including those for short-term continuing training courses for employees, always associated with present occupation of the person.

In Luxembourg, there are several tax credits for expenses in lifelong professional training under PIT legislation. Since January 2000, Luxembourg companies wishing to invest in employee training can apply for a contribution from the State. This takes the form of direct aid equivalent to 10% net of tax on the cost of the investment made in continuing vocational training, or a tax credit equal to 10% of this same investment cost. Many companies encounter difficulties, notably of a procedural nature, in conforming with the requirements of the law. The National Institute for the Development of Continuing Vocational Training (Institut National pour le Développement de la Formation Professionnelle Continue), in association with the Chamber of Commerce (Chambre de Commerce) and the Chamber of Trades (Chambre des Métiers), offers a one-day training course on the conditions and practical arrangements for gaining access to this public aid.

In Portugal, PIT legislation states that employees can increase their tax allowance up to 75% of 12 times the minimum monthly wage (EUR 3 834) if the taxpayer has incurred training expenses. Also, there are tax credits calculated at 30% of education expenses, up to a limit of 160% of the minimum monthly wage (EUR 681.60). For households having three or more dependants, this limit is increased by 30% of the minimum monthly wage (EUR 127.80) for each dependant.

CIT legislation in Slovenia states that a company employing an apprentice or a student to carry out practical work in professional education by a teaching agreement may claim a reduction in the taxable base in the amount of the salary paid, but not exceeding 20% of the average monthly salary in Slovenia, for every working month and every individual person taking part in such professional education. Since 2006, every taxpayer is allowed to deduct 3% of overall annual return to reimburse for VET and other purchases (training, books, medicine, sport, healthcare, etc.). Before 2006, tax allowances were directly linked to education, and they amounted to 2%.

In Spain, the CIT legislation states that the costs incurred in staff training can be deducted (tax credits), with a limit varying between 10 and 15% of the total company’s expenses incurred during the fiscal year.

In Slovakia, tax policy has been intended since 2004 to be as simple as possible, introducing a 19% flat rate for VAT, income and corporate taxes and excluding almost all tax
exemptions. Therefore, tax policy has been kept separate from social policies: it is assumed that a low flat corporate tax of 19% should substantially encourage enterprises to finance training. However, from 2008 the Slovak parliament has decided to introduce an exception to this general principle, in the form of a tax allowance for some categories of medical staff (medical doctors, dentists, nurses and obstetric nurses/midwives) who participate in specialised continuing education activities; there are plans to include other target groups. The maximum proportion of training expenditure to be credited is 10%, but the credit must not exceed EUR 1 328, and only covers direct training costs (tuition fees and expenses on training materials) and learning in certified programmes.

In the Netherlands, it is possible to identify two main tax incentives:
(a) payment reduction for education activities, related to costs made by an enterprise educating and training employees, that can be partially deducted from the employers’ part of salaries tax;
(b) allowing individuals to deduct from their taxable income expenses of education and training pursued with a view to obtaining higher income from employment.

In the UK, PIT legislation identifies the child tax credit, which supports families with children, and some 16 to 18 year olds, those in full-time education or on certain approved training courses.

2.2.2. Examples of cancelled tax incentives by country

Some Member States in the past developed tax incentives which, for different reasons, were cancelled. Examples can be found in Belgium, France, Italy and the Netherlands.

During 1999-2001 Belgium developed the Vlamivorm measure, a fiscal initiative for education and training purposes (Box 1).

In France, the training tax credit (crédit d’impôt formation) was offered from 2001 to 2004. It was aimed solely to SMEs in which training expenses surpassed the compulsory financing of training (9) and training expenses increased between two years. The tax credit was equal to 35% of this difference.

In Hungary, participants in adult training activities in an institution of higher education have been able to reduce their education expenses through the PIT deduction opportunity (PIT legislation). This PIT credit opportunity was available from 2003 until 2007 for those with an annual income less than (in 2006) HUF 6 500 000 (EUR 22 086). The amount of tax credit was 30% of the education fee but not more than HUF 60 000 (EUR 2040) (10).

In Italy, between 2001 and 2002, the Law 383/01, Art. 4 (Tremonti bis) introduced tax benefits to enterprises that invested in training activities for their employees.

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(9) Since 1971, all French enterprises with employees must dedicate to vocational training of year N a percentage of total gross wages paid during year N-1.

(10) See footnote (9).
Box 1. Description of the Vlamivorn measure (Belgium)

Introduction
The Vlamivorn measure was a temporary measure, which existed in the years 1999, 2000 and 2001. It had to be terminated after the European Commission concluded that some elements did not meet with European regulation. The measure provided tax reductions with which enterprises could cover certain costs; however, some of these were not permitted. Therefore, the Flemish authorities were forced to recover the funds which had been provided unlawfully.

Background
Investment in human capital is regarded by the Flemish government as important as investments in other resources such as machines and technology. Consequently, the Flemish regional government has long tried to stimulate training among employees, with the overall aim has of improving employment rates in the region. In this context the Flemish government developed a fiscal incentive named Vlamivorn, an abbreviation for ‘more investment in human capital is needed’. Vlamivorn was not designed as a continuing measure. It was meant as a unique measure to give an impulse to the efforts of enterprises to train their employees. Its implementation was restricted to the years of 1999, 2000 and 2001. Enterprises that wanted to apply for the incentive had to register before May 1999.

Description
Vlamivorn consisted of a reduction in tax on real estate, applicable for enterprises. It was stipulated that the equivalent of the tax reduction had to be spent on training for employees. The measure was meant to stimulate training to improve general knowledge and/or workers’ attitudes. The following conditions were formulated for enterprises who intended to apply for Vlamivorn:

- applicants had to demonstrate that expenditure on training in 1999 was higher than the year before;
- the number of workers in the company had to be stable in the two years before application;
- the funds that became available through the tax reduction had to be invested in training within one year.

The fiscal incentive was restricted to specific business sectors. The Flemish government tried to reach just those sectors which perform badly on education and training their workforce, so the measure was targeted at the following sectors: industry, construction, transport, employment offices, cleaning firms and ICT-related companies.

Results
Before May 1999, 5 299 enterprises applied for a tax reduction. 4 126 of them were accepted to make use of Vlamivorn. From this selection most (73 %) could be categorised as a SMEs; 11.2 % were regarded as medium sized enterprise; 15.8 % were large-scale enterprises. Most enterprises belong to the industrial sector, followed by construction, transport, ICT and cleaning. In the end 4 080 applicants were registered and expenditure on training amounted EUR 52 million.

In 2001, the Vlamivorn measure was evaluated. The measure was most extensively used to finance training in the commercial services sector, accounting for one third of the expenditure. Another sector, which profited from the measure, was the construction sector. The transport sector participated least in Vlamivorn. The contents of the training courses financed were diverse: many were of a technical nature. Most training courses provided in smaller enterprises also had a technical character. Further, many courses on ICT were undertaken.

The evaluation in 2001 also revealed that many companies that profited from the measures did not meet the conditions and had to return the funds; this resulted in many complaints about administrative burden and complexity. Vlamivorn had to be terminated due to European regulation.

Source: EIM business and policy research and SEOR (2005a, p. 94-96).

In the Netherlands, the government cancelled in 2004 two main tax incentives started in 1998 to stimulate enterprises to invest in employee education. These were the extra training allowances for employers (Scholingsaftrek) permitting enterprises to deduct 20 % to 40 % of the training costs of employees from taxable profits, and the tax training allowances for non-profit organisations, where non-profit organisations were allowed to decrease the part of salary tax that employers pay (12 %). Both incentives were cancelled because they did not fulfill their objectives. In the first case, the scheme allowed firms to deduct an extra amount where training expenditure was on workers older than 40 years, primarily with the objective...
of stimulating training participation among older workers. It was found that training participation among workers just above 40 was substantially above training participation among workers just below 40, although this difference was due to simple postponement of training participation to gain from the tax incentive and not the result of increased training rates among older workers (Leuven and Oosterbeek, 2004).

2.2.3. Examples of discussions on tax incentives by country

There have been discussions in several countries between social partners and public authorities on tax incentives for financing education and training activities.

Social partners and public authorities in the Czech Republic are discussing a new system for financing continuing education, splitting the financial burden between the employer, employee and State. Examples of issues under discussion include ways to motivate employers and employees to get involved in training activities through preferential arrangements (tax assignations, retroactive deduction of the investment from the tax duty, reimbursement of the certified programmes from the tax duty). Also, the Czech Ministry of Education, Youth and Sports is interested in increasing the number of vocational students to cover labour market needs. The ministry is discussing several measures with social partners, including a tax allowance for enterprises willing to pay for the pedagogic activity of its employees.

In Estonia, there are plans to increase tax allowances for enterprises, so they may also deduct the costs of formal VET for their employees: currently, only costs for short job-oriented training courses can be deducted. This change is expected to take effect in 2009-10.

In Greece, the Hellenic Federation of Enterprises (SEV) also issued a proposal to the government in 2006 on tax incentives for enterprises and individuals to encourage investment in training and competence development activities. The issue is still under discussion.

In Ireland, the Irish Business and Employers Confederation, the largest employers’ representative organisation, called on the government to introduce an employer’s tax credit on the costs incurred through education and training. There is no published response from the government to this proposal so far.

In Lithuania, there are discussions on increasing the proportion of training expenses deductible from income in the tax allowance for individuals, as well as the possibility of including expenses derived from the recognition of non-formal or informal skills and competences.

In Latvia, it is planned to increase to EUR 426.86 the maximum amount of training expenditure that may be deducted in tax allowances for individuals.

In Slovakia, there are plans to extend the target group for tax allowances for individuals by including other groups of beneficiaries.
3. Tax incentives in selected Member States

3.1. Introduction

This chapter provides an in-depth description of the national experiences of tax incentives for education and training activities in Germany, Ireland, France, the Netherlands, Austria and Finland, whose experiences were considered of particular interest for research after a preliminary identification exercise. Each country is described separately according to a common structure, so each national description will consist of three main parts.

The first part gives general background information on the existing national tax systems, including information on general tax context and structure, a preliminary identification of existing tax incentives to promote education and training, as well as the policy goals pursued by these tax provisions, the definitions used for fiscal purposes of education and training activities, and information on major reforms taking place in the past five to 10 years.

The second part provides an in-depth presentation of the different existing tax incentives to promote education and training expenditure under PIT and CIT legislation, as well as special treatment for education and training providers in the national PIT, CIT and VAT legislation. In all these cases, information is presented on different items, such as goals pursued, type of entities, activities and courses supported, as well as the operational aspects of the existing tax incentives.

The third part presents evaluation of the incentives, paying special attention to their strengths and weaknesses and impact assessment. This is done according to the studies and information available for each case and to the opinions obtained from national experts and stakeholders in interviews (Annex A).

3.2. Austria

3.2.1. Background information

PIT, CIT and VAT are the most important taxes in Austria. There are other significant taxes and charges, including a local tax (Kommunalsteuer) for companies, taxes connected to real estate and land, insurance taxes, and taxes on the consumption of specific commodities (BMF, 2007).

3.2.1.1. Personal income tax (PIT)

Unlimited liability for income tax applies to those persons whose place of residence or regular domicile is in Austria (BMF, 2005a). After six months of permanent residence, unlimited liability for tax applies, dating back to the first day. Temporary stays abroad suspend this time limit. Nationality is of no consequence in this respect. Unlimited liability for tax signifies that all sources of income, whether in this country or abroad, have to be
declared for tax purposes. Limited liability for tax applies to persons who have income in Austria (as employees) or who derive income from the country (such as social security pensions) but who have no place of residence, nor their regular domicile. Individuals with limited liability for tax can also apply for an employee-assessment (Arbeitnehmerveranlagung), claiming deduction of income-related expenses (Werbungskosten) and special expenses (Sonderausgaben) incurred in the country. Double taxation agreements prevent taxes being paid more than once on the same income, if an individual has a place of residence or derives income from more than one country. Special provisions apply to cross-border workers, persons residing in Austria but working in Germany, Italy or Liechtenstein and commuting every day. For seasonal workers, unlimited liability for tax generally arises when their stay in Austria exceeds six months. In this case, the unlimited liability for tax dates back to the first day of their employment.

Employees and pensioners pay wage tax and self-employed persons pay income tax (BMF, 2006): these differ only in the method of levying (BMF, 2005c) and the tax scale is the same. For employees there are, however, additional deductions and special stipulations regarding the taxation of ‘other remunerations’. Wage tax has to be deducted from gross salary by every employer and transferred to the tax office by the 15th day of the following month. By contrast, income tax is collected through an assessment procedure requiring an income tax return to be filed with the tax office; tax is assessed and an income tax assessment notice is issued. An income tax assessment also considers wage income if applicable. The wage tax already withheld by the employer is then credited to income tax calculated.

The Income Tax Act lists all the categories of income which are subject to income tax. Only those earnings which are listed in the law under one of the income sources are subject to income tax. The different income categories include: income from agriculture and forestry; from self-employment, trade or business; from employment; from investment of capital; from rentals and leasing and other income (from the sale of private property within specific time limits; from the sale of private capital holdings, etc.).

Income tax is calculated in each case on the basis of the total income within a calendar year, attributed to the year in which the employee receives it. The most important non-taxable payments are: family allowance; maternity allowance and similar remunerations under the statutory social security system; parental-leave benefits; parental leave assistance and child-care benefits; accident benefits; and certain gratuities (tips).

There are income components (substitutes) which are non-taxable but increase tax on the other income in the event of a possible assessment (the special provision concerning progression). These include unemployment benefits or poverty relief assistance as well as temporary assistance for Federal employees. If someone does not only earn the above-mentioned non-taxable income substitutes but also has other taxable income (salary, pension), these payments must be extrapolated fictitiously, for computation of the full tax progression. The fictitious total income is then used to determine the mean tax rate, which is applied to determine the tax due on the actually taxable income, salary, pension or other taxable current earnings.
There are some expenses which reduce taxable income, including those directly connected with earnings. They may be deducted as business expenses under the categories of business income (agriculture and forestry, self-employment, or trade or business), or as income-related expenses for the other types of income (such as wages). Expenses directly related to non-taxable income may not be deducted. Other expenses which reduce taxable income but are not linked to earnings and income are special expenses (Sonderausgaben) and extraordinary financial burdens (außergewöhnliche Belastungen).

Income is calculated as follows. Business expenses/income-related expenses, special expenses and extraordinary financial burdens have to be subtracted from the total amount of earnings: the result is the tax assessment base. A certain basic income (subsistence level) remains tax-free for every person liable to tax without restriction. Tax-free basic income per year amounts to at least EUR 10 900 for persons liable to wage tax and to EUR 10 000 for self-employed persons. There are three tax brackets for higher incomes, to which one simple computation formula each applies. If tax deductions can be claimed, these only need to be deducted from the tax base.

Table 4. Pay level/calculation formula in Austrian PIT, 2007

<table>
<thead>
<tr>
<th>Income (EUR)</th>
<th>Income tax (before deductions) (EUR)</th>
<th>Average tax rate</th>
<th>Marginal tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 000 and less</td>
<td>0</td>
<td>0 %</td>
<td></td>
</tr>
<tr>
<td>10 000-25 000</td>
<td>[(income – 10 000) x 5 750] / 15 000</td>
<td>–</td>
<td>38.333 %</td>
</tr>
<tr>
<td>25 000</td>
<td>5 750</td>
<td>23 %</td>
<td>–</td>
</tr>
<tr>
<td>25 000-51 000</td>
<td>5 750 + [(income – 25 000) x 11 335] / 26 000</td>
<td>–</td>
<td>43.596 %</td>
</tr>
<tr>
<td>51 000</td>
<td>17 085</td>
<td>33.5 %</td>
<td>–</td>
</tr>
<tr>
<td>above 51 000</td>
<td>17 085 + (income – 51 000) x 0.5</td>
<td>–</td>
<td>50 %</td>
</tr>
</tbody>
</table>

Source: Austrian Business Agency.

3.2.1.2. Corporate income tax (CIT)

Legal entities and corporations (such as limited-liability companies) do not pay income tax but CIT.

‘Corporation tax is assessed at a rate of 25 % of taxable income, regardless of the amount of income [...]. Unlike income tax, corporation tax is thus collected at a flat rate. [A corporation possessing legal personality] is liable to pay so-called “minimum corporation tax” no matter whether it makes a profit or a loss. It amounts to EUR 1 092 (in the company’s first year of existence) or EUR 1 750 [in subsequent years. The tax] is payable in quarterly instalments on 15 February, 15 May, 15 August, and 15 November [...]’.

‘These minimum tax payments are not lost, however. If actual corporation tax of the current year is less or even nil because of low profit (or a loss), the difference to the minimum corporation tax already paid will be credited as an advance payment against taxes due in later years when profits are higher’ (BMF, 2006, p. 32). ‘Profit distributed by a [corporation to its owners] is taxed at an aggregate rate of 43.75 %, which is less than the rate for the highest income tax bracket (= 50 %)’ (BMF, 2006, p. 33).
Income and corporation tax are governed by Federal laws, so tax incentives are uniform throughout Austria. They always relate to qualifying assets or expenditure and not to an operation as such. The main tax incentives for business activities (in PIT and CIT) are:

(c) additional allowance of up to 25%, in particular cases up to 35%, of research and development expenses (Forschungsfreibetrag); alternatively a tax credit equal to 8% of certain research and development expenses can be claimed;

(d) employee’s training allowance (Bildungsfreibetrag) of up to 20% of qualifying training costs; alternatively a tax credit equal to 6% of such costs;

(e) a particular allowance of up to EUR 4380 (Lehrlingsfreibetrag) if apprentices are employed (only applicable if the employment contract was concluded before 1 January 2003), alternatively a tax credit of EUR 1000.

Under certain circumstances, companies which are using double-entry bookkeeping can claim a half-rate taxation for not-withdrawn revenues up to a maximum amount of EUR 100,000 (nicht entnommener Gewinn). Companies which are not using double-entry bookkeeping can take an allowance of invested earnings (Freibetrag für investierte Gewinne).

There are other important income tax credits, such as: the employee tax credit (or cross-border workers’ tax credit, EUR 54 per year); the commuting tax credit (EUR 291 per year); the pensioner tax credit (basic amount with phasing-in rule, EUR 400 per year); the sole-earner tax credit (EUR 364 per year, basic amount); the single-parent tax credit (EUR 494 per year in case of one child); support-money tax credit (EUR 25.5-50.9 per month per child); the child tax credit (EUR 50.9 per month per child); or the additional child supplement (EUR 36.40 per month for the third child).

3.2.1.3. Value-added tax (VAT)

The following events are subject to value-added tax (VAT):

- the supplies of goods and services (e.g. services provided by members of the liberal professions such as doctors, lawyers, writers, etc.), trades but also rentals, leases and license agreements) effected for consideration within the territory of Austria by an entrepreneur within the scope of his enterprise (Sec. 1 (1) (1) VATA),
- self supplies,
- the importing of goods from a third country to Austria,
- intra-Community acquisitions. [...] 

‘Value-added tax, in principle, affects only the final consumer. The entrepreneur making supplies of goods or services merely acts as a trustee: he cashes VAT from his customer and is subsequently obliged to pay it to the tax office. Nevertheless, the entrepreneur is the debtor of the value-added tax’ (BMF, 2006, p. 34).

‘The taxable amount for supplies of goods and services is the consideration. Consideration is everything the customer has to expend (including voluntary payments) in order to receive the supply of goods or services [...] (Sec. 4 (1) VATA). It also includes incidental expenses charged to the customer such as expenses for packing, transport and postage, service supplement, taxes (e.g. excise duties, standard consumption levy). In
practice, value-added tax therefore depends on the agreed-on purchase price or remuneration. [...]  

‘There are two principal tax rates, this is, the standard tax rate of 20 % and the reduced tax rate of 10 %. The application of the 20 % rate is the rule. Supplies are subject to the rate of 10 % only in exceptional cases. These are exhaustively enumerated in Sec. 10 (2) VATA. The rate of 10 %, for instance, applies to the renting out for purposes of lodging and accommodation, the transport of persons, [...] the supply of books, newspapers, magazines, foodstuff [or, finally,] the supplies by artists acting as such’ (BMF, 2006, p. 35).

The VATA also distinguishes between zero-rated supplies and exempted supplies. ‘In the case of zero-rated supplies the right to deduct input tax is not affected, e.g. export supplies of goods to third States (special provisions apply in the case of ‘tourist exports’) [...] and working and processing of goods (‘contract work’) to be exported [to third countries. ...]. In the case of exempted supplies the deduction of input tax is lost’ (BMF, 2006, p. 34).

Under Austrian law, the supply of services of schools (public and private) and other providers of general or VET are exempt from VAT (see more details in Section 3.2.2.1).

### 3.2.2. Tax incentives under PIT, CIT and VAT legislation

#### 3.2.2.1. Special tax treatment for education and training providers

The Austrian Value-Added Tax Act states that (§6 Abs. 1 Z 11 and 12 UStG 1994) the supply of services by private schools and other providers of general or VET are exempted from VAT (*unechte Umsatzsteuerbefreiung*) if their programmes are comparable to those of public schools. The revenues of not-for-profit organisations offering courses on general or vocational education to a broad public are also exempted. Organisations thus exempted from VAT do not have to charge VAT to their clients. However, they cannot recover the VAT they pay themselves and this is, therefore, an expense factor. The background of this measure is that the provision of education and training in public schools is under the sovereignty of Austria and its provinces (and therefore does not fall under VAT law). To prevent a distortion of competition, private schools are also exempted from VAT.

This measure supports private schools, institutions for general or vocational education, turnover of private teachers offering their services at public schools or other tax-exempted schools, turnovers of public corporations or associations for national education (*Volksbildungsvereine*) regarding all types of lectures, courses, and movie screenings of scientific or educational nature. Also included is teaching of general educational or vocational skills for professional education, if it is possible to prove that comparable activities are undertaken in public schools.

The definition of a school, according to the Private Schools Act (Nationalrat, 1962) is that a majority of attendants have to be instructed according to a fixed syllabus and in connection with the teaching of general educational or vocational knowledge or skills. According to case law, an institution offering general education or vocational education is similar to a school if it features the organisational requirements (classrooms, learning opportunities for a longer period, the necessary teaching staff and secretariat) to be able to offer activities for most interested parties.
For education by electronic means the existence of physical classrooms is not necessary if lessons are given for all participants at the same time and not in an individualised way. Turnover not connected with education (such as selling food in canteens) is not exempted. The benchmark for comparability with public schools of educational content is primarily curriculum content.

The guidelines on the VAT Act contain examples of currently exempted institutions and courses. Examples include: the institute of professional promotion (Berufsförderungsinstitut); commercial schools (Handels- oder Gewerbeschulen); rural institutes of further training (Ländliche Fortbildungsinstitute); the further training institute of the Economic Chamber (Wirtschaftsförderungsinstitut der Wirtschaftskammer); preparatory courses for the construction trade examination (Vorbereitungskurse für die Baugewerbeprüfung), etc.

The VAT Act also identifies several education/training activities where VAT exemption is not applicable, computer-courses, individualised personal instructions, driving schools, dance schools, distance learning schools or courses for personal education.

Supply by public corporations or associations for national education (Volksbildungsvereine) of lectures, courses, and movie screenings of scientific or educational nature are exempted if the revenues are mainly used to cover the costs. An association for national education is an association for a mass market and is offering services at an acceptable price. It is not a specific type of school or institution but a general one, so any organisation matching this definition can be considered a Volksbildungsverein. The courses can be of a general-educational or technical nature. In contrast to private schools, it is of no relevance what type of education is offered; no comparability to public schools is necessary. Income must not significantly exceed the costs of offering the services.

The supply of books, newspapers and magazines benefits from a reduced VAT-rate of 10%. This is regulated in the VAT Act, where the main reason for this special treatment is that these products are regarded as sensitive goods and excessive tax burden should be prevented.

Private providers of education and training services have to satisfy their CIT obligations in the same way as any other enterprise; this does not apply to public providers.

3.2.2.2. Tax incentives for education and training by enterprises in PIT and CIT legislation

In calculating of income tax, training expenses are treated as any other professional/business expense (Betriebsausgaben) reducing taxable income. For income tax, this occurs in the annual tax assessment since professional expenses for CIT are treated the same in income tax act. For expenses to be deductible, the training measures have to be 'in the interest of the business' (betriebliches Interesse), where there are no upper limits regarding deductibility of training expenses as business expenses. Otherwise, the expenses are regarded as an in-kind payment to the relevant employee. From this perspective, deductions of training expenses as professional/business expenses may not be regarded as a tax incentive in stricto sensu.
The main tax incentives in Austria are (11):
(a) training tax allowance (Bildungsfreibetrag);
(b) training tax credit (Bildungsprämie);
(c) apprenticeship tax allowance (Lehrlingsfreibetrag);
(d) apprenticeship tax credit (Lehrlingsausbildungsprämie).

A brief description of these tax incentives is presented next.

The training tax allowance/credit (Information based on WKO, 2006a)
Since 2000, Austrian employers, irrespective of the legal form of their company, can claim an extra tax allowance for training expenses (Bildungsfreibetrag). This includes non-incorporated enterprises (without their own legal personality) and incorporated corporations. The target group for this measure is all employees of a company irrespective of their position, age, specific training needs, etc. The incentive takes the form of an extra deduction from taxable profits, with not only the actual expense for training deducted from taxable income, but also an extra virtual expense of 20% of the actual expense. As an example, for a training expense of EUR 1,000 an additional amount of EUR 200 is deducted from the tax base of the company. The tax saving then depends on the marginal tax rate applied to the EUR 200.

In 2002, the training tax credit (Bildungsprämie) was introduced as an alternative. It is a tax credit of 6% of the actual expense. Companies that do not make enough profit to benefit from the 120% tax allowance can alternatively claim a tax credit of 6% of the actual expense (Bildungsprämie). The credit is subject to the same criteria as the tax allowance, where employers can only receive the training credit if they have not already claimed the tax allowance. The training credit has to be claimed within the employer’s tax return and is deducted from tax liability, so it can be regarded as a direct tax credit.

The main goal of these two tax incentives (Bildungsfreibetrag and Bildungsprämie) is to promote enterprise investment in human resources, and to foster equal treatment of real capital and human capital. According to the Corporation Tax Act (§7(2)), the taxable income is determined on basis of the Income Tax Act.

Activities supported by the tax incentives include any training carried out for employees that is of relevance to the interest of the business. Employer training expenses which primarily serve the interests of the employee are not eligible, nor are training measures in the form of auxiliary services (such as introductory training for a new machine).

For training carried out by external providers, costs that can be included are course fees, trainer fees, renting of training spaces and learning materials; accommodation and travel costs are not eligible. The provider of external training has to be an organisation or institution with a significant business activity in education and training.

The law identifies several special requirements for in-house-training measures and facilities. The training must be comparable to an independent division of a business, and must not provide training services for external people (non-employees). The training facility must have a degree of independence and organisational isolation. The training measures

(11) Both the apprenticeship tax allowance and the apprenticeship tax credit have been abolished in the course of 2008.
must have formal content and be organised. Eligible expenses include direct costs of the respective training measure (such as remunerations, rent charges) and indirectly assignable expenses (such as fixed costs, depreciations). The expenses per internal measure must not exceed EUR 2 000 per day. There is no tax credit applicable to in-house training, only the tax allowance.

These two tax incentives have undergone several important reforms lasting recent years. When the Bildungsfreibetrag was introduced in 2000, the tax allowance was 9% of expenses for external training activities. In 2002, the allowance was increased to 20% and extended to in-company training. The extension to in-company training has been triggered by the fact that most learning takes place within companies and, according to the legislator, external and internal training activities should be treated equally. The tax credit measure (Bildungsprämie) was introduced in the year 2002 to cover firms with low profits or losses.

**The apprenticeship tax allowance/credit (based on WKO, 2006b)**

The apprenticeship tax allowance and tax credit aim to encourage employment and education of apprentices in companies. Firms with an apprenticeship contract are entitled to these incentives.

The tax allowance can be claimed only for apprenticeships which started before 1 January 2003. It is a maximum of EUR 4 380 per apprentice, although it has to be claimed in three parts: EUR 1 460 in the year in which the apprenticeship started (signing of the contract); EUR 1 460 in the year in which the apprenticeship ends (in accordance with the contract); and EUR 1 460 in the year of successful apprenticeship exam. In many cases, the second and the third part are claimed in the same year.

The credit can be claimed for apprenticeships which existed on 1 January 2002 or later. For each year of the apprenticeship (normally apprenticeships last between two and four years) the company can claim a credit (Steuergutschrift) up to a maximum of EUR 1 000. The Ministry of Finance has the flexibility to increase this annual amount to EUR 2 000 for specific apprenticeship occupations if the apprenticeship labour market justifies this. The tax credit is claimed in the course of the tax assessment and the amount then be credited to the company’s tax account. As it does not depend on profits, it can be also applied in years with losses.

The tax allowance and the tax credit cannot both be claimed in the same year. However, a company is free to claim the credit in one year and the allowance in another year (or vice versa). If a company has more than one apprentice, it cannot claim the tax credit for one apprentice and the tax allowance for another apprentice. Both the premium and the allowance have been abolished in the course of 2008 (BBAB, 2008), and have been replaced by a new grant-based support system for apprenticeships; the reasons behind this are presented in the section on evaluation.

3.2.2.3. **Tax incentives for education and training by individuals in PIT legislation**

According to §16 of the Income Tax Act, training costs can be deducted from the tax base as income-related expenses (Werbungskosten), reducing taxable income. The aim of this tax incentive (which can be regarded as a tax allowance following the OECD’s classification
Education and training expenses have to exceed EUR 132 per year, as each employee is used in this report) is to promote education and training of individuals related to earning an income (Wagner, 2007).

Expenses for education and training may be claimed as income-related expenses if they are costs for basic training in a related occupation (when the educational measure serves to obtain knowledge that makes it possible to exercise an occupation in the future), further training activities (when an occupational activity is exercised and the educational measure serves to improve one’s knowledge and skills in exercising that occupation) or comprehensive retraining activities (when the education/training measure is so comprehensive that it facilitates access to a new occupational activity not related to one’s previous activity). All types of basic training in a related occupation, further training and retraining are supported, with the personal circumstances of the individual defining the actual training.

In contrast, the cost of training relating primarily to the personal benefit may not be claimed, for example, acquiring a driving licence (B licence), sports courses or personality-development training. Expenses in acquiring a commercial vehicle driving licence (C licence) may be claimed if needed for work. Costs of language courses may be deducted if the foreign language is required for job purposes.

The following costs can be claimed: course fees, course materials, working tools (e.g. pro-rata costs of a PC), travel, the possible per-diem allowances (for the first five days, if the course is held away from domicile or workplace) and overnight accommodation. Like all income-related expenses, the costs for basic, further and retraining may be claimed for the year in which they were incurred. Further and basic training costs must be claimed as income-related expenses in connection with the original activity.

As a pensioner does not have a job, educational measures of any kind (further training, basic training in a related occupation, or retraining) cannot generally be claimed as income-related expenses. Early retirees are the exception to this rule, if they wish to rejoin the labour market.

The costs of comprehensive retraining aimed at pursuing another occupation are called 'anticipated income-related expenses'; these can be offset against other income, including from employment. In individual cases, further-training costs may also be granted as anticipated income-related expenses, such as a course regarding the law on securities when being promised a job in the securities department of a bank.

The motives for retraining may be external circumstances (the employer restructures or even closes his operations due to economic reasons), individual dissatisfaction with an original occupation, or an interest in pursuing another occupation. However, taxpayers must establish a credible case of practising another occupation which is meant to provide subsistence in the future.

Individuals paying wage tax have to claim these expenses in their annual tax return; there is no ceiling. The costs for basic, further and retraining may be claimed for the year in which they were incurred; evidence and documentation have to be provided. If the training expenses exceed income, it is not possible to carry loss forward. Further and basic training costs must be claimed as income-related expenses in connection with the original activity. Education and training expenses have to exceed EUR 132 per year, as each employee is
granted an income-related expenses allowance of EUR 132 automatically. If there are no eligible training expenses or if total eligible training expenses are, for instance, EUR 100, the allowance will be EUR 132 in both cases. If total eligible training expenses are EUR 200 (for instance), the allowance will be also EUR 200.

Recent amendments to the Income Tax Act (2000 and 2002) have introduced a more flexible approach (Wagner and Lassnigg, 2006). The current provisions consider all expenses for training related to the individual's professional field, as well as expenses for longterm training measures leading to a broad vocational requalification (completely new qualifications), referred to as retraining. The reason for these amendments has been to ease occupational change and make employees more flexible. All training measures with some vocational orientation are eligible in this context. Typical examples are IT courses, businessrelated courses, language courses, and vocational evening schools (second chance schools). Not deductible are expenses for initial general and academic education and for training which is primarily intended for private purposes, such as sports courses or training for a regular driver's license; expenses for a commercial vehicle license are deductible if required for work.

3.2.3. Evaluation and impact assessment

This section presents an assessment of the different incentives available in the Austrian taxation system to support education and training. The information is mostly qualitative and based on results from interviews with relevant national experts (see Annex B for a complete list).

3.2.3.1. Incentives for companies

There are no comprehensive evaluations of the training tax allowance and training tax credit. The Chamber of Labour in particular would wish to have these incentives evaluated to decide on possible changes to the system but, for the moment, this is not the case.

When introduced in 2000, the government estimated these incentives would lead to a loss of tax revenues of about EUR 22 million. For 2008, this loss is estimated to be approximately EUR 30 million. The tax credit accounts for two thirds of the loss, and the tax allowance one third. More detailed data are not available from the Ministry of Finance.

From these data and from information collected from interviews, it is possible to conclude that not all firms are aware of these incentives and, therefore, do not claim all eligible training expenses. The fact that, in most companies, responsibility for training and for finance/accounting are separate, adds to this problem (Schneeberger and Mayer, 2004).

According to some experts consulted, the main advantages of the tax incentives are:

(e) very low administrative/redtape costs for government as well as businesses;
(f) no marketrelated distortions;
(g) the 6 % tax credit (which is an alternative to the 20 % extra tax allowance) is regarded as advantageous for startups in particular. This is because young firms often do not have profits.

Two points of caution or disadvantages were raised:
deadweight losses are likely, as large firms in particular are assumed to carry out training even without tax incentives. Some respondents suggest that tax incentives play little part in decisions to undertake training. The use of other subsidies, especially grants, seems to be much more important to decisions, though it is not clear whether this is due to low awareness of the incentive or weak stimulation effect;

there is no targeting of disadvantaged groups in the workforce and incentives may end up further training already highly qualified employees.

Although acknowledging possible deadweight losses, Austrian employer organisations value the extra tax allowance as a significant instrument for reinforcing the importance of firm-based training in an overall lifelong learning strategy. The employer organisations have proposed for several years increasing the allowance to 40% for small enterprises and for certain target groups (such as older workers, low qualified workers, people returning to work after child leave, etc.). In addition, the Economic Chamber wishes to make the tax incentive applicable also for entrepreneurs themselves. The Chamber of Labour would prefer raising the allowance for lower qualified rather than for older workers, as they see training levels correlated to qualification rather than to age. So far, the Austrian government has not considered these requests.

There are also no evaluations of the apprenticeship tax allowance and tax credit. These two incentives were abolished in 2008, and have been replaced by a new grant-based support system for apprenticeships.

According to the Ministry of Economics and Labour, the reason for abolishing this tax-based support system is that it did not allow for differentiated and well-targeted backing. It is argued that the tax-based support took into account neither the exact duration of apprenticeship nor the costs of the employer associated with the apprenticeship; it was considered poorly oriented towards the needs of companies. The new grant-based system relates subsidies to quality criteria in training which would not have been possible with the tax-based system.

Another reason for abolition is that the government intends to concentrate various apprenticeship-related support measures in just one single administrating organisation, currently the Chamber of Commerce.

The significant advantage of the apprenticeship tax-based support system is relatively simplicity in terms of red tape for the government as well as for companies. Also uptake has been very high, with almost 100% of eligible companies claiming the incentive.

3.2.3.2. Incentives for individuals

There is no comprehensive evaluation of this incentive.

A current drawback of the option to deduct training expenses is that it may not be well enough known and is associated with the bureaucratic procedure of handing in an employee tax assessment. According to some experts, only a small proportion of ‘training consumers’ claim this allowance. The same experts also point out that direct grants seem more attractive to individuals because it is always clear how much money they get and when they get it. By contrast, the tax subsidy is received only during the subsequent year, the amount is
determined only in the course of the tax assessment procedure, and it depends on the individual’s marginal tax rate which is not known by many employees.

Further, experts stress that progressive tax rates make the incentive more significant the higher the income so, for very low incomes, there is may be no incentive at all as no taxes are paid. Some interviewees doubt that the possibility to deduct training expenses significantly increases participation. In general, tax policy is seen to be a supplement to education policy rather than a main pillar.

Training providers play an important role in raising awareness about the incentives both for companies and individuals. Training providers have started to print information about this special tax treatment prominently on the first pages of their brochures so more people, and especially those in personnel departments, become aware of the opportunities.

3.3. Finland

3.3.1. Background information

The Finnish taxation system is regulated by two main laws: the Finnish Income Tax Act (which covers both personal and corporate income taxation) and the VAT Act (VAT provisions). PIT in Finland is paid to four main parties: the State, the municipality, the social insurance institution and the church (for those in a parish of Lutheran or Orthodox church), and is levied according to a progressive tax scale decided annually by Parliament (tax rates for 2008 are presented in Table 5) (12). Communal (municipal income) tax is levied at flat rates on the earned income of individuals and the estates of deceased persons; each municipal council sets the tax rate annually in advance for the following year on the basis of the municipal budget (in 2008 the communal tax rates range from 16 to 21 %). Lutheran or Orthodox churches collect taxes from their members (ranging between 1 and 2.25 % on the earned income). The social insurance institution collects mandatory social security payments, such as health and pension insurance contributions. Also, the State income tax on capital income (investment income (13)) is levied at a flat rate of 28 % (Finnish National Board of Taxes, 2007); capital income tax is a part of State taxation and does not play a role in communal taxation.

The CIT rate in is currently 26 %, down from 29 % in 2005. The standard rate of VAT is 22 %, although two reduced rates are in use: 17 % applied to food and animal feed; and 8 % applied to books, admission to cultural services and entertainment events and passenger transportation services. A zerorate is applied to subscribed newspapers and the supply of educational services is exempt from VAT (Section 3.3.2.1).

(12) The Parliament decides the State income tax scale but not the tax rate for the municipalities.
(13) Investment income or capital income is defined as the income resulting from capital, gains from the disposal of assets (capital gains) and other income yielded by assets.
Table 5. Rates of State income tax on earned income, 2008

<table>
<thead>
<tr>
<th>Taxable income (EUR)</th>
<th>Tax rate applying the income range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 600-20 800</td>
<td>8.5</td>
</tr>
<tr>
<td>20 800-34 000</td>
<td>19.0</td>
</tr>
<tr>
<td>34 000-62 000</td>
<td>23.5</td>
</tr>
<tr>
<td>62 000 and more</td>
<td>31.5</td>
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</tbody>
</table>


The overall approach of Finnish education and science policy is in line with the EU Lisbon strategy. In Finland, the basic right to education and culture is guaranteed by the national constitution, so public authorities have to ensure equal access for every Finnish resident to education, not only at preprimary and basic levels but also after compulsory schooling. Finnish public policy is mainly concerned with the provision of education at primary, secondary and tertiary level, while education and training to maintain and develop adults professional and vocational skills is regarded as less important from a public perspective. It is a common belief that Finland is a highly educated country, well above the European average. However, the proportion of educated people in Finland is almost equal to the average in OECD countries (Tuononen, 2005), although the number of science graduates per 100 000 employed people is one of the highest within the OECD (2005).

In Finland everyone has the right to free basic education, including necessary equipment and text books, school transportation, where needed, and adequate free meals. Postcompulsory education is also free: there are no tuition fees in upper secondary education (both general and vocational), in polytechnics or in universities, although students have to pay for their text books, travel and meals (14). Private schools are rare, have to be administrated by a nonprofit organisation, and cannot collect term fees, so financing comes mainly from State grants. Vocational, intermediate and higher education provided by Statefunded private organisations is mainly free of charge, including university degrees.

All education and training is cofinanced by the Finnish Ministry of Education and local authorities which pay 54.7 % of the costs; the only exception is further vocational training and university education. Vocational institutions and polytechnics in particular may provide feepaying services and carry out projects, which also generate them additional income.

3.3.2. Tax incentives under PIT, CIT and VAT legislation

3.3.2.1. Special tax treatment for education and training providers
In Finland, education services provided by public or publicly funded institutions are exempted from VAT. This applies also to further and continuing education, such as Open University courses or tailored training programmes, provided by higher education organisations. The

(14) This situation is slightly different according to the level of education. In general and vocational upper secondary education, school meals are free, and students can get subsidy for school travel. In continuing vocational education and in liberal adult education, it is possible to charge modest fees. Those studying in post-compulsory education and training can apply for financial aid. There are special support schemes for mature students.
exemption applies only to education, not research activities, so a university does not have to pay VAT from the education service income, but it is obliged to charge VAT on all supplies of research services.

Public schools, higher education institutions and private organisations providing education are exempted from VAT. Education or training providers not organised by virtue of law are not allowed to any exemptions and, therefore, they charge the standard VAT 22 % for services.

A reduced VAT rate of 8 % is applied inter alia to books and admission to cultural services and entertainment events, and the zero rate is applied to subscribed newspapers. This can be seen as a way to encourage people to gain social capital, although they are not regarded as a special tax treatment to promote education or training as such.

PIT in Finland does not favour professionals in certain business branches and, therefore, there is no special tax treatment for education and training providers in PIT legislation. Nor is there special treatment for private and nonprofit education providers in CIT. The only exemptions are linked to Statefunded public organisations such as universities (15).

The Finnish Income Tax Act states that Finnish public universities (together with other institutions such as the Bank of Finland and the national broadcasting company YLE) are taxexempted. Also, the Finnish Central Tax Board states that both adult education centres (aikuiskoulutuskeskus) and polytechnics (ammattikorkeakoulu), both mainly owned by municipalities and mainly financed from State subsidies, are also exempted from income tax (Finnish Central Tax Board, 1998a; 1998b); the income they generate, from selling student work which is part of the learning process, is also exempted from tax. Partially taxexempted communities are inter alia the State and State institutions. They are obliged to pay income tax to municipality and church, but not to the State, and only on income from farms and estates, from other property income which is not used in common purposes, and from industrial and other companies’ income comparable to private enterprises.

3.3.2.2. Tax incentives for education and training by enterprises in PIT and CIT legislation

Expenses incurred by enterprises in acquiring or maintaining income are deductible in Finnish business taxation; this includes wages and supplementary training expenses. The main laws regulating tax treatment of education and training in business taxation are the Income Tax Act and the Act on Business Income Taxation. The tax rate for corporate income is 26 %, down from 29 % in 2005.

From an enterprise perspective, it is possible to distinguish two main types of training activity (OPM, 1999). If a company pays for degree/certificate employee study, (a Masters or a PhD degree acquired in uppersecondary school, a vocational or higher education institute), expenses are not strictly deductible in CIT, even if it is in the interest of the employer. However, in practical terms these expenses are regarded as wages, so they can be deducted in business taxation as they are regarded as expenses for income acquisition.

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(15) All Finnish universities are State universities and their basic activities are funded by the State. In addition, the universities can sell research and training services externally. The Finnish University Act will undergo a major reform (estimated to come into effect on 1.1.2010) though State grants will still be the main source of funding for the universities.
However, the employee has to pay income tax from the fiscal value of the education, considered as monetary wage.

Supplementary or inservice training expenses, supported by the employer for employees to maintain and develop skills which respond to the interests of the employer, are fully deductible in business taxation, because they are seen also as expenses carried out by the enterprise for income acquisition. Expenses for supplementary training are deductible irrespective of the legal status of the provider, the duration of the training or presence or absence of certification by the training course/provider.

In practice, all education and training costs are deductible in business taxation because if training is not seen as supplementary, it is basic education which is comparable to wages. However, how these expenses are interpreted is important from the employee perspective as training can be considered as taxable income or taxfree (Section 3.3.2.3).

When training costs are seen as wages, it is taxable income to the employee being trained; this can affect the willingness of employees to take part. Enterprises are not excluded from paying indirect employee costs, social security payment, employment pension contribution, unemployment insurance contribution, group life insurance and accident insurance payment. Where degree-oriented training expenses are regarded as staff expenses, training is more expensive both for employers, owing to indirect employee costs and employees, because of personal taxation, which may reduce the urge to provide training and the willingness to undertake it.

Finally, expenses of basic education are accepted as deductible if, for example, regulations on qualifications required by the employee have changed over the years and so training is regarded as supplementary. Whether the training is basic or supplementary is not always straightforward; the final decisions in each case are taken by the tax administration (specifically regional tax offices) and the Central Tax Board.

3.3.2.3. Tax incentives for education and training expenses by individuals in PIT legislation

There is a standard allowance for workrelated expenses of EUR 620 in state taxation on earned income. Also, costs incurred by the taxpayer for income acquisition and maintenance of professional or vocational skills (course fees) are allowable expenses (e.g. acquisition of professional literature). Expenses incurred in acquiring and maintaining chargeable employment income (vähennyskelpoiset kulut ammatilliset osaanisen ylläpidosta), and not relating to travel expenses or membership fees paid to employment organisations, are deductible only if they exceed EUR 620. \(^{(16)}\). The maximum deduction is the amount of salaried income.

Hence, there is an indirect tax incentive for employees who pay for their own training activities to maintain their professional or vocation skills. This tax incentive can be regarded as a tax allowance following the OECD’s classification used in this report.

Living expenses (apartment rents, childcare costs, etc.) are not deductible, with expenses incurred for basic education and for completing a degree normally seen as living

\(^{(16)}\) This is also true when the amount of all income acquisition related expenses exceeds EUR 620, not just when the amount of expenses relating to the maintenance of professional/vocational skills exceeds EUR 620.
expenses, so not deductible. However, there have been exceptional cases in which basic education related costs have been accepted as deductible, for instance, when training has been undertaken by individuals for reasons outside the employee’s influence such as reorganisation programmes or changes in qualifications.

Training provided by the employer is usually regarded as taxfree for employees, provided that employees have a basic education/training for their current tasks and the training is necessary for maintaining or developing their skills in these tasks. Training has to be nonqualifying or noncertifying to be taxfree, so Masters and PhD degrees could be considered as taxfree. If training is not taxfree, it is considered as wages and, therefore, taxed as earned income.

In addition to the employee’s basic education level, an important issue deciding whether the training is taxable income or not is the benefit to the employing company. If the initiative for the training comes from the employer, and it is necessary from the firm’s perspective, training is not considered as taxable income but taxfree for the employee.

This situation especially affects executive MBA degrees, with recent special attention on whether they are considered as wages or training expenses in taxation. The general rule (and also the most common situation) is that MBA degrees paid by employers are seen as taxfree for the employee provided that the training is necessary for the employing company. One way to show that the training takes place because of the employer’s will is to bind the employee to the company after the training with a fixedterm contract. Exceptions to this general rule have also occurred.

However, when it is the employee who covers the costs of an MBA programme, the costs may or may not be deductible in PIT, as legal praxis is not uniform in all cases (KPMG, 2002).

For example, there have been situations where costs from MBA education have been seen as living expenses as the trained person did not have a degree or applicable basic education for his current tasks. In such cases, the employee had to pay the costs him/herself as these costs were seen as living expenses and therefore not deductible. Where someone had an academic degree in arts and not in business economics or administration, and decided to start an MBA while working for a previous employer, the new tasks required business competences. The Tax Authority interpreted this MBA training as an intention to crossover to a new career, so the goal for the training was not maintaining or developing professional skills in the current task. A significant factor in this case was the fact that the training had begun already under a previous employer, and it did not have a link to one’s basic education. As can be seen, the Tax Authority is particularly concerned whether the criteria of maintaining or developing skills in current tasks and adequate basic education are met (KPMG, 2002).

The Finnish tax system has recently introduced a study loan allowance (Opintolainavähennys) given to taxpayers who passed a qualifying examination within a prescribed period of time. These persons are entitled to deduct annually from their gross income an amount corresponding to the instalment of a study loan they paid, with a maximum of 30 % of the loan capital that exceeds EUR 2 500. This incentive corresponds to a tax allowance following the OECD’s classification used in this report but applies only to
graduates who started their studies in a university or in a polytechnic during the autumn semester 2005 or later. The goal of this regulation is to encourage students to take a study loan instead of paid work and, therefore, make it possible to graduate in a shorter time period. This allowance is granted for a maximum 10 years after graduation. The interest on study loans guaranteed by the State is deductible, with no limit on the amount. Deduction is made in full from capital income, but if a taxpayer does not have any capital income, it is possible to have a deficit credit from PIT. The deficit credit is 28% of the amount of interest paid during the fiscal year, and it is deducted from personal income. The study loan allowance has to be primarily deducted from State income tax, although if the allowance is more than State income tax, it can be also taken from communal and church taxes.

Finally, there are social benefits related to education that can be regarded as taxfree, such as housing benefits for students, or statefunded benefits for apprenticeship students. Also in communal taxation on earned income, there is a student grant allowance of maximum EUR 2,600 (or no more than annual student grant), decreasing by 50% of the amount of earned income exceeding the student grant allowance (or EUR 2,600) (17). This allowance does not apply to adult education grants which are available to employees and the selfemployed with at least a 10 year work history and wishing to go on study leave (18).

3.3.3. Evaluation and impact assessment

Due to the existence of several direct State subsidies for education and training, tax incentives are relatively rare in Finland. In fact, tax incentives are not commonly used at all as Finnish society has generally preferred direct subsidies as a form of financial assistance (19). Since education services are to largely provided and financed by the State and statefunded organisations, additional promotion on education through special tax treatment is not seen as necessary. Special tax treatments concerning other than State organisations are also rare, so the role of tax incentives in the Finnish system for supporting education and training activities among individuals and enterprises is relatively unimportant. Besides the Finnish government’s reluctance to introduce new tax incentives, there seems also to be a lack of real demand for such incentives since Finland is one of the top countries in training participation in an OECD comparison (OECD, 2005). For example, over 40% of the labour force in Finland took part in nonformal jobrelated training within a 12 month period (OECD, 2005). Also, this role of taxation in supporting education and training activities has not significantly changed during the last 10 years.

There are no available public evaluations on the effects of tax incentives on education and training supply and demand. The following comments were obtained from interviews with national experts.

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(17) Therefore, a student grant is tax-free if one has no earned income.

(18) The Study Leave Act (1979) is defined to improve the opportunities for training and study available to the working population, but there is no taxation aspect in it. Study leave makes it possible to study within fields of one’s interest without any compulsory link to current position or tasks. An employee is not entitled to wages during such study leave. The person taking the study leave has, however, a right to apply normal grants, e.g. adult education grants.

(19) Comment included by the national expert providing the Finnish information.
In certain cases, tax treatment of the self-employed is regarded as unfavourable. Some cases of were mentioned (such as self-employed accountants) for whom it was unclear whether training expenses are seen as deductible training costs or wages for taxation. In contrast, when an employee in a large firm takes the same course, it is automatically interpreted as training expenses for the company and tax-free for the employee. The fact that the final decision on the nature of the training is decided on a subsequent basis by the tax authorities adds to uncertainty, especially as far as the self-employed are concerned.

There is little complexity or bureaucracy in deduction of training expenses in the Finnish taxation system; this is particularly important for national policymakers. Problems arise from uncertainties in the tax treatment of some training expenses, with the most common problematic situation being deduction of MBA degree costs. The position is often not evident as several factors (such as the educational background of trained employees) affect tax treatment. Thus, the legal praxis on tax treatment of MBA degrees has not been consistent, affecting tax security for employers and employees. Such of uncertainty can negatively affect the willingness of individuals to engage in MBA education. The employers’ association is of the opinion that training should not be differently treated in tax terms, whether it is qualifying or certificate-oriented.

The interviewed experts representing the private sector emphasise that tax authorities should not interfere in the employers’ willingness to offer training for their employees, as it is unlikely that enterprises would train and educate their staff without any benefit for them. Therefore, tax authorities should trust the employers’ word that the training is needed and will gain advantage for the firm, and that training is not a form of reward or salary payment. The employers’ association believes that the system should permit more allowances and deductions, rights of deduction should be wider than is currently the case. The most important improvement would be to extend deductibility to basic education expenses.

There is a consensus among interviewees that, although important, financial barriers are not the key reason why certain groups do not participate in training activities. For example, entrepreneurs and the lower educated do not have the same opportunities to engage in adult education as most salary earners as other problems (lack of time, lack of personal interest, etc.) can get in the way.

From an individual’s point of view, the Finnish tax system does not support long-term employability, moving from occupations/sectors in decline to new and emergent occupations/sectors; costs of education and training not specifically needed in the current employment position (basic education in a specific field) cannot be offset in taxation for individuals. This fails to improve mobility among professions in the Finnish labour market, affecting the future employability of individuals in the long term.

There is a committee in the Finnish Ministry of Education intended to analyse possible adult education reform, evaluating financial and fiscal issues as well as possible alternatives for promoting education and training such as study vouchers and education accounts. The feasibility of these measures is scrutinised and compared to the current system where direct subsidies are prevalent. For example, the ministry analysed potential introduction of a study voucher to improve training access for groups poorly represented in adult education, although this idea has been postponed for the moment (OPM, 2006).
It is unlikely that the system of education and training of the working population will be changed in the coming years. Specifically on taxation, there has been no public discussion on broadening the coverage of deductible training expenses, and therefore any kind of reform in training expenses in business or personal income taxation is not expected.

3.4. France

3.4.1. Background information

It is important to start with the French tax system and regulations as regards PIT, CIT and VAT (Direction de la législation fiscale, 2007).

PIT is normally an overall tax on the total income of a tax household (foyer fiscal) during a year. All incomes, whatever their source, are aggregated to calculate an overall net income to which a single tax scale applies (20). Seven categories of income are subject to income tax: wages; salaries; pensions and annuities; business profits (bénéfices industriels et commerciaux); professional profits (bénéfices non commerciaux); agricultural profits; real property income (revenus fonciers); income derived from transferable securities (revenus mobiliers); and capital gains.

Income tax computation considers the personal situation of the taxed household. Such personalisation is expressed by using the income splitting system (quotient familial), and by the benefit of tax allowances and tax credits in respect of their personal expenses. The income tax of year N is assessed, declared and paid on year N+1.

The income tax splitting system consists of dividing the taxable income of the household in several parts: one part for a single person; two parts for married or not-married legally recognised couples; an additional half part for each of the first two dependent children; and an additional part from the third dependent child (21). All income earned by the dependent children is integrated with the income of the taxpayer (household) so that the income tax is calculated on this total.

A progressive tax scale is applied to the taxable income per part as follows (Table 6).

Table 6. Progressive tax scale of PIT

<table>
<thead>
<tr>
<th>Portion of taxable income (one part, 2007 to be paid in 2008)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to EUR 5 687</td>
<td>0.0</td>
</tr>
<tr>
<td>From EUR 5 688 up to EUR 11 344</td>
<td>5.5</td>
</tr>
<tr>
<td>From EUR 11 345 up to EUR 25 195</td>
<td>14.0</td>
</tr>
<tr>
<td>From EUR 25 196 up to EUR 67 546</td>
<td>30.0</td>
</tr>
<tr>
<td>EUR 67 547 and over</td>
<td>40.0</td>
</tr>
</tbody>
</table>

Source: Ministère du Budget, 2008b.

(20) However, some types of incomes and capital gains derived from transferable securities are subject to proportional tax levies.

(21) According to tax regulations, dependent children are all children up to 18 years, and those up to 25 years old if they attend higher education and only if both parts (child and taxpayer) agree to do so.
This partial tax is multiplied by the number of parts to calculate the payable gross tax. However, as the advantage derived from the income splitting system increases with the amount of taxable income, a ceiling to this benefit is set per half part after the first two. Finally, tax credits are deducted from the gross tax to define the net tax.

French corporate bodies are subject to CIT either due to their legal form (private limited liability companies, public limited companies, partnership limited by shares) or due to their activities (commercial activities of public administrations and non-profit organisations). Effective CIT rates can be distinguished by two main groups:

(a) for SMEs, defined as enterprises with a turnover less than EUR 7 630 000 and in which fully paid up capital is continuously held for at least 75% by individuals or a company meeting the same conditions, they have to pay 15% (up to EUR 38 120) of profits and, beyond this ceiling, 33.33% on profits and ‘ordinary capital gains’, as well as 15% on revenues from intellectual property rights and a 0% on capital gains falling within the scope of long-term capital gains \(^{(2)}\);

(b) the remaining enterprises have to pay between 33.33% to 34.43% on profits and ‘ordinary capital gains’, between 15% and 15.5% on revenues from intellectual property rights and, finally, 0% on capital gains falling within the scope of long-term capital gains.

The French VAT system is characterised as follows:

(c) VAT is a territorial tax, so VAT is charged on all goods and services delivered or provided in France (including overseas territories except French Guyana where VAT does not currently apply);

(d) VAT is a real tax, so liability to VAT is determined by the type of transactions or products concerned, regardless of the personal situation of the liable person or his customer. It is levied on deliveries of goods and supply of services arising under an economic activity (regardless of the type) and carried out by liable persons (i.e. persons independently carrying on transactions falling within the scope of VAT). Unless this leads to competition distortions, activities carried by public authorities (including statutory bodies, personnes morales de droit public) are outside the scope of VAT. Some activities, such as education (teaching), health, insurance and some real estate and banking activities, are also exempted from VAT;

(e) VAT is an indirect tax paid in fractions, in the sense that VAT is paid only on added value, i.e. the value brought to the product or service in each production or marketing stage;

(f) French VAT is a proportional tax, so VAT is computed by applying a proportional VAT rate to the basis of the transaction (VAT free), regardless of its amount.

The standard rate of VAT is 19.6% since 1 April 2000, except for Guadeloupe, Martinique and La Réunion where it is 8.5%. The standard rate applies to all transactions not subject expressly to another rate. A reduced rate of 5.5% applies for most food and agricultural products, books, drugs not reimbursable by social security, some services (such as transport, entertainment, etc.) and to improvement works in residence and social housing.

\(^{(2)}\) This rate of 0% applies since 2007. In 2006, it was set at 8% for SMEs and between 8 and 8.3% for other enterprises.
built more than two years ago. A special rate of 2.1% applies to newspapers and drugs reimbursable by social security.

French education and training is defined and governed at national level. The first principle is that all children from six to 16 years old living in France must have access to free education. The majority of primary (écoles primaires) and secondary schools (collèges and lycées) are public and free, as are pre-primary schools (écoles maternelles for children from two up to five years old) although attending pre-primary schools is not compulsory. Further, private primary and secondary schools, as long as they have signed an association contract with the State, are largely subsidised, which is the case in most private schools. For universities and other higher education establishments, although the importance of private facilities is higher, public financing is still prevalent. On average, State and local authority financing accounts for 87% of total education expenses (administration, catering, transports and manuals excluded) whereas households account for 8% and enterprises for 5%.

One specific of the French system relates to compulsory financing of vocational training (both initial and continuing) and of apprenticeship by enterprises. Firms with 20 employees and more must dedicate 1.6% of the total gross wages paid during the previous year to vocational training; for enterprises of 10 to 19 employees, and for those with fewer than 10, the rates are set at 1.05% and 0.55%, respectively. Even if not spent, this amount is due (para tax system). Also, all enterprises with at least one employee must pay an apprenticeship tax equal to 0.5% of the total gross wages paid during the previous year. Since 2007, apprentices must account for a certain percentage of the total number of employees of enterprises with more than 250 employees (1% in 2007, 2% in 2008 and 3% in 2009 onwards), otherwise the amount of the apprenticeship tax is increased by 10%.

France has developed several tax incentives to promote education and training, usually named tax expenses (dépenses fiscales) as they constitute a loss of income for the State.

The French tax system distinguishes two different types of tax credits:

(a) tax credit stricto sensu (crédit d’impôt), when the tax credit amount surpasses and the owed tax the difference is returned to the taxpayer. This implies that a tax credit in stricto sensu benefits all tax households whatever their situation is as regards the payment of income tax;

(b) tax reduction (réduction d’impôt), when the tax credit amount surpasses the owed tax but the difference is not returned to the taxpayer. In contrast, tax reductions only benefit those tax households who paying income tax (23). For this last category, even if the amount of the tax reduction surpasses the amount of the tax to be paid, the difference is not returned by the tax administration.

Section 3.4.2 provides an overview of tax incentives available in France to promote education and training activities in the French PIT, CIT and VAT legislation. There are also some additional tax incentives which concern other tax types such as social security contributions (24). Examples include:

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(23) Compared to average western countries, PIT pressure is relatively low in France. Thus, only half of French tax households pay PIT.

(24) These are excluded from the scope of this study.
(a) exemption or reimbursement of social security contributions on wages paid to apprentices (exonérations de charges sociales patronales et salariales sur les salaires versés aux apprentis) (25) for two main types of enterprises:

(i) enterprises with less than 11 employees, can be totally exempt from employer’s and apprentice’s social contributions (26);

(ii) enterprises with 11 employees or more, can be partially exempt from the employer’s social contributions (27); the whole social contributions of the apprentice is paid by the State;

exemption of apprenticeship tax for SMEs employing at least one apprentice and in which the total gross wages paid is less than six times the annual minimum wage (SMIC). In France all enterprises with at least one employee must pay an apprenticeship tax equal to 0.5 % of the total gross wages paid during the previous year. Since 2007, apprentices must account for a certain percentage of the total number of employees in enterprises with more than 250 employees (1 % in 2007, 2 % in 2008 and 3 % in 2009 onwards) otherwise the amount of the apprenticeship tax is increased by 10 %.

Several major changes have taken place during the last 10 years as regards tax incentives for education and training. The main ones are:

(b) five new incentives:

(i) tax credit for training expenses for entrepreneurs;

(ii) tax credit in favour of apprenticeship;

(iii) tax credit for training expenses of employees in the enterprise economy and financial participation;

(iv) tax credit on interest burden of loans incurred by students in higher education;

(v) income tax exemption on wages earned by pupils and students;

(c) reform of the income tax exemption on wages earned by apprentices;

(d) end of the training tax credit (crédit d’impôt formation). This training tax credit was operated from 2001 to 2004. It was aimed solely at SMEs in which training expenses surpassed the compulsory financing of training (28) and training expenses increased between two years. The tax credit was equal to 35 % of this difference.


(26) The employer’s contribution due for work accidents and professional diseases is no longer exempted since 1 January 2007, in new contracts signed from that date.

(27) The contribution due for work accidents and professional diseases is no longer exempted since 1 January 2007, in new contracts signed from that date.

(28) Since 1971, all French enterprises with employees must dedicate to vocational training of year N a percentage of the total gross wages paid during year N-1.
3.4.2. Tax incentives under PIT, CIT and VAT legislation

3.4.2.1. Special tax treatment for education and training providers
General primary, secondary or tertiary education activities are exempted from VAT whatever the legal status of providers. This also includes all types of courses provided by individuals who are directly paid by their pupils.

Also, public education is exempted from CIT, including public higher education establishments for their activities in education and research. Private education provided by not-for-profit private organisations is exempted from CIT as far as they meet the criteria of unprofitable management (gestion desinteressée).

Continuing vocational training provided by public entities is exempted from VAT and CIT. Since January 1995, continuing vocational training provided by private entities can be exempted from VAT if they have a certificate delivered by the competent public administration (General Tax Code, Art. 261-4-4°-a). To obtain this certificate, providers must be declared (registration number) as a vocational training provider and produce each year an educational and finance report (bilan pédagogique et financier) on their vocational training activities.

If a private entity has both vocational training and other activities, the VAT exemption is valid only for vocational training activities. Unless they are not-for-profit entities, they are subject to CIT.

3.4.2.2. Tax incentives for education and training by enterprises in PIT and CIT legislation
French enterprises are obliged by law to contribute to training development via a compulsory levy of their total payroll and dependant on the size of enterprises. French enterprises can deduct education and training expenses from profits when these expenses meet two criteria, i.e. they are carried out for the purpose of the trade and, they surpass the compulsory contribution required by law; this compulsory contribution is treated as another tax in accounting.

In addition, three main CIT incentives support education and training expenses carried out by enterprises:
(a) tax credit for training expenses for entrepreneurs, aimed at enterprises and influencing PIT or CIT returns, depending on the legal status of the enterprise;
(b) tax credit in favour of apprenticeship, aimed at enterprises and influencing PIT or CIT returns, depending on the legal status of the enterprise;
(c) tax credit for training expenses of employees in the enterprise economy and financial participation, aimed at SMEs and influencing PIT and CIT returns, depending on the legal status of the enterprise.

A detailed description of these three tax incentives is presented next.

(1) Tax credit for training expenses for entrepreneurs (Crédit d’impôt au titre des dépenses engagées pour la formation du chef d’entreprise)

This tax credit has existed since 2005. It is regulated by Tax Law (Code Général des Impôts, art. 244 quarter M, 199 ter L, 220 N and 223 O-1−m) and charged in CIT or PIT depending on the legal status of the enterprise (corporate versus noncorporate). It favours
training of entrepreneurs who are not wage earners and, therefore, are not included in the French system of compulsory financing of vocational training.

The types of training that can be considered in calculating tax credit are defined by the labour code (Art. L.6313-1, L 6353-1 and L 6353-2). They basically refer to continuing vocational training aimed at favouring professional development of employers, their job continuity, the development of their competences and the access to the different levels of professional qualification. Training actions have to be conducted accordingly to a predefined programme which must detail pedagogic tools and means used according to the specific objectives pursued as well as the means permitting their follow-up and evaluation.

The tax credit is calculated as follows: (number of training hours) * (value of the hourly gross minimum wage [SMIC horaire brut] as at 31 December of year N [year N being the year for which the tax credit is calculated]). Training expenses are considered up to 40 training hours per year and per enterprise. For tax paid in 2008 on the income of 2007, the maximum amount tax credit is equal to EUR 337. If the tax credit surpasses the amount of PIT or CIT owed, the difference is returned to the taxpayer.

(2) **Tax credit in favour of apprenticeship** *(Crédit d’impôt en faveur de l’apprentissage)*

This tax credit was established by Law 2005-32 of 18 January 2005 on social cohesion *(Loi de programmation pour la cohésion sociale)*, although it was later modified in 2006. It aims at favouring the development of apprenticeship in France.

Tax credit in favour of apprenticeship is regulated by the tax code (Art. 244 quarter G, 199 ter F, 220 H and 223 O-1-h) and charged in PIT or CIT, depending on the legal status of the enterprise (corporate versus non-corporate). All enterprises (including public establishments and not-for-profit organisations if subject to corporate tax) can benefit from this tax credit, as long as they employ apprentices at least for one month.

The tax credit is calculated as follows: (average number of apprentices of year N) * EUR 1 600 (or EUR 2 200 for disabled and low qualified apprentices). This amount of EUR 1 600 (or EUR 2 200) per apprentice is limited by the amount of expenses provided by the employer minus the public subsidies received. This means, for instance, that if the amount of wages and social taxes paid for apprentices after public subsidies received is less than EUR 1 600 (or EUR 2 200), the tax credit is reduced in due proportion.

If the tax credit surpasses the amount of PIT or CIT owed, the difference is returned to the taxpayer.

(3) **Tax credit for training expenses of employees in enterprise economy and financial participation** *(Crédit d’impôt au titre des dépenses de formation des salariés à l’économie de l’entreprise et aux dispositifs d’épargne salariée et d’actionnariat salarié)*

This tax credit was established by Law No 2006-1770 of 30 December 2006 for the development of financial participation of employees (Art. 46) *(Loi pour le développement de la participation et de l’actionnariat salarié et portant diverses dispositions d’ordre économique et social)*. It aims at developing financial participation of employees in SMEs. It is regulated by the tax code (Art. 244 quarter P, 199 ter O, and 220-T), and it is charged in PIT or CIT depending on the legal status of the enterprise (corporate versus non-corporate).
This tax credit is reserved for SMEs (as defined by the EC regulation) carrying out training activities for their employees in enterprise economy (understanding the functioning of enterprise, financing, accountancy, etc.) and financial participation which have also, before 1 January 2007, put in place a company saving plan (plan d’épargne entreprise). Further, training must be provided by training organisations registered on an official list implemented by the representative of the State in the region.

The tax credit is calculated as 10 hours of training per employee and an hourly amount of EUR 75 (ceiling). Public subsidies received for such training actions are deducted from the calculation basis of the tax credit. The credit is limited to EUR 5 000 per enterprise for the period of 24 months (from 1 January 2007 to 31 December 2008). If the tax credit surpasses the amount of the PIT or CIT owed, the difference is returned to the taxpayer.

Company saving plans (plan d’épargne entreprise) were created in 1967, and can be established either on the initiative of the employer or by an agreement with employees. Example savings sources are:

(d) voluntary saving by the employee, with a maximum saving of 25% of annual gross wage. In some cases, the employer decides to contribute directly (additional amount, abondement). The employer’s contribution cannot exceed three times the employee’s annual saving;

(e) amounts coming from mandatory profit sharing (during and after the retention period). A profit-sharing scheme is mandatory for enterprises with 50 employees and more (excluding enterprises which by nature or due to their legal form do not yield a profit liable to income tax), and optional for others. When the enterprise is profitable, the employer has to transfer a part of the profit to the deferred profit-sharing fund (réserve spéciale de participation). The calculation of this transferred profit is defined by the law (29), and must be held for a period of five years. This means employees can get their money before five years only in certain cases such as a wedding, birth of a child, acquisition of main home or the end of the job contract (30). Funds can be invested in frozen accounts (though since the Law of December 2006, no new frozen account can be opened), can be converted into stock options or invested in a company saving plan (plan d’épargne entreprise), a collective saving plan for retirement (plan d’épargne pour la retraite collectif), a special trust (société d’investissement à capital variable) or an enterprise investment fund (fonds commun de placement d’entreprise).

3.4.2.3. Tax incentives for education and training by individuals in PIT legislation

It is possible to identify four main French tax incentives in national PIT legislation aimed at supporting education and training expenses. These are:

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(29) The enterprise or branch agreement may define another calculation formula only if it is as favourable to employees as this formula and if it respects certain conditions defined by the Law.

(30) In principle, the rights of an individual employee (its share of deferred profit-sharing fund) are proportional to the amount of his/her wage, although the agreement can define another scheme, such as equal rights for all. In any case, there exists a double mechanism for the maximum of the share of deferred profit-sharing fund: first the agreement defines a ceiling for the amount of the wage considered and, second, no employee can receive more than a sum equal to the three quarters of the annual social security ceiling (three quarters of EUR 32 184 for 2007, that is EUR 24 138). Management rules of deferred profit-sharing fund can vary.
(a) income tax credits for education expenses in higher and secondary education, aimed at parents with dependent children and influencing PIT returns;

(b) tax credit on the interest burden of loans incurred by students in higher education to finance their studies, aimed at students in higher education and affecting their PIT declarations;

(c) income tax exemption of wages earned by apprentices, aimed at apprentices (or their parents) and affecting PIT declarations;

(d) income tax exemption of wages earned by pupils and students, aimed at students (or their parents) and affecting PIT returns

A detailed description of these four tax incentives is presented next.

(1) **Income tax credits for education expenses in higher and secondary education**

( _réductions d’impôt pour frais de scolarité dans l’enseignement supérieur et dans l’enseignement secondaire_ )

These tax credits were established in 1992. They are regulated by the tax code (Art. 199 quarter F). They benefit all taxpayers that have dependent children following studies in a secondary school ( _collège_ or _lycée_ ) or in a higher education establishment. Dependant children are defined as all children up to 18 years old and children up to 25 years old if they attend higher education and only if both parties (child and parents) agree to do so.

For 2008 (tax to be paid on incomes of 2007) the amount to deduct from the income tax is EUR 61 per child attending _collège_ in 2007 (first to fourth year of secondary school), EUR 153 per child attending _lycée_ in 2007 (fifth to seventh year of secondary school) and, EUR 183 per child attending higher education in 2007.

Taxpayers must write down on their income tax declaration their name, first name of the child as well as name of the establishment and class attended for each child. They also should prove the accuracy of the information on request by tax office. If the tax credit surpasses the amount of PIT owed, the difference is not returned to the taxpayer.

(2) **Tax credit on interest burden of loans incurred by students in higher education to finance their studies**

( _crédit d’impôt sur les intérêts des emprunts contractés par des étudiants en vue de financer leurs études supérieures_ )

This tax credit is regulated by the tax code (Art. 200). It was established in 2005, and it reduces the cost of loans incurred by students to finance their studies. For loans incurred between 1 September 2005 and 31 December 2008, borrowers must first fulfil three conditions:

(a) they must be taxpayers in France the year they request to benefit from the tax credit. This allows students studying abroad to benefit from the tax credit when coming back to France;

(b) they must be less than 26 years old at most at 1 January of the year the loan;

(c) they must be students in higher education at this same date,
This tax credit can only benefit borrowers themselves; if the borrower is a dependent child (31), the parents cannot benefit from the credit. The benefit will be delayed until borrowers become independent taxpayers (it will include also the interest paid during the years they were dependent). This incentive can be considered a tax deferral following the OECD’s classification used in this report. The tax credit base is the total amount of interest effectively paid during the five first years of the duration of the loan (including insurance and file fees). The yearly amount of the tax credit is equal to 25 % of the annual interest effectively paid to a limit of EUR 1 000 per civil year. If the tax credit surpasses the income tax owed, the difference is returned to the taxpayer.

(3) **Income tax exemption on wages earned by apprentices** *(exonération du salaire des apprentis)*

This incentive (a tax exemption type following the OECD’s typology used in this report) is regulated by the tax code (Art. 81 bis) and was established in 1977, although it was modified for the last time in 2005 by the Law 2005-32 of 18 January 2005 on social cohesion (*Loi de programmation pour la cohésion sociale*, Article 46). This incentive is conceived as a tool for promoting education and training activities and for improving the purchasing power of French youngsters.

Wages earned by apprentices in the framework of their apprenticeship contract are exempted from income tax to the limit of the annual minimum wage (*SMIC annuel*) i.e. EUR 15 852 for 2008. The taxpayer (either apprentices themselves or the parents if they are dependent children) have to declare only the wages above this ceiling. The Law of 2005 has nearly doubled the exemption maximum.

(4) **Income tax exemption on wages earned by pupils and students working during school or university holidays** *(exonération des salaires perçus par les jeunes exerçant une activité pendant leurs congés scolaires ou universitaires)*

This incentive (also a tax exemption type following the OECD’s typology used in this report) was established in 2004 and widened in 2007 by the Law 2007-1223 of 21 August 2007 in favour of labour, employment and purchasing power (*Loi en faveur du travail, de l'emploi et du pouvoir d'achat*). It is regulated by the tax code (Art. 81-36). This measure aims at improving the situation of students who have a job while studying (32).

Students in secondary or higher education and under 26 years old who have a job are exempted from income tax on their wage to a limit of three monthly minimum wages (*SMIC mensuel*) EUR 3 840 for the income of 2007. Until 2007, the age limit was set at 21 years and only the wages earned during holidays could be considered. Since 2007, wages earned during school year are also exempted.

(31) Dependent children are defined as all children up to 18 years old and children up to 25 years old if they attend higher education and only if both parties (child and parents) agree to do so.

(32) Scholarships are granted only for pupils and students whose parents have very low income and, therefore, in most cases do not pay income tax.
3.4.3. Evaluation and impact assessment

Before providing some figures on the estimated costs (tax expenses) of these tax incentives, it is important to provide some general figures on the total income of the French State from direct and indirect taxation. Estimated gross income is EUR 354 839 million; once tax reliefs and reimbursements are deducted, net income is estimated at EUR 271 622 million (Table 7). These figures only include national taxes, not taxes collected by local authorities or those collected by the social security.

Table 7. Gross and net income of the State coming from direct and indirect taxes (estimated values for 2008)

<table>
<thead>
<tr>
<th></th>
<th>PIT</th>
<th>CIT</th>
<th>VAT</th>
<th>Other direct and indirect taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income in million EUR</td>
<td>60 455</td>
<td>63 725</td>
<td>179 381</td>
<td>51 278</td>
</tr>
<tr>
<td>In percentage of total of gross income</td>
<td>17.04</td>
<td>17.96</td>
<td>50.55</td>
<td>14.45</td>
</tr>
<tr>
<td>Tax reliefs and reimbursements in million EUR</td>
<td>6 707</td>
<td>9 900</td>
<td>44 400</td>
<td>22 210</td>
</tr>
<tr>
<td>Net income in million EUR</td>
<td>53 748</td>
<td>53 825</td>
<td>134 981</td>
<td>29 068</td>
</tr>
<tr>
<td>In percentage of total of net income</td>
<td>19.79</td>
<td>19.82</td>
<td>49.69</td>
<td>10.70</td>
</tr>
</tbody>
</table>

Source: Ministère du Budget (2008a; 2008b).

There are some partial quantitative data on the cost (loss) represented the tax incentives for the State budget (tax expenses). From Table 8, two main results can be obtained:

(a) the cost of measures targeted at individuals is much more important than those targeted at enterprises;

(b) for each case, the measures targeted at apprenticeship play the major part.

Table 9 (page 60) provides information on the effective use of tax incentives (information relates only to existing tax credits in PIT).

France is one of the Member States with the most tax incentives. In 2008 there were 418 tax incentives (dépenses fiscales, local taxes and social security taxes excluded); 14 new ones have been introduced each year since 2003 (Assemblée Nationale, 2008). Despite this large number, quantitative and qualitative information on these tax incentives is relatively poor and evaluation of their impacts is practically non-existent. The French Court of Auditors and the National Assembly’s commission on financial matters have regularly advocated a more precise assessment and evaluation of the costs and real impacts of tax incentives in general (Cour des Comptes, 2008). Except for a few measures (such as the R&D expenses tax credit), there is no real assessment of costs/advantages in French tax incentives (Leibfritz and O’Brien, 2005).
Table 8. **Tax expenses for education and training expenditure carried out by enterprises and individuals**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax expenses for education and training expenditure carried out by enterprises in CIT and PIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• tax credit for training expenses for entrepreneurs</td>
<td>&lt; 0.5</td>
<td>10</td>
<td>N.A.</td>
<td>10</td>
</tr>
<tr>
<td>• tax credit in favour of apprenticeship</td>
<td>270</td>
<td>300</td>
<td>120 000</td>
<td>300</td>
</tr>
<tr>
<td>• tax credit for training expenses of employees in enterprise economy and financial participation</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>5</td>
</tr>
<tr>
<td>Tax expenses for education and training expenditure carried out by individuals in PIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• income tax credit for education expenses in higher education</td>
<td>165</td>
<td>175</td>
<td>989 000</td>
<td>175</td>
</tr>
<tr>
<td>• income tax credit for education expenses in secondary education</td>
<td>220</td>
<td>235</td>
<td>2 250 000</td>
<td>235</td>
</tr>
<tr>
<td>• income tax exemption on wages earned by apprentices</td>
<td>200</td>
<td>220</td>
<td>N.A.</td>
<td>250</td>
</tr>
<tr>
<td>• income tax exemption on wages earned by students</td>
<td>10</td>
<td>10</td>
<td>N.A.</td>
<td>50</td>
</tr>
<tr>
<td>• tax credit on interest burden of loans incurred by students in higher education to finance their studies</td>
<td>1</td>
<td>1</td>
<td>17 000</td>
<td>1</td>
</tr>
</tbody>
</table>

N.A.: Not available.

Source: Ministère du Budget (2008a; 2008b).

The most important French employers' associations (MEDEF (33) and CGPME (34)) do not favour tax incentives, as they can be unfair and generate competitive distortions between enterprises. They are more in favour of a general reduction of the tax burden on enterprises (in particular social security tax and CIT) rather than the multiplication of tax incentives (for an analysis of the positions of the French employers’ associations, see Conseil des Impôts, 2003).

It is possible to identify several elements for discussion.

It is not clear whether all tax incentives for education and training have as final goal the promotion of education and training. For example, the tax credit for training expenses of employees in enterprise economy and financial participation is aimed at favouring the financial participation of employees in SMEs; the tax credit for education expenses in higher and secondary education is often regarded as a tool of French family policy for improving household purchasing power (also indirectly favouring education and training activities of French dependent youngsters). Also, the income tax exemption on wages earned by pupils and students (excluding apprentices) is conceived both as a tool for promoting education and training activities and for improving the purchasing power of French youngsters.

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(33) Mouvement des entreprises de France (main French employers’ organisation).
(34) Confédération générale des petites et moyennes entreprises (General Confederation of French SMEs).
Table 9. **Tax credits for education and training expenses carried out by individuals or enterprises subject to PIT. Number of taxpayers and amount declared (PIT declared in 2007 on incomes of 2006)**

<table>
<thead>
<tr>
<th>Tax credit</th>
<th>Number of taxpayers</th>
<th>Amount declared in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax credit for education expenses in higher education</td>
<td>1 039 528</td>
<td>1 235 327</td>
</tr>
<tr>
<td>Income tax credit for education expenses in secondary education (collège)</td>
<td>1 412 469</td>
<td>1 624 970</td>
</tr>
<tr>
<td>Income tax credit for education expenses in secondary education (lycée)</td>
<td>1 441 253</td>
<td>1 610 879</td>
</tr>
<tr>
<td>Tax credit on interest burden of loans incurred by students in higher education financing their studies</td>
<td>15 725</td>
<td>4 112 931</td>
</tr>
<tr>
<td>Tax credit in favour of apprenticeship (a)</td>
<td>82 538</td>
<td>129 582 085</td>
</tr>
<tr>
<td>Tax credit for training expenses for entrepreneurs</td>
<td>27 443</td>
<td>6 364 208</td>
</tr>
</tbody>
</table>

(a) Data only referred to non-corporate enterprises (only to enterprises subject to PIT).
Source: Direction générale des impôts.

Some tax incentives fail to provide a real financial incentive. The tax credit for training expenses for entrepreneurs favours training activities for those French entrepreneurs who are not wage earners and, therefore, cannot benefit from the French system of compulsory financing of vocational training. However, given the low amount of this tax advantage for each entrepreneur (maximum EUR 377) compared to the real costs of training, it is questionable whether it constitutes an incentive.

Some tax incentives fail to fulfil their objectives due to added difficulties. For instance, in the case of the tax credit on the interest burden of loans incurred by students in higher education to finance their studies, it is often argued that the main difficulty for French students is to find a bank that will lend them money because students are often not able to offer appropriate guarantees. To resolve this, the French government has recently launched a new measure providing guarantees for students.

The number of apprentices has increased rapidly in recent years, mainly because of public support for such training. In this sense, the tax incentives for supporting apprenticeship (i.e. the income tax exemption on wages earned by apprentices and the tax credit in favour of apprenticeship) have contributed to the development of apprenticeship in France (CNRAA, 2002).

### 3.5. Germany

#### 3.5.1. Background information

**General tax context and structure**

Income taxes (PIT and CIT) and VAT are the most important taxes in Germany. Additional taxes include indirect taxes on the consumption of specific commodities (such as energy or tobacco); taxes connected to real estate and land; insurance taxes; and the trade tax (Gewerbesteuer), taxing enterprises’ profits and used to finance local municipalities. This section provides a general overview of the three main taxes.
3.5.1.2. Personal income tax (PIT)

The German Income Tax Act differentiates between unlimited and limited tax liability. Persons with domicile or habitual residence in Germany are subject to unlimited income tax liability on their global income. Non-residents with income in Germany are subject to limited income tax liability (BMJ, 2008a). There are seven different types of taxable income listed in the German Income Tax Act: agriculture and forestry; trade or business; self-employment; dependent employment (wages/salaries); capital assets; rental income; and other income (from a pension or capital gains from private disposal).

Income from trade or business also includes profits from the sale and closing down of business. These are tax free under certain circumstances or subject to reduced tax as extraordinary income. Income from agriculture and forestry, trade or business and self-employment is determined by operating assets comparison (Betriebsvermögensvergleich) or as a surplus of revenue against operating expenses. Operating expenses (Betriebsausgaben) are those expenses incurred by the enterprise or the independent professional in running the business. As a rule, expenses for capital assets purchased by taxpayers for their business cannot be fully deducted from revenues in the year of purchase, so these costs are distributed over the useful life of the respective capital asset (straight-line depreciation).

To determine the income from dependent employment, capital assets, rental and other income, all expenses of acquiring, securing and maintaining revenue (work-related expenses or Werbungskosten) are to be deducted from revenue.

When determining the basis of charge for income tax (taxable income), several taxpayer allowances and certain expenses, which are not operating expenses or work-related ones, may be deducted (to a specified limit). First, there is the age allowance (Altersentlastungsbetrag) for those older than 64 years, one for single parents and a child allowance. Second, there are special expenses (Sonderausgaben), which include donations, school fees (for own children (35)) and old-age provisions. Third, certain expenses may be deducted as extraordinary financial burdens (Außergewöhnliche Belastungen), including expenses that taxpayers may incur, such as own costs for illness, if they exceed a certain percentage of the income, expenses of the taxpayer for maintenance and professional training of another person (to a limited extent (36)) or expenses for child care (in certain cases).

Expenses for lifestyle (food, clothing and accommodation) may not be deducted as operating expenses or work-related ones. This also applies to expenses incurred due to the economic or social position of the taxpayer.

To determine the taxable income of any fiscal year, positive and negative income, within one type of income and between the individual types of income, can be offset (loss offset). The Income Tax Act contains some exceptions to this loss offset. In addition to the offset within one fiscal year, a restricted amount of losses can be transferred to coming or recent years (loss carry forward, loss carry back).

(35) 30 % of tuition fees up to an annual maximum amount of EUR 5 000 of certain recognised private schools.
(36) Persons entitled to maintenance but who do not qualify for child allowances or child benefits.
Generally speaking, German taxpayers can be assessed in several ways: sole-assessment; joint assessment of spouses; separated assessment of spouses; and special assessment in the year of marriage.

Income tax is progressive. The tax rate, according to which the tax is calculated, considering the allowances and lump sums to be assessed for employees, is the core of the Income Tax Act. The minimum marginal tax rate starting at EUR 7,664 (subsistence level) is 15 %, increasing progressively to a marginal rate of 42 % for a taxable income of EUR 52,152/EUR 104,304 and more (single persons/jointly assessed spouses). If the taxable income reaches EUR 250,000/EUR 500,000 (single persons/married couples), the marginal tax rate is 45 %.

To achieve a similar tax burden of retained profits (Thesaurierte Gewinne) between partnerships and corporations, a special PIT rate has been introduced for retained profits of partnerships in 2008. On request, this rate is 29.8 % (including the solidarity surcharge (37)). The later distribution of these profits is then subject to a tax rate of 25 %.

Finally, individual income from second job activities (Nebenberufliche Tätigkeit) as a teacher, instructor, educator, artist, and nurse/caretaker is exempt from income tax up to an annual amount of EUR 2,100, provided that this service is rendered on behalf of a public organisation or a charitable non-profit organisation. Individual income from other second job activities is exempt from income tax up to an annual amount of EUR 500, provided that this service is also rendered on behalf of a public organisation or a charitable non-profit organisation.

3.5.1.3. Corporation tax
A corporation is defined in Germany as a legal person. The Corporation Tax Law, like the Income Tax Act, differentiates between unlimited and limited tax liability. Unlimited liability covers all income and applies to corporations (such as joint stock companies and associations), associations of persons (such as cooperatives) and funds or estates (foundations) which have either their management or their registered office in Germany. Corporations, associations of persons and funds which have neither their management nor their registered office in Germany have a limited tax liability only for their domestic income (BMJ, 2008b).

The basis of taxation for corporation tax is the income that the corporation has obtained within the fiscal year. Taxable income is determined on the basis of commercial accounting according to the German Commercial Code (Handelsgesetzbuch, better known as HGB) and the regulations of the income tax act.

The corporation tax rate for retained and distributed profits is 15 % (flat tax). For the corporation’s owners, distributed profits are taxed according to the part-income-procedure (Teileinkünfteverfahren) which avoids double-taxing (or over-taxing) the profits. However, if the trade tax and the solidarity charge are also included (both supported by enterprises), the overall rate goes up to 29.8 %

(37) All taxpayers, individuals and corporations, have to pay the solidarity surcharge, (Solidaritätszuschlag) which is a surcharge on income tax and corporation tax, introduced to meet the costs of German unification. The surcharge is 5.5 % of the tax amount (not of the tax base).
The Corporate Income Tax Act foresees a tax allowance of EUR 3,835 for certain corporations (Freibetrag für bestimmte Körperschaften) and a tax allowance of EUR 13,498 for cooperative societies, industrial and provident societies, and associations carrying on agricultural and forestry business (Freibetrag für Erwerbs- und Wirtschaftsgenossenschaften sowie Vereine, die Land- und Forstwirtschaft betreiben).

German enterprises are able to deduct 40% of the estimated purchase costs of a planned investment three years before the actual investment (Investitionsabzugsbetrag). This helps businesses to save money for a later investment, with the previously deducted amount added to the tax base in the year of purchase.

Private providers of education and training services have to satisfy their CIT obligations just as any other enterprise, though this does not apply to public providers.

3.5.1.4. Value-added tax (VAT)
In Germany, entrepreneurial/commercial supplies and services for money are subject to VAT, with certain supplies/services being exempt (BMJ, 2008c). These include non-profit work, services of doctors and hospitals, most banking services to private persons, and insurance services. It also includes certain education and teaching services (see below). The taxable amount is the value (Entgelt) of the supply/service and includes everything which constitutes consideration obtained by the supplier for the supply. Tax liability is, in general, with the supplying entrepreneur. In some cases tax liability is transferred to the recipient of the supply or service (reverse charge), for example when a construction service is delivered to a construction company. The supplying firm must charge VAT on their supplies to the customers and have to file a VAT return. Firms have the right to deduct input VAT on their purchases. The VAT is eventually borne by the end user of a product or service.

The normal VAT rate is 19%. A lower rate of 7% is charged for convenience goods and services needed on a day-to-day basis, such as food, books and newspapers, museums, concerts and theatres, or public passenger transport (suburban traffic).

VAT is due as soon as goods or services are billed, irrespective of the time of actual payment. However, German law provides an exception to ensure that companies do not experience cash flow problems as a result. Company with a turnover up to EUR 250,000 can apply for VAT to be calculated by the actual receipts method rather than the imputed taxation method. In this case, smaller companies do not need to forward the VAT to the tax authority until the payments have been received. Small-scale entrepreneurs (turnover of maximum EUR 17,500 in the last year and approximately maximum EUR 50,000 in the current year) do not pay VAT.

3.5.2. Tax incentives under PIT, CIT and VAT legislation

3.5.2.1. Special tax treatment for education and training providers
According to the VAT exemptions included in the Value-Added Tax Act (§ 4 No 21 and 22, Value-Added Tax Act), certain private schools and education institutions are exempted from VAT. The rationale for this special treatment is to prevent distortion of competition, as public education and training in public schools are not subject to VAT.
The types of entities supported by this special tax treatment have to fulfil several conditions:
(a) private schools and general educational institutions have either to be officially recognised private schools according to Article 7(4) of the German basic constitutional law or by the competent Länder authority. Other educational/training institutions, preparing for professions or exams to be properly taken before a public authority, have to be acknowledged by a regional authority;
(b) the services of independent teachers teaching in such institutions are also free from VAT according to the German Value-Added Tax Act. However, a fixed syllabus is necessary and the services should be provided within a certain period of time. The institution is not required to offer its own curriculum materials but can use that from public schools or universities;
(c) the supply of services in the form of lectures, courses and other events of scientific or educational nature are exempted, provided that the revenues are mainly used to cover the costs. These services can be supplied by general academies, adult education centres, not-for-profit institutions or professional association related institutions.

Any education/training provider that fulfills all the previous conditions benefits from the exemption, supporting all types of education (including initial education/training and continuing training for employees) offered by eligible providers. The courses are not required to be certified, but the education/training provider has to be acknowledged.

Books and newspapers benefit from a reduced VAT tax rate of 7%.

Finally, German private providers of education and training services have to satisfy their CIT obligations just as any other enterprise, whereas this situation does not apply to public providers.

3.5.2.2. Tax incentives for education and training by enterprises in PIT and CIT legislation
In Germany, income from trade or business activities is generally determined by operating assets comparison (Betriebsvermögensvergleich) or as surplus of revenue over operating expenses. Operating expenses (Betriebsausgaben) are the expenses which are incurred by the enterprises or the self-employed. This is regulated in § 4 (4) of the German Income Tax Act (Götter, Schleweit & Partner, 2007).

In general, training expenses incurred by employers for their employees are regarded as operating expenses (with other expenses (38) such as wages, travel, subsistence, etc.) and, therefore, reduce the taxable income of the firm. This includes enterprises without legal personality and enterprises that are statutory corporations. It is essential, however, that the training relates to the business interest of the employer (Betriebliches Interesse des Arbeitgebers). It is recommended that the employer registers the employee in the training course and not employees themselves, otherwise, the expenses are regarded as payment in kind for the employee and cannot be deducted. Generally, expenses for an employee’s initial education do not constitute operating expenses unless the initial education is part of the

(38) For this reason, the deduction of training expenses is not regarded in Germany as a tax incentive in the strict sense.
employment (*Ausbildungsdienstverhältnis*), for example an apprenticeship (Moog, Moog and Partners, 2006).

3.5.2.3. *Tax incentives for education and training by individuals in PIT legislation*

To determine taxable income in German income tax law, all expenses incurred in acquiring, securing and maintaining the revenue (the work-related expenses, *Werbungskosten*) must be deducted from revenue (income). In addition, special expenses (*Sonderausgaben*) can be deducted to a limited extent (Schönhöft, 2007). The main laws regulating these deductions are §9 and §10(1) No 7 EStG German Income Tax Act (BMJ, 2008a).

Expenses for further/continuing education and training, defined as all measures for further education after initial VET, including second courses of studies and retraining measures can be deducted as work- or income-related expenses to the full extent. To be fully deductible, education/training has to be related either to the occupation/job carried out or to retraining preparing for a future occupational change (anticipated income-related expenses) (Winfoline Bildungsnetzwerk, 2005). The measures have to support the maintenance of professional knowledge and skills and adaptation to the developments of professional circumstances (according to case law). This may also include university study, if this study is clearly related to anticipated occupation change as it does not qualify as initial education (first degree). Expenses for initial education can be deducted as work-related expenses only if this education is part of employment (*Ausbildungsdienstverhältnis*), for example in the case of an apprenticeship.

This incentive, which can be identified as a tax allowance following the OECD’s terminology used in this report, becomes effective only if the total expenses exceed the lump-sum deduction of EUR 920, which is granted automatically. This lump-sum deduction applies to employees only (for the self-employed there is no such lump sum). Eligible costs include course fees, travel costs, entrance fees to congresses, associated external accommodation, relevant literature, other work means, software, post fees, etc.

Meanwhile, expenses incurred by individuals in initial/basic vocational education (defined as first completed vocational education and as first academic studies or first course of studies besides or after initial VET) can only be deducted as special expenses to a limited extent, i.e. up to an amount of EUR 4 000 per year: this incentive can also be identified as a tax allowance following the OECD’s terminology used in this report. Initial education refers to education courses recognised by a public authority and concluding with an official exam (e.g. university studies, apprenticeships, vocational schools, etc.). A first study while working also qualifies as initial education. Therefore, associated expenses are to be deducted as special expenses, not as work-related (39). Deductible as special expenses include all types of course fees, tuition fees, examination fees, as well as travel expenses (between place of residence and place of education), the costs of external accommodation, course material costs and, finally, loan interest resulting from loans raised for educational purposes.

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(39) There are procedures at the Federal Fiscal Court aiming at acknowledging expenses for initial basic vocational education as (anticipated) income-related expenses provided they are related to a future/expected professional activity.
To claim work-related or special expenses, the employee has to file an annual tax return (40). Married couples may file a joint return or opt for separate filing.

Up to 2003, costs of education and training, that were not work-related expenses or professional expenses, were deductible as special expenses up to EUR 920 per year (or EUR 1 227 if the taxpayer or the spouse had an own apartment because of the training). From 2004, these deductions have increased to EUR 4 000, irrespective of having an apartment for training purposes or not (BMF, 2005e).

The deductibility of education costs as work-related expenses has being extended significantly in the last two years, triggered by various recent judicial proceedings and decisions. The courts are now dealing with several procedures to determine whether the cost of first academic education can be treated as business/work-related expenses despite the lack of current profession.

Taxpayers who have children in primary and secondary education and attending certain recognised private schools – either in Germany, or in countries belonging to the European Economic Area – can deduct as special expenses 30 % of the tuition fees, up to EUR 5 000 (Entgelt für den Besuch einer Privatschule). This incentive (a tax allowance following the OECD’s typology used in this report), although related to the promotion of education, is primarily a family policy tool.

3.5.3. Evaluation and impact assessment

The association of taxpayers assumes that a large proportion of eligible training expenses is claimed and few people do not claim. The overall uptake of the incentive seems to be good.

Data for 2004 show that almost 400 000 taxpayers had claimed expenses of more than EUR 400 million, the average amount claimed was slightly more than EUR 1 000.

The main problem of the current system in Germany is that the differentiation between deduction of special expenses for basic education (with a limit of EUR 4 000) and income-related expenses for further training is complex and can be difficult to understand. Taxpayers have to be careful in correctly classifying the training when completing the tax form.

For taxpayers, there is always uncertainty over whether or not the training will ultimately be accepted as eligible expenses, whether or not they comply with the definitions and rules of the tax authority. Further, the exact amount of the benefit is difficult to forecast because most individuals do not know their marginal tax rate. Some people even confuse the amount deducted from the tax base and the eventual benefit (which is only a percentage of the deduction).

The limit for basic education expenses has been raised in recent years (now EUR 4 000 per year) because many schools and courses are expensive. However, certain education is still much more expensive (such as aviator education).

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(40) Tax payments are regularly deducted from employee gross salary and transferred to the tax office by the employer. Normally, employees can only profit from the incentives they are entitled to, provided that they file the tax return with the tax authority.
Because of progressive tax rates, the incentive is more significant for high income individuals; for very low income-individuals, there is no incentive at all as they do not pay taxes. Further, the lump-sum deduction granted is \textit{a priori} relatively high (EUR 920) and includes many other potential expenses in addition to training-related expenditure. This means that low annual training expenses are not subsidised while high annual training expenses are.

Since 2003, there are procedures at the Federal Fiscal Court aiming at acknowledging expenses for basic vocational education as (anticipated) income-related expenses provided they are related to a future/expected professional activity. Overall, the discussion in Germany on tax treatment of education and training expenses is primarily from the viewpoint of tax policy and tax equity rather than from the viewpoint of education and training policy.

3.6. Ireland

3.6.1. Background information

The taxation system in Ireland comprises three major components: direct taxes on labour (income taxes), indirect taxes on consumption of goods and services (mainly VAT and excise); and taxes on company profits, known as corporation tax.

Taxation policy in Ireland has moved, to some degree, from a model which places high taxes on labour to a model which taxes consumption to a greater extent than before. The rationale of this approach has been justified on several macroeconomic grounds; for instance, raising indirect taxes has fewer adverse labour disincentive effects than raising direct taxes.

Income tax and pay-related social insurance is chargeable on all income earned by individuals in the tax year, subject to certain exceptions and exemptions. An employee’s tax is deducted by their employer through the pay as you earn (PAYE) system. The self-employed are responsible for paying their own tax through the self assessment system. The taxation rate on incomes is progressive the standard rate of tax is 20 % and the higher rate is 41 % (data for 2008).

An individual is entitled to tax credits and tax reliefs depending on personal circumstances, for example married person’s tax credit, employee (PAYE) tax credit, etc. According to national definitions, these credits are used to reduce tax calculated on gross pay. Income taxpayers may also claim tax relief on unreimbursed medical expenses, not covered by the State or by private healthcare insurance. The value of the tax relief to individuals depends on whether they pay tax at the standard or higher rate. Taxpayers in some categories (such as those over 65 years of age) are provided with a higher level of tax credits and tax reliefs.

All employees and the self-employed must make social insurance contributions to the pay-related social insurance system. This social insurance contribution, normally payable by employer and employee, is a percentage of the employee’s reckonable earnings, i.e. gross pay less superannuation and permanent health insurance contributions, deducted under a net pay arrangement by the employer, which are allowable for income tax purposes. For
certain groups of employees, the employer also pays an additional 0.7 % in respect of the national training fund levy. The levy is incorporated into the employer’s share of social insurance contributions, causing no increase in the overall rate payable by the employer. The fund supports a broad range of employment training initiatives.

VAT is the main Irish tax on purchases and consumption. It is collected by VAT registered traders on their supplies of goods and services. Each trader pays input VAT on goods and services acquired for the business and charges output VAT on goods and services supplied by the business. The main VAT rates are:

(a) 0 % (zero rate, such as food, medicine, books, children’s clothing);
(b) 13.5 % (reduced rate, such as electricity, newspapers, car repairs, construction);
(c) 21.5 % (standard rate, such as electrical equipment, computer hardware, adult clothing, consultancy services).

Some activities are VAT exempt. These include children’s or young people’s education, school or university education, and initial or continuing vocational training (including the related supply of goods and services), provided by educational establishments recognised by the State. Education, training or retraining of a similar kind provided by other non-incorporated persons is also exempt, as are services provided by charities, non-profit organisations and certain financial services. Such suppliers do not charge VAT on the services they provide, but they cannot deduct VAT incurred on the goods and services they purchase.

Corporation tax is charged on the profits made by companies. The standard rate of corporate profits tax is 12.5 %, one of the lowest rates in Europe. Moreover, certain companies have their profits taxed at an even lower rate of 10 % which was introduced in 1981 to encourage foreign direct investment into Ireland. This 10 % rate will be phased out by 2010. Additionally, there is a corporation profits tax rate of 25 % that applies to non-trading income, patent royalties and rental income from land and buildings in the State. Also included at this rate is income from working minerals, petroleum activities and dealing in or developing land, other than construction operations.

Companies can also claim a range of tax credits and reliefs. For example, in 2004 the Irish government introduced a 20 % R&D tax credit to encourage companies to increase their level of expenditure on research and development. The credit is provided to companies on their incremental R&D expenditure over a defined base year. This tax credit was increased to 25 % with effect from 1 January 2009.

According to exchequer receipts for 2007, the single largest source of tax was VAT at EUR 14.5 billion, followed by income tax at EUR 13.5 billion out of total receipts of EUR 47.2 billion. The revenue commissioners report to the Minister for Finance whom they advise on budgetary and other issues relating to taxes and duties. The Department of Finance is responsible for developing and implementing taxation policy in Ireland. Changes in taxes are generally announced in the budget which is usually published in early December: this sets out the government’s budgetary targets for the next three years.

Responsibility for education and training policy in Ireland rests with the Department of Education and Science and the Department of Enterprise, Trade and Employment, respectively. Following the publication of the report by the expert group on future skills needs
(2007)\(^{41}\), the Minister for Lifelong Learning has established an interdepartmental committee to oversee implementation of the national skills strategy. Additionally, the government requested the expert group to examine the potential of several innovative measures to stimulate both employers and employees to engage more fully in education and training. The measures under review include paid learning leave, individual learning accounts for employees, brokerage services to help firms identify training needs and source suitable training, tax measures to increase the numbers undertaking training and the potential of regional advisory groups. No information is yet available on the outcome of the expert group’s deliberations.

### 3.6.2. Tax incentives under PIT, CIT and VAT legislation

#### 3.6.2.1. Special tax treatment for education and training providers

The supply of education and training services in Ireland is exempted from VAT; this exemption status has existed for some time. Most education and training services are provided by public bodies which are not subject to VAT. In addition, the government has always placed the development of human capital as a key national priority and sought to keep the cost of education/training provision as low as possible to potential recipients.

As most primary, secondary and tertiary education, and initial and continuing training services providers are not registered for VAT, they cannot deduct the VAT on purchases of goods and services. This can create particular difficulties for third level institutions which often need to purchase expensive equipment for research and teaching purposes.

To help, the Irish government has made some concessions within the VAT system to allow such institutions to reclaim the VAT input element on purchases of medical equipment for research and teaching purposes using voluntary donations from companies and/or individuals. The Donated Research Equipment VAT Refund Order (Statutory Instrument 38/1995) provides that repayment of VAT incurred in purchasing or importing any new instrument or appliance\(^ {42}\) purchased through voluntary donations can be claimed by a research institution, a university, a school or a similar educational body engaged in medical research in a laboratory. The principal conditions which must be satisfied are that the instrument or appliance must cost GBP 25 390 or more (exclusive of VAT); be designed and manufactured for use solely in medical research; not have been funded, in part, by the State; and be accompanied by a recommendation by the Health Research Board that, having regard to the requirements of medical research in the State, a refund of tax would be appropriate. The individual or company providing the donation may also gain a tax advantage. This VAT reclaim facility helps the institution to acquire leading edge technological equipment in the education of students.

There is no special tax treatment for education and training providers in terms of corporation profits tax. Irish policy-makers point out that companies in the private sector that

\(^{41}\) This expert group is an advisory body to the Department of Enterprise, Trade and Employment and the Department of Education and Science

\(^{42}\) Excluding means of transport.
provide such services pay 12.5% corporation profits tax on their profits, one of the lowest rates in the EU.

Finally, it is worth stressing that the expert group on future skills needs suggests that encouraging suppliers of education and training is not a viable strategic policy option and prefers that support measures be devoted to promoting the increased consumption of education and training by both employees and employers (expert group on future skills needs, 2007).

3.6.2.2. Tax incentives for education and training by enterprises in PIT and CIT legislation

In Irish corporation tax, a company is entitled to deductions in respect of expenditure wholly and exclusively incurred for the purposes of its trade against its profits. The company is not, however, entitled to claim a deduction in respect of business entertainment expenses nor is it entitled to claim a deduction in respect of capital expenditure. Where employee training is wholly or exclusively for the purposes of trade, an employer may claim a deduction (43). If training is provided for the employee’s own personal development, the employer cannot claim the cost of the training provision against the company’s profits.

While the employer can claim a deduction for training costs, in certain circumstances there could be a benefit-in-kind charge on the employee’s PIT.

The Irish Business and Employers Confederation, the largest employers’ representative organisation in Ireland, has called on the government to introduce an employer’s tax credit on the costs of education and training. This Irish Business and Employers Confederation suggests that the credit should be weighted in favour of employees at national framework qualification level 3 or lower, low-skilled employees. There has been no published response from the government to this proposal so far, although public authorities are analysing the possibility of introducing a tax credit to encourage companies to increase their training provision: the introduction of this tax incentive will very much depend on the effectiveness of an existing R&D tax credit, whose full evaluation is still to be done.

3.6.2.3. Tax incentives for education and training expenses by individuals in PIT legislation

Prior to the introduction of the free fees initiative in 1995, students in Ireland had to pay tuition fees for undergraduate and postgraduate courses in publicly-funded universities.

Under the free fees initiative, the State pays the tuition fees of eligible students who are attending full-time third level education for the first time; the initiative does not cover tuition fees for postgraduate education. Another eligibility criterion of the initiative is that the student must be taking a full-time third level course exceeding two years in duration and must be an EU national or have official refugee status. Additionally, students must have been ordinarily resident in a Member State for at least three of the five years preceding their entry to an approved course. This condition applies equally to all EU nationals, including Irish nationals, in accordance with the judgement of the European Court of Justice which states that access to vocational training must apply equally to all EU nationals.

(43) In this sense, the cost of the training is just one of the many expense categories (salaries/wages, travel/subsistence, etc.) that an employer can claim as a deductible expense for tax purposes.
In addition to the free fees initiative, there are maintenance grant support schemes for students going to third level education. These schemes are aimed at defraying the cost of attending third level colleges for students from lower income families.

Shortly after the introduction of the free fees initiative, the government decided to provide tax relief for tuition fees paid for several third level courses not covered by the initiative. This tuition fee tax relief reduces taxable income, at the standard rate of income tax (20%), subject to the maximum level of tuition fees allowable (EUR 5 000). Thus, if individuals pay tuition fees of EUR 6 500 in a tax year, the maximum tax relief that they can reduce their taxable income by is EUR 1 000. If individuals have no taxable income in the tax year in which the relief is being claimed then they will gain no advantage because the tax relief cannot be transferred to another tax year.

From an historical perspective, this tax relief has experienced several modifications (44):

(a) the Finance Act, 1995, provided for tax relief on tuition fees paid by students attending private third level colleges. Students, or their parents, could benefit from tax relief, at the standard rate of tax, on tuition fees paid in respect of full-time undergraduate courses of at least two years duration in such colleges, provided that both the college and the course satisfied the prescribed codes of standards and were approved by the Minister for Education and Science;

(b) the Finance Act of 1996, as amended by the Taxes Consolidation Act of 1997, extended the tax relief for tuition fees paid in respect of approved part-time undergraduate courses which are of a minimum duration of two years and followed in colleges approved for the higher education grants scheme or in colleges which satisfy the prescribed codes of standards set down by the Minister for Education and Science. Also, the Taxes Consolidation Act of 1997 introduced tax relief for fees paid for training in information technology and foreign languages (45);

(c) the Finance Act of 1999, extended tax relief to tuition fees paid in respect of full-time undergraduate courses in publicly funded universities or similar third level colleges in other Member States. The qualifying courses must be of at least two years duration, although in line with the provisions of the third level student support schemes, courses in medicine, dentistry, veterinary medicine or teacher training did not qualify for the relief;

(d) the Finance Act of 2000 provided for tax relief for postgraduate fees paid in publicly funded colleges in Ireland and in other Member States, as well as fees paid in respect of approved postgraduate courses in approved private third level colleges in Ireland. This relief, at the standard rate of tax, was available to full-time and part-time postgraduate students and included distance education courses offered by publicly funded colleges in other Member States;

(44) From a legal technical perspective, all of the legislation relating to tuition fee tax relief that had been passed prior to 1997 was incorporated in the Taxes Consolidation Act 1997, with changes to tax relief on tuition fees made after 1997 were retrospectively incorporated into the Taxes Consolidation Act 1997.

(45) Section 476 of the Taxes Consolidation Act 1997 outlines the legislation on tax relief on tuition fees in relation to information technology and languages training courses. This section of the Act specifies, that both qualifying courses and course providers must be approved by FÁS (Irish National Training and Employment Authority) in accordance with the codes of standards agreed by it with the Minister for Enterprise, Trade and Employment and with the consent of the Minister for Finance. FÁS submits the approved list of courses and providers to the revenue commissioners annually.
(e) the Finance Act of 2001, consolidated the previous provisions of the legislation and extended the relief to cover tuition fees for post-graduate courses in colleges outside the EU. The Act also removed the restrictions surrounding tax relief for courses undertaken in medicine, dentistry, veterinary medicine and teacher training in other Member States, as well as certain restrictions on undergraduate courses including those students who were repeating a course previously had attended but where they had not passed their examinations.

Under current legislation, tax relief at the standard rate of income tax (20 %) is available in respect of tuition fees paid in private or publicly funded third level institutions, institutions abroad and by repeat students and part time students. There are eligibility criteria associated with the provision of free third level undergraduate education. Also under current legislation, tax relief at the standard rate of income tax is available for the following tuition fees:

(a) tuition fees paid for certain full-time and part-time undergraduate courses of at least two years duration in both Ireland and Member States. The relief applies to fees up to EUR 5,000 in the 2007 and 2008 calendar tax years;

(b) tuition fees paid in respect of certain training courses in information technology and foreign languages provided by training providers approved by FÁS, the national training and employment authority. The tax relief applies to tuition fees ranging from a minimum of EUR 315 to a maximum of EUR 1,270;

(c) tuition fees paid for post-graduate courses in Ireland, Member States and non-Member States.

Tax relief can be claimed either on an individual’s tax return at the end of the tax year or during the tax year when the fees have been paid. The relief is allowed on tuition fees paid by individuals for their own course and paid for a dependant (that is, a spouse or child of the individual or a person in respect of whom the individual is a legal guardian). The conditions to qualify for the tax relief are as follows:

(a) the course must be an approved course in an approved college in Ireland, in another Member State or non-Member State. The list of approved courses is available from the revenue commissioners, the organisation responsible for administering the tax system. Courses that do not appear on the annual lists supplied to the revenue commissioners by the Department of Education and Science may still qualify for relief where they satisfy the conditions of Section 473A. This Section 473A of the Taxes Consolidation Act of 1997 contains the legislative details on tuition fees for third level education, and definitions of both approved higher education colleges and courses in respect of which an individual can claim tax relief paid on tuition fees;

(b) full-time and part-time undergraduate courses must be of at least two years duration;

(c) post-graduate courses must be of at least one but not more than four years duration;

(d) training courses in foreign language and information technology must be of less than two years duration.

The approved courses qualifying for tuition fee tax relief are those provided by:

(a) universities, public and private colleges and institutes of higher education that provide courses approved for higher education grants;
(b) a college or institution of higher education which operates in accordance with certain codes of standards laid down by the Minister for Education and Science (these colleges and institutions must be approved by the Department of Education and Science for the purposes of this tax relief);

(c) publicly-funded or duly accredited universities and institutions of higher education in another Member State;

(d) a college or institution of higher education in any other Member State providing distance education in Ireland, which provides courses approved for the higher education grants scheme (this includes the Open University);

(e) publicly funded or duly accredited universities and institutions of higher education in non-Member States (this only applies to postgraduate courses);

(f) colleges or institutions (in Ireland and in any Member State) which provide distance education in Ireland and which operate in accordance with a certain code of standards laid down by the Minister for Education and Science: these colleges and institutions must be approved by the Department of Education and Science for the purposes of this relief.

The Department of Education and Science is responsible for maintaining the list of colleges/courses approved for tax relief. This list is updated annually and submitted to the revenue commissioners so that they can verify claims from individuals seeking tax relief on tuition fees paid in respect of third level courses.

Tax relief due is per course, per academic year. A taxpayer can claim for more than one child. The maximum tax relief that may be claimed is EUR 5 000 per course (EUR 3 175 prior to 2005). The tax relief on foreign languages (excluding the two official languages of Ireland) and information technology courses is between a minimum of EUR 315 per course and a maximum of EUR 1 270 per course.

In the specific case of the foreign language and information technology, courses must meet some additional criteria. They must be of less than two years duration and they must result in the awarding of a certificate of competence and not merely a certificate of attendance.

To claim the tax relief, the applicant must submit a written application giving details of tuition fees, the name and address of the individual who paid them, the name and address of the student, the course of study and its duration and confirmation that the college is publicly/privately funded in a Member State/non-Member State. Receipts for tuition fees paid do not need to be submitted with the claim. However, the revenue commissioners recommend that a receipt should be retained by the claimant as it may be requested at a later point for verification.

Tax relief is not available in respect of, first, any part of the tuition fees which are met directly or indirectly by grants, scholarships, by an employer or otherwise, and, second, administration or examination fees.

In its 2008 budget submission to the government, the Irish Business and Employers Confederation advocated extending the existing employee tax credit to include fees paid for any training or course that leads to a national framework of qualifications level within appropriate time limits. The Irish Business and Employers Confederation also called for
increased tax credit limits for individuals studying at national framework of qualifications levels 8 and above to reflect tuition fees and associated costs such as registration fees.

3.6.3. Evaluation and impact assessment

The main tax incentive available in Ireland to encourage education and training is tax relief at the standard rate of income tax (20%) on third-level tuition fees paid in respect of certain approved courses. Tax relief is also available on tuition fees of certain language and information technology courses.

Under the free fees initiative, the State pays the fees of undergraduate courses in publicly funded third level colleges. Most students attending undergraduate courses of not less than two years duration in publicly funded colleges in Ireland are, therefore, ineligible to claim any tax relief on tuition fees because they do not pay any. Additionally, when a student qualifies for a maintenance or support grant towards the cost of attending college and is in receipt of a grant towards tuition fees for an approved course (undergraduate or postgraduate) not covered by the free fees initiative, it is not possible for that student to claim any tax relief on the part of the fee covered under the maintenance grant.

Tax relief on tuition fees was introduced shortly after the launch of the free fees initiative in 1995. It was intended to provide assistance to those students (and their parents) whose private university course did not qualify for the free fees initiative, so provision of the tax relief on tuition fees must be viewed as a support measure operating alongside a much larger and better-known measure. Under this initiative, the government pays the cost of the tuition fees directly to the provider of eligible courses. It is assumed that the tax relief is particularly beneficial to middle-to-high income earners since they are more likely to be able to afford to attend private third level colleges. Since its introduction in the Finance Act 1995, tuition fees relief has been extended to cover fees for other third level course provision not covered by the free fees initiative, for example part-time courses in both private and publicly-funded colleges. It has also been extended to cover the tuition costs of information technology and foreign language training courses. Therefore, it can be assumed that the current tax relief on tuition fees benefits taxpayers from a wider range of income levels.

Figures produced by the revenue commissioners indicate that in 2004 26 600 taxpayers applied for tax relief on tuition fees at an estimated cost to the exchequer of EUR 11.1 million. The number of taxpayers benefiting from tuition tax relief in 2005 increased to 29 900 at an estimated cost to the exchequer of EUR 14 million. This must be seen in the context of the free fees initiative which in 2007 covered the cost of third level education tuition fees for 108 228 students at a cost of EUR 346 million.

Providers of education or training services are exempted from VAT but are not specially treated in terms of corporation profits tax. Also, companies can claim the cost of training their employees as a deductible expense, as other expenses.

The use of tax incentives generally in Ireland is in the context of the State as a major funding source of education and training provision. For example, much of the further education provision, for example adult literacy, etc., is provided by the State free of charge or at nominal cost. The amount of private sector provision at primary, secondary and third level education is relatively small.
There has been a trend towards simplification of the tax system which was perceived as being cumbersome and bureaucratic. Also, the down-turn in the Irish economy following over a decade of continuous economic growth, has caused a sharp reduction in government tax revenues, so the economic climate is unlikely to favour the introduction of new tax incentives in the short term.

Interviews with government officials indicate that there are difficulties in proposing tax incentives because of the problems of estimating the likely take-up of such measures. This puts an onus on government ministries seeking to introduce a tax incentive to demonstrate a valid case and to support this with data that, in many cases, are hard to obtain.

One of the perceived difficulties of tax incentives is that they may have a limited public profile, generating publicity when introduced but then fading from attention. Also, there have been moves to simplify the tax code in Ireland and there is a belief that the addition of new tax incentives may run counter to this. Added to this is the difficulty of making people at whom a particular tax incentive is directed aware that the scheme exists and making it easy for them to take advantage of it. Most people in the PAYE system have little direct contact with the taxation system because their employers deduct and submit their income tax for them. The consequence of this lack of direct contact that PAYE taxpayers have with the revenue commissioners is that they often are not aware of all tax reliefs or credits available to them.

Additionally, ministry officials point out that disseminating awareness of tax incentives to certain groups, for example people with literacy/numeracy deficits, etc., presents difficulties as they may not use traditional media channels such as newspapers.

The number of foreign language and information technology training courses that have registered with FÁS to qualify for the tuition fee tax relief is small; only six providers have been approved for foreign language training courses. Given that the availability of tuition fee tax relief could be a potential marketing tool to attract students, there is a lack of awareness of the tuition fees tax relief.

There is also scepticism in some policy circles over the effectiveness of tax incentives in stimulating specific sectors of the population to engage in more education or training. There is a perception that persuading people in the higher skills/income category to participate is very much dependent on their personal motivation and circumstances. It is believed that high-income earners are well aware of the economic benefits of increasing their skills and are thus well motivated to acquire additional qualifications that generally result in increases in earnings. Consequently, policy-makers are of the opinion that introducing tax incentives to motivate high-income individuals could have significant deadweight outcomes.

Similarly, using the tax system to encourage people in lower income groups to increase their take-up of education and training is also seen as problematic. The issue here is that lower income people either pay income tax at the standard rate (20 %) or may pay no tax at all because their income falls below the income tax threshold and a tax incentive would, therefore, have little or no impact. If individuals have no taxable income, they cannot carry over tuition fee tax relief to another tax year. Further, as the bulk of further education provision is either free or at very low cost, this also limits the relevance of tax incentives.
Although there is support among policy-makers for the concept of using tax incentives to promote education and training, there is a perception that they may be a ‘blunt instrument’. Policy-makers often seek to target specific groups and using a tax incentive – in the context of a tax system that is universally applied – to address specific policy challenges is seen as problematic in terms of its deadweight potential. Policy-makers feel more comfortable with the concept of using grants to encourage skill improvement.

The Irish experience indicates that tax incentives on their own are insufficient and they should be considered in the context of other policy approaches. The trend towards the simplification of the tax system, the concern with the potential cost of deadweight associated with such incentives, the difficulties associated with promoting awareness of incentives to target groups and the substantial State investment in education and training provision are factors that limit the use of tax incentives within the Irish context.

However, in the context of the national skills strategy, consideration is being given to how best to encourage the enterprise sector to increase the level of training provided to employees. In 2004, Ireland introduced a 20 % R&D tax credit to encourage companies to increase their level of expenditure on research and development (a particularly important policy objective given the stated aim of the government to position Ireland as a leading knowledge economy). The credit is provided to companies on their incremental R&D expenditure over a defined base year. As the national skills strategy points to the need to improve employee skills, policy-makers are looking inter alia at a similar tax credit as a means of encouraging employers to increase their expenditure on employee training. Under the proposal, companies would receive a tax credit for expenditure on training over a defined base year. A full evaluation of the effectiveness of the R&D tax credit has still to be undertaken and concern has been expressed on the part of industry regarding the administrative burden of claiming the credit. If the R&D tax credit were found to be effective, then policy-makers may consider a similar tax credit to encourage companies to increase their training provision.

In summary, tax incentives are regarded as having a place in the policy-makers’ arsenal but, due to their limited usefulness in terms of targeting specific groups, they are best suited where a range of instruments is used in concert to promote the uptake of education and training. Ireland has tax relief for individuals in respect of third level tuition fees but this has to be seen in context of the availability of free undergraduate education under the free fees initiative. Consideration is being given to encouraging companies to increase their expenditure on training, one possible option being provision of a tax credit against incremental expenditure on training.
3.7. The Netherlands

3.7.1. Background information

The tax administration (Belastingdienst), belonging to the Dutch Ministry of Finance (Ministerie van Financiën), has the main responsibility for collecting taxes and social security contributions (46).

3.7.1.1. Personal income tax (PIT)

PIT in the Netherlands, has three categories of taxable income, referred to as boxes:

(a) box 1 includes income from work and home ownership (47). A progressive rate applies, box 33.6 % up to a maximum of 52 % of salary (2008);

(b) box 2 is on income from substantial interest (48) in a private limited or public limited company. The flat rate is 25 % (2008);

(c) box 3 includes income from savings and investments. The flat rate is 30 % and is levied on a deemed fixed yield of 4 % of the total net worth. Net worth is the value of the assets (including saving deposits, rented property, shares, etc.) after the deduction of debt, based on the average balance for the year. Tax is levied on the value exceeding EUR 20 315 (2008).

The taxable income of individuals can be reduced with personal allowances, representing various types of expenditure. In first instance, the personal allowance can be deducted from taxable income derived from work and home ownership (box 1). Should this income not be sufficient to absorb all the allowance, the remainder reduces the taxable income from savings and investments (box 3) followed by the income from substantial interest (box 2). Any remaining deductions are carried forward to subsequent years.

An individual is entitled to all personal tax allowances if they satisfy the relevant conditions. Wage tax is a withholding tax payment on income, paid periodically to avoid a person having to pay a single large payment for income tax and social security contributions each year in one go. This withholding tax payment is made at the time the income is received, the employer delivering it to the tax administration.

3.7.1.2. Corporate income tax (CIT)

CIT is levied on the company profit (both public limited and private limited companies), as well as foundations and associations running a business. Tax is levied at a rate of 20 % on the first EUR 25 000 of the total taxable profit; in excess of EUR 25 000 but no more than EUR 60 000 is taxed at 23.0 % and the tax rate on profits in excess of EUR 60 000 is 25.5 % (2008). If a company has suffered a loss in previous years, this may be deducted from its profits (one year carry-back/nine years carry forward).

(46) More information on the Dutch tax system can be found on the website of the Dutch Ministry of Finance; available from Internet: http://www.minfin.nl/english/subjects/taxation [cited 11.2.2009].

(47) Home owners can deduct the mortgage interest related to their owned occupied dwelling from their income. This interest deduction is reduced by an amount that is added to the home owners’ income before calculating their taxes (huurwaardeforfait).

(48) Individuals can own shares in a private limited or public limited company; individuals hold substantial interest in a company when they own more than 5 % of a company (on general terms).
3.7.1.3. **Value-added tax (VAT)**

VAT (BTW in the Netherlands) is a general consumption tax levied on all private spending and is included in the price consumers pay for goods and services. There are three VAT rates: the standard rate is 19 %, while the reduced rate of 6 % applies to a number of products and services (food and medicines, some labour-intensive services, books and magazines, passenger transport, entrance fees for sporting competitions, zoos, circuses and theatre, etc). A zero-rate applies to export of goods to a country outside the European Union (EU), to the supply of goods to companies within the EU and for the services related to these supplies.

3.7.2. **Tax incentives under PIT, CIT and VAT legislation**

3.7.2.1. **Special tax treatment for education and training providers**

Enterprises providing education and training in the Netherlands can, in certain circumstances, leave the 19 % VAT off their services: education and training activities are tax-exempted. This special tax treatment is intended to diminish the cost of education and training for individuals and to increase participation in lifelong learning activities. This VAT exemption for education (Vrijstelling van BTW voor onderwijs) is based on the Law of Turnover Tax 1968 (Wet op de omzetbelasting 1968).

This special treatment applies to organisations of all legal types that provide the following education and training services:

(a) financed education (bekostigde onderwijs), completely and directly financed by the public sector, including primary, secondary and tertiary education as well as vocational education (also called career and technical education). This type of education and training prepares for manual or practical careers, traditionally non-academic and totally related to a specific trade, occupation or vocation;

(b) appointed education (aangewezen onderwijs), partly financed by the government, can be legally or non-legally regulated. Legal regulated appointed education includes primary, secondary and tertiary education as well as vocational. Non-legal regulated appointed education includes non-legal regulated vocational education, music education and practice education (vocational training for the long-term unemployed);

(c) acknowledged education (erkende onderwijs), not financed by the government but having legal acknowledgement for the quality of education and teachers (49);

(d) written education (schriftelijk onderwijs); without a location to go to, the individual studies at home and sends in homework which is corrected by the education provider and sent back (only exempted if and as far as this education is mentioned in Article 11, part 1, under o);

(e) education and training for State exams (only exempted if and as far as this education is mentioned in Article 11, part 1, under o);

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(49) These kinds of education are only exempted from VAT when they are regulated in one or more education laws, as the Law of turnover taxes prescribes.
(f) education and training for establishment; gives the right to open a business in certain branches;
(g) closely related services like examination and correcting for education are also exempted from VAT.

There are some types of activity and course exempted from VAT that, despite not being directly of a vocational nature, are intended to improve the individual’s current or future job position. Examples include courses in text processing, management, automation, language programmes, courses for members of works council or, finally, visits to congresses, seminars and symposia (if skills and knowledge are presented). In contrast, some training courses not related to the individual’s current or future professions are not exempted from VAT (hobby courses such as cooking, photography, etc.).

Up to 2006, a non-legally regulated enterprise that offered education and training could choose to charge VAT or not, in contrast to the situation of organisations offering legally regulated education or training, obliged not to charge or deduct VAT (Staatssecretaris van Financiën, 2006). However, EU regulations have led to changes and it is no longer allowed for enterprises offering education and training to charge or deduct VAT (Thunnisses, 2006).

Private enterprises that provide education and training are subject to the same taxes (PIT and CIT) as other enterprises and under the same conditions; VAT exemption is the only exception to this rule. Also, enterprises offering education and training services and exempted from VAT cannot subtract the VAT they pay for expenses from the VAT they have to deliver for turnover; this situation does not apply for enterprises in other sectors.

3.7.2.2. Tax incentives for education and training expenses carried out by enterprises

Education and training expenses carried out for employees can be deducted from earnings in calculating profits. To be deductible, these education and training activities must be intended to obtain income from work, either in current job positions or in new ones within the company. Courses paid by the firm, but not for acquiring income from work, cannot be deducted from the earnings. One-man businesses, can also deduct expenses from earnings in calculating profits. The purpose of the education and training must be also to obtain income from work but solely related to the current position: if self-employed individuals with no employees want to change career, they can use other tax incentives such as the deduction of educational expenses.

The Netherlands also has payment reduction for education (Afdrachtvermindering voor onderwijs), an incentive is based on the law on ‘reduction payment salary tax and premium for social insurances’ (Wet vermindering afdracht loonbelasting en premie voor de volksverzekeringen, WVA). By law, enterprises can benefit from a reduction in taxes for financial support of employees to participate in education or training activities to acquire a stronger position in the enterprise.

This incentive tries to achieve its goal by lowering the salary costs of employees for firms (50) through deductions in salary and social security contributions paid by firms carrying

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(50) Therefore, the measure is not strictly related to the CIT but to the salary tax paid by enterprises. However, due to its importance in the Dutch tax system, this tax incentive has been included in the analysis.
out educational and training expenses for their employees (51). The following training/education activities and employee groups can benefit from this incentive:
(a) a student or a recent graduate undergoing supervised practical training in VET within the enterprise;
(b) employees taking part in VET;
(c) employees who are part-time time students in higher professional education and secondary vocational education (not for part-time students in university education);
(d) employees who follow PhD programmes at university;
(e) employees who follow PhD programmes at certain knowledge institutions;
(f) employees who follow PhD programmes at enterprises for salaries similar to PhD students at universities (if these employees receive greater salaries the enterprise cannot use this initiative);
(g) employees (also those recently unemployed) who follow education to acquire starter level qualifications; these are individuals who did not finish secondary education;
(h) employees who follow assessment programmes to determine current skills and their further educational needs.

Payment reduction for education operates as a tax credit following the OECD’s terminology used in this report; a certain amount of salary tax payment is deducted from tax payments as a lump-sum deduction. These deductions can be different according to the type of education/training and employee supported. Thus, the general payment reduction for one employee is a maximum of EUR 2 566 per year in 2008, whereas the payment reduction for a former unemployed employee who wants to acquire starter level qualifications is a maximum of EUR 3 079 per year. The reduction for a student or a recent graduate undergoing supervised practical training is a maximum of EUR 1 232 per year and, finally, enterprises can deduct up to EUR 308 per year for an employee who follows assessment programmes to determine current and future education and skill needs. There are no differences in the treatment of costs for accounting and tax purposes.

The payment reduction for education is aimed at employee-student programmes, with the aim of encouraging those employed in certain positions to take part in education and training to acquire a better position within the business. There are no specific types of education and training, activities, course or training related costs defined in this initiative; the only condition is that the employee follows the employee-student programme.

Initially, this initiative was aimed at employers who employed student-employees in vocational education and individuals involved in PhD programmes. However, in subsequent years the initiative was extended to other types of education such as higher professional education (in 1997) and secondary vocational education (in 2001), with the idea of stimulating the number of positions at these educational levels (Gelderboom et al., 2007).

3.7.2.3. Tax incentives for education and training by individuals in PIT legislation
The tax incentive deduction of educational expenses (Aftrek studiekosten of andere scholingsuitgaven) is based on the Law of salary tax 1964 (Wet op loonbelasting). The main

(51) Salary taxes are delivered monthly to the tax administration by the employer.
The goal of this initiative is to increase participation of adults in lifelong learning activities, by reducing the cost of education and training for individuals. The initiative also assumes that enterprises can also benefit from the additional skills and knowledge acquired by employees.

All individuals with an income who invest in education or training to improve income prospects from work in their current or further position can take advantage of this initiative. Education expenses are one of the several personal allowances within the Dutch tax system. These expenses have a threshold of EUR 500 per year and a maximum of EUR 15 000 per year, and are subtracted from gross income to arrive at taxable income. The initiative can be categorised as a tax allowance, following the OECD’s typology used in this report.

The deduction of educational expenses is calculated by using the three areas of the PIT. There is a fixed order of offsetting:

(a) deducting the personal allowance from income from employment and home ownership (area 1);
(b) if the allowance exceeds area 1 income, offset the excess against the income in area 3 (including income from savings and investments);
(c) then deduct any remaining amount from income in area 2 (related to income from substantial interest in a private limited or public limited company).

Individuals receiving a student grant from the government cannot apply for the maximum of EUR 15 000 per year. This is reduced by a norm amount (between EUR 92 and EUR 183 a month), the student grant and an extra EUR 500.

The deduction of education expenses applies to several types of education: financed education; appointed education; acknowledged education; written education; education and training for State exams; and education and training for establishment (see detail in Section 3.7.2.1).

The costs that individuals incur in taking part in education and training that can benefit from the incentive are:

(a) tuition fees, books and literature;
(b) excursions and trips, including travel and accommodation expenses;
(c) visits to congresses, seminars and symposia;
(d) depreciation of durable goods, like computers;
(e) accreditation of prior learning (52).

No changes have occurred in the last five years as far as the tax incentive is concerned.

3.7.3. Evaluation and impact assessment

The relatively high number of low-educated individuals is an issue of policy concern in the Netherlands. In response, the Dutch government has, since the mid-1990s, stressed the importance of increasing the participation of people in society, for which education, culture

(52) The accreditation of prior learning is the common name given to the process of recognising the competences an individual has gained through formal, informal or non-formal learning in various settings. This implies that professional competences acquired by learning on the job, in a home setting or in voluntary work are in principle comparable to those acquired in formal learning situations.
and science are regarded as key elements. Tax incentives are deemed to play a role in sustaining this active participation (Cedefop, Maes, 2004). In June 2004, the Dutch Ministry of Education, Culture and Science published a policy overview of trends, agendas and action plans for Dutch vocational and adult education and training in 2004-07, suggesting that existing education and training tax initiatives are to be continued in the future (MINOCW, 2004).

Tax initiatives are justified by the existence of market imperfections, which can lead to lower investment by enterprises in education and training. Incentives should contribute to increasing adult participation in lifelong learning activities, especially among the most vulnerable groups (the low-educated, those over 55 years old, etc.) (Gelderboom et al., 2007).

Focusing on the tax incentive payment reduction for education, the related tax expenditure is estimated to be EUR 194 million in 2008 (Ministerie van Financiën, 2008). Available data show that expenditure increased between 1999 and 2003, but after 2003 it suffered from a slight decrease, partly recovered in the last two years. There were around 160 000 student-employee positions filled in 2007, but the tax incentive was used in only half of these cases. Not all student-employee positions meet the requirements of the initiative, so around 80 % of eligible enterprises make an effective use. This percentage is surprisingly low among PhD students (approximately 10 %) (Gelderboom et al., 2007).

Table 10. Tax expenditure on the payment reduction for education

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
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<th>2007</th>
<th>2008</th>
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<tr>
<td>EUR million</td>
<td>144</td>
<td>162</td>
<td>179</td>
<td>198</td>
<td>210</td>
<td>201</td>
<td>187</td>
<td>184</td>
<td>192</td>
<td>194</td>
</tr>
</tbody>
</table>

Sources: Gelderboom et al. (2007); Ministerie van Financiën (2008).

About the deduction of educational expenses, it is expected that the Dutch administration will have an expenditure of EUR 183 million in 2008 (expenditures in 2005, 2006 and 2007 were EUR 105, 153 and 170 million respectively). In 2005, the deduction of educational expenses was used by just a 2 % of the total working population (Berkhout et al., 2005), although experts suggest that this percentage is much higher in recent years at around 5-10 % of the Dutch working population.

The experts interviewed (Annex B) were able to identify strengths in the available Dutch tax incentives. All agree that the administrative costs for all three tax incentives are low for individuals and companies, as the administrative actions go via the tax system without individuals/enterprises having to fill in extra documents. Also, these incentives benefit both employees and companies. Companies pay fewer taxes (reduction in salary taxes) and get better qualified employees, whereas individuals can deduct a certain amount of their cost for education and training from their taxable income.

From a detailed perspective, the main strengths of each of the three identified tax measures are summarised as follows:

(a) exemption for education of VAT: this special tax treatment of training/education providers allows individuals to pay less for education and training because VAT is not
added to the final price. These lower costs can be regarded as a reduced barrier for individuals and companies to take part in education and training;

(b) payment reduction for education: according to the interviewed experts, businesses appreciate the public support provided through this tax incentive. According to some estimates, up to 80% of the firms eligible for the incentive made use of it in 2004 (Gelderboom et al., 2007). The incentive reduces salary costs and provides a stimulus for firms to get more involved in educating and training their employees. The experts believe this incentive is particularly used by firms offering vacancies for student-employees in senior secondary vocational education and PhD students in university education, though benefit from this initiative has been extended to other employees in the last decade;

(c) deduction of educational expenses encourages working individuals to take part in education and training. Also, enterprises are indirectly benefited via better qualified personnel, as employees can apply their acquired knowledge and skills in the firm.

The experts also suggested that the Dutch incentives have some weaknesses:

(a) for the VAT exemption for education/training providers, the main weak point is that providers cannot subtract the VAT they pay for their expenses from the VAT they have to deliver to the tax administration (where they supply other VAT non-exempted services) so they have to pay more tax to the public administration;

(b) despite the large percentage of user enterprises, experts suggest that payment reduction for education is not yet known by all, the largest being the most aware and benefiting. Some firms (the very small ones) cannot fully benefit from this initiative, as their tax deliverable may not exceed the reduction. Some experts suggest that, especially in the case of large enterprises, the initiative is subject to a high deadweight effect, they would provide the same level of training whether the tax incentive is available or not. However, other experts see a positive effect on the involvement of small businesses;

(c) the weakest point of the deduction of educational expenses is that it puts the initiative for education and training solely in the hands of the employee, so the decision rests solely with the individual. Some experts suggest that firms could be given a more prominent role, benefiting from tax benefits but also participating in the costs, so that the involvement of individuals would also be increased. The available literature shows the important differences in the participation of certain groups in this measure, with older workers particularly participating and benefiting less (Berkhout et al., 2005).

Two tax incentives initiated in 1998 to stimulate enterprises to invest in educating their employees were abolished by the Dutch government on 1 January 2004:

(a) extra training allowances for employers (Scholingsaftrek), which allowed firms to deduct 20% from the costs for education and training. For certain groups of employees the percentage could be increased by an extra 20% and, if the total cost did not exceed EUR 124 000, the percentage was increased by 20% over the first EUR 30 000. The government found that this was not encourage training and cancelled the initiative. Nevertheless, one expert believes the incentive was appreciated by many enterprises (CINOP, 2003);
(b) tax training allowances for non-profit organisations was developed because these organisations, not having profits, cannot subtract expenses from profits before tax. They were allowed to decrease salary tax by 12%. This initiative was also abolished because it did not stimulate investment in education and training.

Available information suggests that no important changes are expected in the short term, though the Dutch Ministry of Education, Culture and Science plans further encouragement for student-employees, individuals combining education/training and work (SZW, 2007). Also, the payment reduction for education is under discussion concerning its effect on small enterprises. Several employee and government organisations are discussing different possibilities to make the incentive more attractive, for instance, through financial compensation for the part of the reduction that exceeds their paid salary taxes.
4. Comparative analysis of tax incentives

4.1. Introduction

The previous chapter provided an extensive and detailed description of the tax treatment of education and training and related tax incentives in Germany, Ireland, France, the Netherlands, Austria and Finland.

This chapter provides a comparative analysis of the six national experiences. Section 4.2 characterises the analysed tax incentives, separated into three main subsections. The first (4.2.1) deals with the tax treatment for education and training providers in VAT, as well as existing special provisions for providers in the CIT. The second (4.2.1) analyses the existing tax incentives for education and training expenses carried out by enterprises, and the third (4.2.3) analyses those carried out by individuals.

Section 4.3 provides a qualitative assessment of the analysed tax incentives, based on the information collected from the different national descriptions, the interviews conducted and analysis of available literature on the issue.

4.2. Characterisation of existing fiscal incentives

4.2.1. Special tax treatment for education and training providers

The introduction of the sixth VAT Directive (Council of the EU, 1977) and later its replacement by the VAT Directive from 1 January 2007 (Council of the EU, 2006) resulted in the codification of the different provisions governing the introduction of the common system of VAT in the EU, applying to all goods and services bought and sold for consumption within the EU.

The VAT Directive states that certain activities of general interest linked to education and training are exempted from VAT, such as ‘the provision of children’s or young people’s education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto, by bodies governed by public law having such as their aim or by other organisations recognised by the Member State concerned as having similar objects’ (Council of the EU, 2006, p. 27) This implies that the entities covered by the exemption can be different among the Member States as it is up to these Member States to lay down the rules on how to ‘recognise’ these organisations.

Table 11 provides a brief overview of the tax treatment of education and training providers in the national VAT legislations of the six analysed Member States. From this table, it is possible to see that education and training are usually exempted from VAT, which means that organisations offering education and training services and exempted from VAT cannot deduct the input VAT on their purchases of goods and services from their output VAT turnover (if they have output VAT). This situation does not apply for other enterprises in other
VAT non-exempted sectors, which implies that ‘hidden’ VAT might remain included in the price paid by the consumer, as private providers maintain profit margins.

Table 11. **Tax treatment of education and training providers in national VAT legislation**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>Public education and training providers are exempted from VAT. Private schools and other providers of general or vocational education and training are exempted from VAT, provided that their programmes are comparable to those of public schools.</td>
</tr>
<tr>
<td>FI</td>
<td>Public schools, higher education institutions and private organisations providing education by virtue of law are exempted from VAT. Education or training providers not organised by virtue of law are not allowed any exemptions and, therefore, they charge the standard VAT 22% for their supply of services.</td>
</tr>
<tr>
<td>FR</td>
<td>General education activities are exempted from VAT, whatever the legal status of providers. Vocational continuing training provided by public entities is exempted from VAT, with private providers of vocational continuing training exempted from VAT if they are certified by the public authority.</td>
</tr>
<tr>
<td>DE</td>
<td>Public education and training providers are exempted from VAT, and private education institutions are exempted from VAT if officially recognised; revenues are used to cover the costs and syllabus is in line with public requirements.</td>
</tr>
<tr>
<td>IE</td>
<td>The provision of education and training services in Ireland is exempted from VAT, irrespective of the public or private nature of providers.</td>
</tr>
<tr>
<td>NL</td>
<td>Providers of education and training are exempted from VAT, irrespective of their legal status.</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

The fact that education providers cannot reclaim the VAT paid on their inputs can create difficulties. Tertiary education institutions often need to purchase expensive equipment for research and teaching that, unfortunately, cannot be deducted. This may hinder the ability of the education institutions to acquire leading edge technological equipment. In response, the Irish government made some concessions within the VAT system to allow such institutions to reclaim the VAT input element on purchases of medical equipment for research and teaching using voluntary donations from companies and/or individuals. The Donated Research Equipment VAT Refund Order (Statutory Instrument 38/1995) provides that repayment of VAT incurred in the purchase or importation of any new instrument or appliance (53) purchased through voluntary donations can be claimed by a research institution, a university, a school or a similar educational body engaged in medical research.

Also, the analysis shows that not all providers of education and training services are treated equally within the analysed countries, as each Member State is responsible for rules on how to ‘recognise’ the organisations that can be exempted from VAT (Section 4.2.1). In Germany, France, Austria and Finland private or non-profit organisations providing education or training services are not allowed exemptions from the general VAT rate for services, which is always available for public providers; in these four cases, private providers of vocational continuing training activities can be exempted from VAT if they meet specified official criteria or if they have a certificate delivered by the competent public administration. Where private suppliers, not exempted from VAT are not treated the same as public ones, which may distort competition.

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(53) Excluding means of transport.
These important differences among, and within, countries can be also appreciated when considering the tax treatment of education and training providers in CIT legislation. Private education and training providers are not exempted from the obligation to pay CIT at the same rate as other private service providers, whereas this is not the case for public ones. This situation applies in Germany, Ireland, the Netherlands, Austria and Finland, whereas in France it only applies to private providers of continuing vocational training activities. In France, not-for-profit organisations providing education services are exempted from CIT so long as they meet specified criteria.

This practice of taxing revenues earned by for-profit providers but not those earned by public and not-for-profit providers (in some countries) would clearly go against the principle of horizontal equity, in the sense that not all education and training providers in comparable economic circumstances are treated equally (OECD, 2004b). This puts private providers at a disadvantage: their net earnings are less if they charge the same as public institutions for comparable supply or they must charge a higher price than public providers for the same course if they want to cover all costs.

Table 12. **Tax treatment of education and training providers in national CIT legislation**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>Private providers of education and training have to satisfy their CIT obligations, whereas this situation does not apply to public providers.</td>
</tr>
<tr>
<td>FI</td>
<td>State-funded public organisations such as adult educational centres, polytechnics and universities are exempted from income tax. There is no special tax treatment for private or not-for-profit education and training providers in PIT or CIT legislation.</td>
</tr>
<tr>
<td>FR</td>
<td>Public and not-for-profit education providers meeting criteria specified by the State are exempted from CIT. Public and non-for-profit entities providing continuing vocational training are also exempted from CIT, whereas private entities are subject to CIT.</td>
</tr>
<tr>
<td>DE</td>
<td>German private providers of education and training have to satisfy their CIT obligations; this situation does not apply to public providers.</td>
</tr>
<tr>
<td>IE</td>
<td>Private enterprises providing education and training pay the standard corporation profits tax on their profits, whereas public providers are exempted.</td>
</tr>
<tr>
<td>NL</td>
<td>Private enterprises, foundations and associations providing education and training are subjected to CIT, whereas public providers are exempted from paying CIT.</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

It is worth stressing the important differences among countries in taxation on revenues generated by sales of education and training activities. In countries with the highest tax rates, firms are also at a competitive disadvantage compared to providers in countries with the lowest rates. Table 12 provides an overview of the applicable rates of CIT in the six analysed Member States, highlighting the differences. For example, a large Irish provider will have to pay 12.5 % of profits, whereas this can be as high as 34.43 % for a very large French provider.
Table 13. **Tax rates in corporate income taxation in analysed Member States, 2008**

<table>
<thead>
<tr>
<th>Description</th>
<th>AT</th>
<th>FI</th>
<th>FR</th>
<th>DE</th>
<th>IE</th>
<th>NL</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Standard rate of 25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FI Standard rate of 26%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FR 15% for enterprises with a turnover less than EUR 7 630 000, up to EUR 38 120 of profits and 33.33% beyond this ceiling. For the remaining enterprises, between 33.33 and 34.43%.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DE 15% or 29.8% if the trade tax and the solidarity charge are also included.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IE 12.5%, although certain foreign companies have their profits taxed at 10%.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NL 20% on the first EUR 25 000 of the total taxable profit. 23.0% for profits in excess of EUR 25 000 but no more than EUR 60 000 and 25.5% for profits in excess of EUR 60 000.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

VAT treatment of several educational and cultural related items (books and newspapers) also exhibit important differences among countries (Table 14). Whereas in Ireland the VAT rate for books is 0%, in Austria it is 10%, and other analysed countries have rates in between (5.5% in France, 6% in the Netherlands, 7% in Germany, and 8% in Finland). Such differences can also be seen in the VAT treatment of magazines and newspapers.

Table 14. **Tax treatment in VAT of books and newspapers, 2008 (in %)**

<table>
<thead>
<tr>
<th>Countries</th>
<th>General VAT rate for services</th>
<th>VAT rate for books</th>
<th>VAT rate for newspapers</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>20</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>FI</td>
<td>22</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>FR</td>
<td>19.6</td>
<td>5.5</td>
<td>2.1</td>
</tr>
<tr>
<td>DE</td>
<td>19</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>IE</td>
<td>21</td>
<td>0</td>
<td>13.5</td>
</tr>
<tr>
<td>NL</td>
<td>19</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

### 4.2.2. Tax incentives for education and training by enterprises

4.2.2.1. **General treatment of education/training expenses in corporate taxation**

Tax rates in the case of CIT are calculated on profits. In the six Member States analysed, employee education and training expenses, carried out by firms for the purpose of the trade, are uniformly regarded as revenue expenditure against profits and can be deducted 100% from taxable profits as a cost of doing business, reducing taxable income (Table 15). Such education/training costs are just one of the many expense categories (salaries/wages, travel/subsistence, etc.) that an employer can claim as a deductible expense for profit calculation, so they cannot be regarded as a tax incentive.
This general situation is dependent on different national interpretations. In Finland, tax provisions make a distinction between supplementary or in-service training expenses (training activities intended to maintain and develop skills which are needed in current employment positions) and basic education or training for employees (degree/certificate-oriented studies intended to raise the professional competence level of employees and prepare them for new duties). Supplementary training expenses can be deducted from profits, whereas degree/certificate-oriented studies cannot, even if they somehow respond to the interest of the enterprise (54). This distinction does not appear in the other countries examined.

Training activities supported by employers can have an impact on the individuals’ PIT return. In Ireland, training expenses can be regarded by the tax authority in certain circumstances as a benefit-in-kind provided by the employer affecting the employee’s PIT return. In Finland, training provided by the employer is regarded as tax-free for employees provided that they have the basic education/training for their current work, the training is necessary to maintain or develop their skills for current tasks, and the initiative for the training comes from the employer (being regarded as necessary from the firm’s perspective). In contrast, degree/certificate-oriented studies paid by the employer are usually regarded as wages and, therefore, taxed as earned income, even if the initiative for the training comes from the employer. This affects the willingness of employees to participate in such training activities, especially for certain studies (such as executive MBA degrees) for which tax

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(54) In practice these costs are regarded as wages and, therefore, can be deductible, but not indirect costs.
authorities have a complex assessment of whether this type of education paid by enterprises is taxable or not for individuals.

4.2.2.2. Tax incentives for education and training by enterprises in the selected Member States

The previous section has shown that employers uniformly deduct education and training-related expenses from taxable profits as part of the costs of the business. In some countries, tax incentives allow employers to deduct more than 100 % of such costs, adding an incentive to invest in training activities.

The analysis in the six selected Member States identified eight tax incentives aimed at fostering education and training by enterprises: they are found in Austria (four examples), France (three examples) and, finally, the Netherlands (one example) (Table 16).

All these tax incentives affect or influence income tax returns, either corporate or personal ones depending on the legal status of the enterprise. The only exception is the Dutch tax incentive, in the sense that the payment reduction for education is related to the salary tax paid by enterprises (55).

Four out of eight are intended to encourage general training activities for employees, i.e. the Austrian tax allowance and the tax credit, the French tax credit for training expenses of employees in enterprise economy and financial participation, and the Dutch payment reduction for education. Three are specifically aimed at encouraging the presence of apprentices in enterprises, i.e. the Austrian apprenticeship tax allowance and tax credit, and the French tax credit in favour of apprenticeship. Finally, one incentive is focused on encouraging training activities among entrepreneurs who are not wage earners (and therefore are not included in the French system of compulsory financing of vocational training); this is the French tax credit for training expenses for entrepreneurs.

Most of the incentives are primarily focused on fostering education/training activities of employees; the only exception is the French tax credit for training expenses for entrepreneurs, aimed at entrepreneurs who are not wage earners. For those tax incentives which support apprenticeships, the incentives are target to firms employing apprentices at least for one month (in the case of France) or those concluding an apprenticeship contract (the Austrian case). Only one incentive is specifically aimed at SMEs (the French tax credit for training expenses of employees in enterprise economy and financial participation); the remaining tax incentives do not consider enterprise size.

Available information shows that half of the existing tax incentives do not distinguish any specific type of education/training activities for support (Table 17) encouraging any education/training activity that is in the interests of the business. This is not the case for the three aimed at encouraging apprenticeship education and the French tax credit for training employees in enterprise economy and financial participation.

(55) This tax incentive has been introduced in the analysis due to its relevance in the Dutch context.
### Table 16. Tax incentives for enterprises, associated goals and target groups

<table>
<thead>
<tr>
<th>Name of the tax incentive</th>
<th>Main goal(s) of the tax incentive</th>
<th>Type of individuals/enterprises supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>training tax allowance (Bildungsfreibetrag)</td>
<td>foster company investment in human resources</td>
<td>firms involved in training activities for employees; employers are not included</td>
</tr>
<tr>
<td>training tax credit (Bildungsprämie)</td>
<td>foster company investment in human resources</td>
<td>firms involved in training activities for employees; employers are not included</td>
</tr>
<tr>
<td>apprenticeship tax allowance (Lehrlingsfreibetrag)</td>
<td>encourage employment and education of apprentices in enterprises</td>
<td>enterprises concluding an apprenticeship contract</td>
</tr>
<tr>
<td>apprenticeship tax credit (Lehrlingsausbildungsprämie)</td>
<td>encourage employment and education of apprentices in enterprises</td>
<td>enterprises concluding an apprenticeship contract</td>
</tr>
<tr>
<td>tax credit for training expenses for entrepreneurs (crédit d’impôt au titre des dépenses engagées pour la formation du chef d’entreprise)</td>
<td>favour training activities of entrepreneurs who are not wage earners</td>
<td>entrepreneurs who are not wage earners</td>
</tr>
<tr>
<td>tax credit in favour of apprenticeship (crédit d’impôt en faveur de l’apprentissage)</td>
<td>support the employment and education of apprentices in enterprises</td>
<td>all firms employing apprentices at least for one month</td>
</tr>
<tr>
<td>tax credit for training expenses of employees in enterprise economy and financial participation (crédit d’impôt au titre des dépenses de formation des salariés à l’économie de l’entreprise et aux dispositifs d’épargne salariée et d’actionnariat salarié)</td>
<td>support SMEs carrying out training activities for their employees in enterprise economy and financial participation</td>
<td>SMEs carrying out training activities for their employees in enterprise economy and financial participation and have a company savings plan</td>
</tr>
<tr>
<td>payment reduction for education (Afdrachtvermindering voor onderwijs)</td>
<td>encourage enterprises to carry out education and training activities for their employees</td>
<td>enterprises carrying out employee-student programmes (i.e. employees taking part in education and training to acquire a stronger position within the enterprise).</td>
</tr>
</tbody>
</table>

Note: All these tax incentives affect PIT or CIT (depending on the legal status of enterprises), with the exception of the Dutch tax incentive, related to the salary tax paid by enterprises.

Source: Ikei Research and Consultancy.

Most of the existing tax incentives only recognise external training activities, i.e. those supplied by recognised external providers. The only exceptions are the Austrian training tax allowance, which allows internal training under certain conditions, and the Dutch payment reduction for education, which also recognises practical training within the enterprise of recent graduates.

The types of costs/concepts supported by the incentives (Table 17 vary. In the Austrian training tax allowance, deductible costs include several items for external training activities (course fees, fees of trainers, renting of training spaces and learning materials, but not accommodation and travel costs) and for in-house training activities (some direct and indirect expenses assignable to the respective training measure, with a limit of EUR 2 000 per day). The Austrian training tax credit only recognises costs for external training activities (course fees, fees of trainers, renting of training spaces and learning materials, but not
accommodation and travel costs). Other incentives operate as a fixed amount per different concepts, the number of training hours, apprentices, etc., usually with limits. The Dutch payment reduction for education does not define any specific training related costs.

Table 17. Types/levels of education/training activities and types of costs/concepts supported

<table>
<thead>
<tr>
<th>Name of the tax incentive (and country)</th>
<th>Types/levels of education/training supported</th>
<th>Type of costs/concepts supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training tax allowance (Austria)</td>
<td>Any training activity taken by the enterprise for employees and of interest of the business. Training activities can be external or internal.</td>
<td>Course fees, fees of trainers, renting of training spaces and learning materials (for external training activities). Direct expenses assignable to the respective training measure and indirectly assignable expenses (for in-house training), with a limit of EUR 2 000 per day.</td>
</tr>
<tr>
<td>Training tax credit (Austria)</td>
<td>Any training activity taken by the enterprise for employees and of interest of the business. Only external training activities.</td>
<td>Course fees, fees of trainers, renting of training spaces and learning materials.</td>
</tr>
<tr>
<td>Apprenticeship tax allowance (Austria)</td>
<td>Apprenticeships in Austrian enterprises.</td>
<td>Fixed tax credit per apprentice.</td>
</tr>
<tr>
<td>Apprenticeship tax credit (Austria)</td>
<td>Apprenticeships in Austrian enterprises.</td>
<td>Fixed tax credit per apprentice.</td>
</tr>
<tr>
<td>Tax credit for training expenses for entrepreneurs (France)</td>
<td>Training activities aimed at favouring professional development of employers, accordingly to a predefined programme.</td>
<td>Number of training hours, with a limit of 40 hours per year.</td>
</tr>
<tr>
<td>Tax credit in favour of apprenticeship (France)</td>
<td>Apprenticeships in French enterprises.</td>
<td>Fixed tax credit per apprentice.</td>
</tr>
<tr>
<td>Tax credit for training expenses of employees in enterprise economy and financial participation (France)</td>
<td>Training in enterprise economy and financial participation. Training must be provided by officially recognised training organisations.</td>
<td>10 hours of training per employee, with a limit per enterprise.</td>
</tr>
<tr>
<td>Payment reduction for education (the Netherlands)</td>
<td>Education and training activities strongly related to the employees’ position in the company and intended to help them to acquire a stronger position within the company. Assessment programmes to determine current skills and further educational needs also supported.</td>
<td>No specific kinds of training related costs defined by this tax incentive.</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

Most of these taxes are tax credits (exceptions are the Austrian training tax allowance and the apprenticeship tax allowance), so these credits are deducted from the tax due. These tax credits are particularly interesting for enterprises; when the tax credit exceeds the amount of due income tax, the difference is fully returned to the taxpayer, in contrast with tax allowances. The operational details of each tax incentive vary widely (see Table 18).
Table 18. **Operational aspects of tax incentives for education and training**

<table>
<thead>
<tr>
<th>Name of the tax incentive (and country)</th>
<th>Type of applicable tax incentives</th>
<th>Operational aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training tax allowance (Austria)</td>
<td>Tax allowance</td>
<td>Takes the form of an extra deduction from taxable profits, so not only the actual expense for training but also an extra ‘virtual expense’ of 20% of the actual expense is deducted from taxable income.</td>
</tr>
<tr>
<td>Training tax credit (Austria)</td>
<td>Tax credit</td>
<td>A tax credit to the amount of 6% of the actual training expenses. For companies that do not make enough profit to benefit from the 120% tax allowance, they can alternatively claim a tax credit of 6% of the actual training expenses. Employers can only receive the training credit if they have not already claimed the tax allowance.</td>
</tr>
<tr>
<td>Apprenticeship tax allowance (Austria)</td>
<td>Tax allowance</td>
<td>Can be claimed only for apprenticeships which started before 1 January 2003. It amounts to a maximum of EUR 4 380 per apprentice, although it has to be claimed in three parts (EUR 1 460 in the year in which the apprenticeship started, EUR 1 460 in the year in which the apprenticeship ends and, finally; EUR 1 460 in the year of successful apprenticeship exam). The second and the third part are claimed in the same year. The tax allowance and the tax credit cannot be claimed in the same year.</td>
</tr>
<tr>
<td>Apprenticeship tax credit (Austria)</td>
<td>Tax credit</td>
<td>Can be claimed for apprenticeships which existed on 1 January 2002 or later. For each year of the apprenticeship, the company can claim a credit up to the amount of EUR 1 000. The Ministry of Finance has the flexibility to increase this annual amount to EUR 2 000 for specific apprenticeship occupations. The tax allowance and the tax credit cannot be claimed in the same year.</td>
</tr>
<tr>
<td>Tax credit for training expenses for entrepreneurs (France)</td>
<td>Tax credit</td>
<td>Calculated as follows: (number of training hours) * (value of the hourly gross minimum wage [SMIC horaire brut] as at 31 December of year N [year N being the year for which the tax credit is calculated]). Training expenses are considered up to 40 training hours per year and per enterprise (ceiling). Therefore, for tax paid in 2008 on the income of 2007, the maximum amount of tax credit is equal to EUR 337.</td>
</tr>
<tr>
<td>Tax credit in favour of apprenticeship (France)</td>
<td>Tax credit</td>
<td>Calculated as follows: (average number of apprentices of year N) * EUR 1 600 (or EUR 2 200 for disabled and low qualified apprentices). This amount of EUR 1 600 or EUR 2 200 per apprentice is limited by the amount of expenses supported by the employer once deducted the amount of public subsidies received. This means, for instance, that if the amount of wages and social taxes paid for apprentices once deducted public subsidies received is less than EUR 1 600 (or EUR 2 200), the tax credit is reduced in due proportion.</td>
</tr>
<tr>
<td>Tax credit for training expenses of employees in enterprise economy and financial participation (France)</td>
<td>Tax credit</td>
<td>Calculated as 10 hours of training per employee and an hourly amount of EUR 75 (ceiling). Public subsidies received for such training actions are deducted from the calculation basis of the tax credit. It is limited to EUR 5 000 per enterprise for the period of 24 months (from 1 January 2007 to 31 December 2008).</td>
</tr>
<tr>
<td>Payment reduction for education (the Netherlands)</td>
<td>Tax credit</td>
<td>It tries to achieve its goal by lowering the salary costs of employees for entrepreneurs, through deductions in salary tax and social security contributions paid by enterprises. The general payment reduction for one employee is a maximum of EUR 2 566 per year in 2008, whereas the payment reduction for a former unemployed employee that wants to acquire starter level qualifications is a maximum of EUR 3 079 per year. The reduction for a student or a recent graduate undergoing supervised practical training is a maximum of EUR 1 232 per year. Enterprises can deduct up to EUR 308 per year for an employee that follows assessment programmes to determine current/future education and skill needs.</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.
4.2.3. **Tax incentives for education and training carried out by individuals**

It is possible to identify 12 tax incentives specifically aimed at fostering education and training activities carried out by individuals (Table 19). These incentives are available in all the Member States examined: Austria (one example), Finland (two examples), France (four examples), Germany (three examples), Ireland (one example) and the Netherlands (also one example). These 12 incentives pursue very different goals, although all are intended to support education and training activities carried out by individuals themselves or, in some cases their dependants.

**Table 19. Tax incentives for individuals and associated goals**

<table>
<thead>
<tr>
<th>AT</th>
<th>Deductions of training costs as income-related expenses (<em>Werbungskosten</em>)</th>
<th>Encourage individuals’ expenditure on education and training related to earning an income</th>
</tr>
</thead>
<tbody>
<tr>
<td>FI</td>
<td>Allowable expenses related to costs incurred for maintenance of professional or vocational skills (<em>Vähennyskelpoiset kulut ammatilliset osaamisen ylläpidosta</em>)</td>
<td>Help individuals in the maintenance of their professional/vocational skills</td>
</tr>
<tr>
<td></td>
<td>Study loan allowance (<em>Opintolainvähennys</em>)</td>
<td>Encourage students to take study loan instead of paid work, and therefore make it possible to graduate in a shorter time period</td>
</tr>
<tr>
<td></td>
<td>Income tax credits for education expenses in higher education and in secondary education (<em>Réductions d’impôt pour frais de scolarité dans l’enseignement supérieur et dans l’enseignement secondaire</em>)</td>
<td>Support taxpayers who have dependent children following studies in a secondary school (<em>collège</em> or <em>lycée</em>) or in a higher education establishment (also family policy)</td>
</tr>
<tr>
<td></td>
<td>Tax credit on interest burden of loans incurred by students in higher education to finance their studies (<em>Crédit d’impôt sur les intérêts des emprunts contractés par des étudiants en vue de financer leurs études supérieures</em>)</td>
<td>Support students that finance their tertiary level studies with a bank loan</td>
</tr>
<tr>
<td></td>
<td>Income tax exemption on wages earned by apprentices (<em>Exonération du salaire des apprentis</em>)</td>
<td>Promote apprenticeship in France and improve the purchasing power of French youngsters</td>
</tr>
<tr>
<td></td>
<td>Income tax exemption on wages earned by pupils and students working during school or University holidays (<em>Exonération des salaires perçus par les jeunes exerçant une activité pendant leurs congés scolaires ou universitaires</em>)</td>
<td>Improve the financial situation of students who have a job while studying</td>
</tr>
<tr>
<td>DE</td>
<td>Deductions of education/training costs as income-related expenses (<em>Werbungskosten</em>)</td>
<td>Encourage individuals’ expenditure on education and training</td>
</tr>
<tr>
<td></td>
<td>Deductions of education/training costs as special expenses (<em>Sonderausgaben</em>)</td>
<td>Encourage individuals’ expenditure on education and training</td>
</tr>
<tr>
<td></td>
<td>Deduction of tuitions fees for own children in private schools (<em>Entgelt für den Besuch einer Ersatzschule oder einer Ergänzungsschule</em>)</td>
<td>Support taxpayers who have children following studies in certain recognised private schools (also family policy)</td>
</tr>
<tr>
<td>IE</td>
<td>Tax relief for tuition fees</td>
<td>Provide a financial stimulus for individuals to engage in training</td>
</tr>
<tr>
<td>NL</td>
<td>Deduction of educational expenses (<em>Aftrek studiekosten van andere scholingsuitgaven</em>)</td>
<td>Increase the participation of adults in lifelong learning activities, through diminishing the cost of education and training for individuals</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.

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There are differences in the types of education/training activities (Table 20) supported by these tax incentives. Some incentives (the Austrian and Dutch ones, together with two of the German deductions of education/training costs) look to support education and training activities that those individuals with taxable income may carry out for themselves, either related to their current occupation or intended to initiate a new activity. The Finnish incentive ‘allowable expenses related to costs incurred for maintenance of professional or vocational skills’ is for maintenance of professional/vocational skills in current occupations; basic education or degree expenses for professional activity in a new field are not generally deductible in taxation (56). The French tax exemption on wages earned by apprentices that is solely focused on the promotion of apprenticeship.

The remaining cases benefit general education, most of them tertiary (the Irish tax incentive (57)) although two of the French incentives also cover secondary education activities. The German deduction of tuitions fees for children in private schools is also aimed at students in primary and secondary education. The Irish incentive covers training courses in the areas of foreign language and information technology, provided by approved training providers. Several instruments (the French tax credit on interest burden of loans, the German deduction of tuitions fees for own children in private schools and the Irish tax relief for tuition fees) cover education/training activities both in national institutions and abroad.

(56) However, there have been some exceptional cases in which basic education related costs have been accepted as deductible (for instance, when training has been undertaken by individuals for reasons outside the employee’s influence such as reorganisation programmes or changes in qualifications.

(57) This tax incentive is also intended to cover post-graduate studies.
Table 20. **Types of education/training, individuals and costs/concepts supported by tax incentives for education and training expenses carried out by individuals in the selected Member States**

<table>
<thead>
<tr>
<th>Tax incentive (and country)</th>
<th>Types/levels of education/training supported</th>
<th>Type of individuals supported</th>
<th>Type of costs/concepts supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductions of training costs as income-related expenses (Austria)</td>
<td>Basic training in a related occupation, further training activities (for improving skills in current occupation) or comprehensive retraining (for a new occupation)</td>
<td>Individuals employed and interested in both maintaining their professional/vocational skills or in initiating a new occupation. Early retirees also included</td>
<td>Course fees, costs of course materials, travel costs, and travel and subsistence allowances (if travel required).</td>
</tr>
<tr>
<td>Allowable expenses related to costs incurred for maintenance of professional or vocational skills (Finland)</td>
<td>Training activities for maintaining professional/vocational skills. Basic and university education are not generally supported. Mixed interpretation of MBAs.</td>
<td>Individuals interested in maintaining their professional/vocational skills</td>
<td>Course fees</td>
</tr>
<tr>
<td>Study loan allowance (Finland)</td>
<td>University of polytechnic studies</td>
<td>Tax paying graduates who have started their studies in a university or in a polytechnic in 2005 onwards</td>
<td>Study loans (both capital and interests)</td>
</tr>
<tr>
<td>Income tax credits for education expenses in higher and secondary education (France)</td>
<td>Secondary and tertiary education</td>
<td>Taxpayers with dependant children following secondary and tertiary education</td>
<td>Fixed tax credit per student (different accordingly to education levels).</td>
</tr>
<tr>
<td>Tax credit on interest burden of loans incurred by students in higher education to finance their studies (France)</td>
<td>Tertiary education, followed either in France or abroad</td>
<td>Students in tertiary education benefiting from a bank loan to finance their studies under certain conditions.</td>
<td>Study loans (interest)</td>
</tr>
<tr>
<td>Income tax exemption on wages earned by apprentices (France)</td>
<td>Apprenticeship contracts</td>
<td>Apprentices or parents if apprentice is a dependent child.</td>
<td>Wages earned by apprentices in the framework of their apprenticeship contract</td>
</tr>
<tr>
<td>Income tax exemption on wages earned by pupils and students working during school or university holidays (France)</td>
<td>Secondary or tertiary education</td>
<td>Students in secondary or tertiary education under 26 years old who have a job (their parents if they are dependent).</td>
<td>Wages earned by students while studying</td>
</tr>
<tr>
<td>Deductions of education/training costs as income-related expenses (Germany)</td>
<td>Education/training activities related either to the current occupation/job or to a future occupation change</td>
<td>Employed individuals involved in education/training activities (not for self-employed)</td>
<td>Course fees, travel costs, entrance fees to congresses, external accommodation, relevant literature, other costs</td>
</tr>
<tr>
<td>Deductions of education/training costs as special expenses (Germany)</td>
<td>Initial/basic vocational education and training recognised by a public authority.</td>
<td>Individuals with taxable income involved in education/training activities</td>
<td>Course fees, tuition fees, examination fees, travel expenses including accommodation, course materials and, finally, loan interests from loans requested for educational purposes</td>
</tr>
<tr>
<td>Description</td>
<td>Description</td>
<td>Description</td>
<td>Description</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Deduction of tuitions fees for own children in private schools (Germany)</td>
<td>Primary and secondary education</td>
<td>Taxpayers with children in primary or secondary education attending certain private schools, either in Germany or in any country belonging to the European Economic Area</td>
<td>Tuition fees</td>
</tr>
<tr>
<td>Tax relief for tuition fees (Ireland)</td>
<td>Approved full-time and part-time undergraduate courses and postgraduate courses in Ireland and elsewhere. Approved training courses in foreign language and information technology.</td>
<td>Individuals with taxable income paying tuition fees in respect of their own course or dependants’ courses</td>
<td>Tuition fees</td>
</tr>
<tr>
<td>Deduction of education expenses (the Netherlands)</td>
<td>Public financed education, appointed education, acknowledged education, education and training for State exams, education and training that gives the right to open a business in certain branches</td>
<td>Individuals with an income who are investing in education/training to improve income prospects in their current or further job positions</td>
<td>Tuition fees; books and literature; travel and accommodations expenses; assistance to congresses/seminars for education/training purposes; accreditation of prior learning</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.
Table 21. **Operational aspects of tax incentives for education and training by individuals**

<table>
<thead>
<tr>
<th>Name of the tax incentive (and country)</th>
<th>Type of applicable tax incentives</th>
<th>Operational aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductions of training costs as income-related expenses (Austria)</td>
<td>Tax allowance</td>
<td>The costs for basic, further and retraining may be claimed for the year in which they are incurred by individuals. Evidence/documentation has to be provided. No loss carry forward is possible when training expenses exceed income. Education and training expenses have to exceed EUR 132 per year (general income-related expenses allowance for everybody). There are no ceilings.</td>
</tr>
<tr>
<td>Allowable expenses related to costs incurred for maintenance of professional or vocational skills (Finland)</td>
<td>Tax allowance</td>
<td>A Finnish taxpayer has a right to deduct expenses for the maintenance of professional/vocational skills (supplementary or in-service training) when the amount of expenses exceeds EUR 620 (this is, the standard allowance for work-related expenses in State income taxation for earned income). The maximum of deduction is the amount of salaried income.</td>
</tr>
<tr>
<td>Study loan allowance (Finland)</td>
<td>Tax allowance</td>
<td>Taxpayers who have passed a qualifying examination and have started studies in a university or in a polytechnic since 2005 onwards are entitled to deduct annually from gross income an amount corresponding to the instalment of a paid study loan, with a maximum of 30 % of the loan capital exceeding EUR 2 500. Interests on study loans are also deductible. The allowance is granted for a maximum 10 years after graduation.</td>
</tr>
<tr>
<td>Income tax credits for education expenses in higher education and in secondary education (France)</td>
<td>Tax credit</td>
<td>The amount to be deducted from income tax are EUR 61 per child attending first to fourth year of secondary school, EUR 153 per child attending fifth to seventh year of secondary school and EUR 183 per child attending a higher education establishment. If the tax credit exceeds the PIT owed, the difference is not returned to the taxpayer.</td>
</tr>
<tr>
<td>Tax credit on interest burden of loans incurred by students in higher education to finance their studies (France)</td>
<td>Tax credit/tax deferral</td>
<td>Based on the total interest paid during the first five years of the loan. The yearly credit is equal to 25 % of the total annual interests paid within the limit of EUR 1 000 per year. Borrowers can benefit from the tax credit in the future (tax deferral) when independent taxpayers.</td>
</tr>
<tr>
<td>Income tax exemption on wages earned by apprentices (France)</td>
<td>Tax exemption</td>
<td>Wages earned by apprentices within their apprenticeship contract are exempted from income tax within the limit of the amount of the annual minimum wage. The taxpayer (either the apprentice or parents in case of dependent apprentices) has to declare only the part of wages that exceeds this ceiling.</td>
</tr>
<tr>
<td>Income tax exemption on wages earned by pupils and students working during school or University holidays (France)</td>
<td>Tax exemption</td>
<td>Students in secondary or higher education and under 26 years old who have a job are exempted from income tax on their wage to the limit of three monthly minimum wages. Wages earned during school year are also exempted since 2007.</td>
</tr>
<tr>
<td>Deductions of education/training costs as income-related expenses (Germany)</td>
<td>Tax allowance</td>
<td>Expenses of employed individuals for education and training can be deducted as work-related expenses to the full extent, provided that the total expenses exceed the lump-sum deduction of EUR 920 (universal allowance).</td>
</tr>
<tr>
<td>Deductions of education/training costs as special expenses (Germany)</td>
<td>Tax allowance</td>
<td>Expenses of individuals for initial/basic vocational education can only be deducted as special expenses up to EUR 4 000 per year.</td>
</tr>
<tr>
<td>Deduction of tuitions fees for own children in private schools (Germany)</td>
<td>Tax allowance</td>
<td>Taxpayers having children attending certain recognised private schools can deduct 30 % of the tuition fees of these private schools, up to an annual amount of EUR 5 000, as special expenses.</td>
</tr>
<tr>
<td>Tax relief for tuition fees (Ireland)</td>
<td>Tax relief at the standard rate of income tax (20 %)</td>
<td>Reduces taxable income, at the standard tax rate (20 %), subject to the maximum level of tuition fees allowable (EUR 5 000 for university studies). Applied to courses in information technology and foreign languages, ranges from a minimum of EUR 315 to a maximum of EUR 1 270.</td>
</tr>
<tr>
<td>Deduction of educational expenses (the Netherlands)</td>
<td>Tax allowance</td>
<td>Educational/training expenses can be deducted with a threshold of EUR 500 per year and a maximum of EUR 15 000 per year. Individuals receiving a public grant can benefit from this tax incentive (at a lower amount).</td>
</tr>
</tbody>
</table>

Source: Ikei Research and Consultancy.
The individuals benefiting from these incentives (Table 20) vary according to the type of education supported. Some are specifically aimed at tax-paying parents who have dependent children following secondary and tertiary education. Parents can also benefit from certain incentives provided that they pay the education fees for dependent children (the Irish tax relief for tuition fees) or have dependent children under supervision (the French income tax exemptions on wages earned by apprentices and on wages earned by pupils and students). Otherwise the beneficiaries are those taxpayers, currently at work, who are involved in personal education or training.

Three specific incentives (the Finnish study loan allowance, the French tax credit on interest burden of loans incurred by students in higher education and the German deductions of education/training costs as special expenses) support study loans granted to students to pay tertiary-level studies; the Finnish incentive includes both the capital and the interest paid whereas the French and German incentives only consider interest. Also, the French income tax exemptions on wages earned by apprentices and on wages earned by pupils and students support apprenticeship contracts and studying (although with some limits). The remaining incentives are intended to support the expenses resulting from education/training activities, although important differences exist among them. Some of the cases only consider the costs of the courses/training activities (course/tuition fees), while others also cover course materials, travel costs, subsistence expenses, etc. The French income tax credits for education expenses in higher and secondary education calculate a fixed tax credit per student (differently according to the education levels), independent of actual expenses.

The typology of tax incentives for individuals includes seven examples of tax allowances, two of tax credits, two of tax exemptions and one of tax relief. The French credit on interest incurred by higher education students allows borrowers to benefit from the tax credit in the future, when they may become independent taxpayers. Differences in the operational details of each tax incentive are shown in Table 21.

4.3. Assessment of fiscal incentives on education and training

4.3.1. General assessment

The preceding section has provided a comparative analysis of experiences in tax incentives for expenses in education and training activities carried out by enterprises or individuals in the six Member States of Germany, Ireland, France, the Netherlands, Austria and Finland. It has also offered an overview of the tax treatment of training providers in PIT, CIT and VAT.

A key result of these analyses is the differences across countries in the treatment of expenditure in education and training activities by enterprises and individuals. These differences refer not only to the type of expenditure eligible for deductions, but also to operational aspects. This report has also shown important disparities among countries in how individual income and corporate profits are taxed, making comparisons on the extent and intensity of the incentives complex. The report has also revealed important differences in the different tax rates applied in each case; this is usually a flat rate for enterprises and progressive rates for individuals.
It is possible to argue that existing tax policies favour employer expenditure, which can generally be deducted from earnings as a cost of doing business. In France, the Netherlands and Austria, enterprises are provided with added tax premiums for their human capital investments (tax incentives).

Despite the presence of tax incentives for individuals in all the analysed countries, it is the case that they are more restrictive than those for enterprises: most of them are primarily aimed at persons engaged in concrete forms of education activities, usually at secondary or tertiary level. Not all individuals undertaking education and training for themselves can deduct these expenses from taxable income; this possibility is available in Germany, the Netherlands and Austria and, with some limits, in Ireland and Finland.

This report also shows that private and public education and training providers are treated differently, which obviously has an impact in terms of horizontal equity and the cost structures of the different providers.

Despite the presence of tax incentives in the countries examined, quantitative and qualitative information on their actual performance is relatively poor, and comprehensive public evaluation of their effects on education and training supply and demand is practically non-existent. It is often the case that incentives are maintained or new ones introduced without a complete understanding and analysis of the costs and benefits involved and with less monitoring than direct government expenditures.

Available data show that tax expenditures, defined as the loss of public revenue as a consequence of the introduction of tax incentives, accounted for a very small percentage of total public expenditure on education and training activities in 2003; figures range from less than 0.5% in Austria to 2% in Finland and 3% in the Netherlands (estimates available in OECD, 2004b). Figures for Ireland show that the number of taxpayers benefiting from third level tuition tax relief in 2005 was 29,900 at an estimated cost to the exchequer of EUR 14 million. These figures should be seen in the context of 2007 Irish government spending on third level education tuition for 108,228 students at a cost of EUR 346 million. Tax expenditure in education and training is obviously not the backbone of the public education and training policy.

Most Member States have opted for the public sector to be the most important direct funding source, as well as provider, of education and training services, usually free of direct charge (58) or at low nominal cost. Therefore, most experts consulted in this research agree that tax policy should be regarded as a supplement rather than the main pillar of national education and training policies.

Traditionally, tax policies have been largely unconnected with education and training policies, being primarily concerned with raising revenues for public sector. However, the growing importance of lifelong learning and education issues in our knowledge societies has increased public focus on the role played by tax policies in influencing and supporting enterprise and individual investment in education and training (OECD, 2004b). Despite a relatively large number of tax incentives available for enterprises and individuals, the experiences analysed in this research show that, in most countries, tax policies are still

(58) The necessary financial resources for financing and providing these services are mainly collected via taxes.
disconnected from education/training policies; in some countries, e.g. France, some of the incentives are designed primarily for other policy areas such as family policy or social policy. These experiences show that tax incentives are considered more effective where they are used in concert with other policy measures rather than on their own. A good example of this is the Irish tax relief on tuition fees. This initiative must be viewed as a complementary support measure operating alongside a much larger and better-known measure, the free fees initiative, under which the government pays the cost of the tuition fees directly to the provider of eligible courses.

In contrast, other tax incentives failed to fulfil their objectives when introduced on their own and outside a general framework. The French ‘tax credit on interest burden of loans incurred by students in higher education to finance their studies’, was little used by students because financial institutions were not ready to lend them money for lack of adequate guarantees. The French government has recently launched a new measure providing guarantees for students so that banks will be more inclined to grant loans.

4.3.2. **Strengths of tax incentives for education and training activities**

Despite the differences among the countries analysed, tax incentives for education and training purposes are an interesting and attractive option for continuing vocational training policy. The fact that, in many countries, most education/training suppliers are exempted from VAT means that recipients benefit from lower costs (59). The same is true of certain culture-related products such as books, newspapers, and magazines, which benefit from lower VAT rates.

Tax incentives can be regarded as helping to raise the overall involvement (and therefore expenditure) of enterprises and individuals in education and training, as they partly offset the disincentive of fees (Burke, 2002). Tax incentives are seen as relevant and efficient instruments for reducing aggregate under-investment in education and training, both by enterprises and individuals.

Some of the interviewed experts believe that tax incentives can play a positive role in increasing the involvement of smaller enterprises and individuals (apprentices). Specific targeted mechanisms can be an important stimulus for raising small enterprise investment in these activities in comparison to large enterprises, where deadweight effects are more likely. Evidence from France shows that tax incentives supporting apprenticeship have contributed to the rapid development of apprenticeship in recent years.

The evidence also shows that tax incentives are particularly appreciated by employers and enterprises. The Austrian employers’ organisations value highly the existing extra tax allowance/credit, having proposed for several years increasing the allowance for small enterprises and individuals such as low-qualified workers, people returning to work after child leave, etc. Evidence from the Netherlands suggests that the Dutch payment reduction for education is widely appreciated by enterprises, with up to 80% of eligible firms having made use of it (Gelderboom et al., 2007).

(59) However, this lower price may not be true in all cases, see discussion of weak points (Section 4.3.3).
However, some experts question whether these tax incentives really stimulate the decision to invest in education and training or are used afterward to fund a certain amount of the cost (EIM and SEOR, 2005a, 2005b). The fact that these tax incentives allow total freedom in choosing training participants and contents increases their attractiveness.

The available information on individuals is scarce. German deductions of education/training costs have benefited approximately 400,000 taxpayers, while the Dutch opportunities are used by 5-10% of the total working population.

Elements mostly valued by both enterprises and individuals when using the incentives are their relevance in tangible monetary terms low levels of bureaucracy. Tax incentives for enterprises have the advantage of building on institutional arrangements, so presenting companies with limited additional administrative costs. Conditions for applying are usually transparent and checking of applications afterwards is usually not intense. Tax schemes in the Netherlands, Austria and Finland are regarded as relatively simple in terms of bureaucratic procedures for enterprises.

For individuals, the available evidence suggests that whereas in some countries (such as in the Netherlands) procedures are simple while in others tax incentives demand handing in additional documents (such as Austria). Some governments (such as Ireland) are trying to simplify the administrative procedures of enterprise/employee tax assessment to encourage use of tax incentives, though public tax authorities have to bear in mind that there is always a trade-off between complexity and the ability to target tax incentives to specific groups (EIM and SEOR; 2005a, 2005b).

Finally, some countries support long-term employability with tax incentives not just for training in the current job but also for education and training for future occupation changes. Austria deliberately introduced amendments to facilitate such investment in 2002. By way of contrast, longer term concern is poor in other countries (such as Finland, see Section 4.3.3 on weaknesses).

4.3.3. Weaknesses of tax incentives for education and training

Tax incentives for education and training also exhibit several negative/weak points, mostly related to the ways in which they are implemented.

Education/training suppliers exempted from VAT cannot deduct the VAT incurred on the goods and services they purchase; this creates difficulties for institutions such as universities purchasing equipment for research and teaching (60). This can result in ‘hidden’ VAT remaining in the price paid by the consumer, meaning that consumers pay more for these services than if providers were allowed to claim input VAT.

Not all providers of education and training services are treated equally. Private education and training providers are subject to CIT at the same rate as other private service providers, whereas this is not the case for public providers. This differentiated treatment clearly goes against the principle of horizontal equity by which all actors in comparable economic

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(60) Some countries (e.g. Ireland) have developed several initiatives to solve this situation (see Irish description, Section 3.6).
circumstances are treated equally (OECD, 2004b). This situation may operate either as a barrier to entry of for-profit providers into the sector or may steer such providers and their training supply towards higher value-added education and training (benefiting more highly-paid workers) (OECD, 2004b). Also, comparing income tax rates among countries shows important differences, creating competitive disadvantage for enterprises in countries with high tax rates compared to providers located in countries with low rates.

One of the main criticisms is the high deadweight effects of incentives given that some enterprises and individuals would be involved in these activities whether the incentives are available or not. Therefore, the incentives play little role in education/training decisions but simply subsidise activities which would have been carried out in any case. According to several Austrian and Dutch experts, this deadweight effect is particularly obvious among large enterprises and highly qualified individuals, and often becomes a sort of 'windfall' for enterprises or individuals with well-established training programmes (EIM and SEOR, 2005a, 2005b). However, experts believe that the incentives play a positive and fostering role on the education/training demand for other less benefited groups (very small enterprises).

Another criticism is that tax incentives usually fail to provide equal opportunities for all groups in accessing education and training. They usually favour those already overrepresented e.g. highly educated people, large enterprise employees, etc. Austrian experts suggest that when tax based schemes leave total freedom to employers to choose training content and participants (as in the Austrian training tax allowance and tax credit), incentives are used to train highly qualified employees, with the expected economic return for employers being higher. However, experts also suggest that tax-based schemes have the disadvantage of being difficult to target precisely (OECD, 2004b). Therefore, the introduction of targeted tax incentives might not be a solution (at least for individuals) as they sometimes induce unexpected inefficient substitution effects across groups (for evidence on this issue see Dutch research by Leuven and Oosterbeek, 2004) and imply added red tape procedures.

Experts also suggest that tax incentives for individuals are particularly used by high income, highly educated individuals, unless they target specific groups and are not open to everybody. This report has shown that almost all Member States have a progressive PIT system, which implies that incentives are more significant for taxpayers in the high income brackets than for those with lower income, as the benefits are higher the greater the degree of taxable income (vertical inequality). This situation may exacerbate the effects of socioeconomic background on education attainment, as there are usually significant private returns to those who participate in higher education (European Commission, 2006a). Dutch literature stresses that tax incentives for individuals are particularly used by young and intermediate age-groups, whereas older workers participate and benefit much less, lacking motivation to invest in themselves in the later stages of their professional lives (Berkhout et al., 2005).

Low take-up by specific groups of available tax incentives is explained not only by weak stimulation of low real financial benefits but also by lack of awareness about their existence. In the case of enterprises, evidence collected for some countries (the Netherlands, Austria) shows that the incentives are not known by many enterprises, though the largest ones are more aware and benefit more. The fact that, in most companies, responsibility for training
and responsibility for finance/accounting are separated adds to this problem (Schneeberger and Mayer, 2004).

Experts in Ireland and Austria suggest that education and training incentives are not known by everybody, so only a relatively small percentage of those individuals investing in such activities claim the benefits. In Ireland most people have little direct contact with the tax authorities because their employers deduct their income tax and submit it to the tax authorities. Individuals often are not aware of all reimbursements available to them. Some experts argue that promoting awareness of tax incentives and their importance to certain groups (people with literacy deficits, etc.) presents special difficulties. Low-income earners (often linked to low-educated groups) are not particularly aware of the economic benefits of increasing their skills, so they are not well motivated to acquire additional qualifications; introducing tax incentives to motivate high-income individuals can have significant deadweight effect. Use of available tax incentives by enterprises and individuals is also positively related to the existence of simplified procedures.

In some countries (such as Finland) tax incentives do not favour education and training for future occupational change. There has been criticism of tax incentives that not enhance mobility among professions in the national labour market and so do not contribute to the future long-term employability of individuals.

Tax incentives necessarily increase administration costs and reduce public revenues (61), so their proper use, quality administration and auditing are a major challenge for the tax authorities and the government. Incentives increase the costs of tax administration and reduce the transparency of the tax and the public finance systems because they are often not subject to the same methods of internal control and statutory authorisations as other kinds of expenditure (Bratič, 2006). The lack of available evaluation in the countries analysed reinforces this view. In some countries (such as France), employers’ associations are more in favour of a general reduction in the tax burden on enterprises (in particular social security contributions and CIT) and not so much in favour of increasing tax incentives, arguing that this increases the complexity of the whole tax system and often generates competitive distortions between enterprises.

In several countries (Germany, Finland) there are uncertainties in the tax treatment of some training expenses. Examples include the Finnish difference between supplementary or in-service training expenses and expenses on basic education or training, or the German differentiation between work-related or income-related expenses and expenses for initial/basic vocational education. There are often decided on an ad hoc and subsequent basis by tax authorities or court decisions. These uncertainties can have a negative impact on the willingness of enterprises/individuals to engage in education/training.

Another important weakness of tax incentives is the time lag between the year when the investment in education and training takes place (year N) and the year when the incentive has an effect on available income (year N+1), reducing therefore their attractiveness for beneficiaries. Some Austrian experts argue that direct grants are more attractive for

(61) The current economic downward trend is unlikely to favour the introduction of new tax incentives in the short term.
individuals because it is always clear how much money they get and when they get it. By contrast, tax incentives are received only during the subsequent year and the amount is often unknown in advance for the taxpayers, as it is determined in the tax assessment and depends on the individual’s marginal tax rate which is not known by many employees.

Finally, it should not be forgotten that, in all the analysed countries, company expenditure on education/training-related activities in the interest of the enterprise can be generally deducted from earnings as a cost of doing business in the year these expenses occur. However, this situation may cause a distortion compared to other investments (such as in plant and equipment), which can be depreciated over their lifespan (Bruyneel, 1999). For instance, tax incentives provide limited stimulus to increase training in years when employers do not expect positive profits, yet it is precisely during these slack periods that the economic costs of foregoing production during training are lowest (OECD, 2003b).
5. Conclusions and recommendations

This report has shown that Germany, Ireland, France, the Netherlands, Austria and Finland use tax incentives to encourage enterprises and individuals to undertake education and training activities. There are important differences between countries in the tax treatment of these expenditures, not only in the types eligible for deductions (levels of education/training encouraged, types of individuals supported) and operational aspects (costs/concepts covered, types of applied tax incentives, amount and extent of deductions), but also in the different tax rates applied either to employers and employees.

The report shows that existing tax policies tend to favour employer expenditure on education and training as expenses in the interest of the enterprise can be generally deducted from earnings as a cost of doing business. Further, in countries such as France, the Netherlands and Austria, enterprises are provided with extra premiums for their human capital investments (proper tax incentives).

Tax incentives for individuals are present in all the countries examined. In some (Germany, the Netherlands and Austria and, with some limits, in Ireland and Finland), individuals undertaking education and training activities for themselves can deduct the cost from taxable income. In some countries, these incentives can also include dependent people undertaking specific types of education, usually at secondary or tertiary level. Also, this report shows that education and training providers are treated differently in taxation according to their private/public status, which has an impact in terms of horizontal equity.

Available data show that tax expenditure on education and training activities (defined as the loss of public revenue as a consequence of the introduction of the incentives) are not the backbone of public education and training policies. They account for a very small percentage of total public expenditure on education and training, as most Member States opt for direct funding and provision of these services. Linked to this, the report concludes that tax policies are largely unconnected with education and training policies. However, in recent years increasing attention is being given to the role that tax policies can play as a tool to influence and support enterprise and individual investments in education and training. Experience shows that tax incentives are considered more effective where they are used in concert with other policy measures rather than on their own.

The report confirms the scarcity of quantitative and qualitative information on tax incentives, and that comprehensive public evaluations of them are practically non-existent.

Despite the important differences among the countries analysed, tax incentives can be interesting and attractive to education/training policy. They are appreciated by employers as an instrument to raise their overall involvement (and expenditure) in training activities. Both enterprises and individuals wanting to benefit from tax incentives see financial incentive and low levels of bureaucracy as positive aspects. Germany, the Netherlands and Austria have developed special tax incentives that favour not only training for current jobs but also activities preparing people for future occupational change, always from a long-term employability perspective.
Despite the positive points, the information collected shows that tax incentives also have their weaknesses. Providers of education and training services are treated unequally depending on their profit/non-profit status, which clearly contravenes the principle of horizontal equity and has important effects in terms of competitive disadvantages.

Further, education tax incentives for enterprises and individuals are often criticised for their high deadweight effects, especially among large enterprises and highly qualified individuals.

In addition, tax incentives usually fail to provide equal incentive for all groups to access education and training. They usually have perverse redistribution consequences as they end up favouring those groups overrepresented in education/training activities (highly educated/high income people, large enterprise employees, young and intermediate age groups, etc.), especially if these tax incentives are not targeted to specific groups; even here evidence suggests that introducing concrete targets may induce inefficient substitution effects across groups. Reasons behind the low involvement of less favoured groups include weak stimulation effects for the low-paid (because of progressive tax systems), low awareness about the incentives and the associated economic benefits, and special in creating awareness of tax incentives among certain groups (such as people with literacy deficits).

Tax incentives necessarily increase administration costs and reduce public revenues, so their proper use, quality administration and auditing are a major challenge for tax authorities and governments. This is important in those countries where uncertainties exist in the tax treatment of some training expenses (Germany, Finland) and can negatively affect the willingness of enterprises/individuals to undertake education/training. Also, the time lag between the year when the investment in education and training takes place and the year when the tax incentives have an effect on income, as well as the uncertainties about the exact reduction in the tax liability (determined later in the course of tax assessment) are elements which reduce the attractiveness of these incentives for possible beneficiaries.

Bearing in mind these strengths and weaknesses of tax incentives, it is possible to give some recommendations that could improve their efficiency and positive impact:

(a) tax incentives on their own are insufficient and they should be considered as a supplementary rather than as the main tool in the context of the policy-makers’ arsenal of available tools (grant schemes for enterprises, loan schemes, subsidies for individuals or enterprises, learning accounts, training funds, etc.). Therefore, tax incentives have to be fine-tuned with the other policies in place, so that the final mix is mutually reinforcing and does not result in inconsistencies and contradictions;

(b) national tax authorities should learn from the experiences of other countries with similar or different tax initiatives. It is of particular value for Member States to learn from each others’ practices, so that relevant experiences (for instance in lifelong learning and long-term employability), can be adapted to national characteristics;

(c) public authorities should introduce specific and deliberated targeted incentives for those groups that benefit less from tax incentives, those who participate less in education/training (small enterprises and their employees, individuals on low income and low skilled, etc.). However, introducing targeted groups may imply increased
administrative complexities and compliance costs, and public authorities have to be cautious about unexpected substitution effects across groups;

(d) public authorities require complete understanding and analysis of the costs and benefits involved. More attention should be given to monitoring and evaluating existing tax incentives, especially to check that the expected goals are being met given the lack of comprehensive public evaluations;

(e) tax incentives have to fulfil certain conditions to be attractive to potential users. They have to provide a relevant financial stimulus for enterprises/individuals and, at the same time, they have to be perceived by potential beneficiaries as relatively simple in terms of associated bureaucracy. Finally, tax incentives have to be particularly clear about the type of concepts and individuals supported to avoid future uncertainties to taxpayers. All that tax authorities can do to improve current schemes will redound in a greater take-up and increased effectiveness;

(f) it is important to improve awareness/information among taxpayers on the available tax incentives for education and training. One of the preconditions for assuring the full effectiveness of tax incentives is that individuals may know and utilise any opportunities. This need to increase awareness is particularly important among the less favoured groups in education/training (small enterprises and their employees, low-income/low-educated people) as they suffer from important information deficits;

(g) public authorities should try to remove some of the specific obstacles (lack of time, lack of personal incentives to participate in training, etc.) that affect certain groups (entrepreneurs, the low educated) as a necessary precondition for full use and benefit from the tax incentives;

(h) finally, it is important to start a debate about the effects of differences in the tax treatment of education/training providers according to their for-profit or non-profit nature, focusing on resultant horizontal inequalities and competitive distortions, both within and among countries.
List of abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>CIT</td>
<td>Corporate income tax</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EUR</td>
<td>Euro</td>
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<tr>
<td>FÁS</td>
<td>Irish Training and Employment Authority</td>
</tr>
<tr>
<td>HUF</td>
<td>Hungarian Forint</td>
</tr>
<tr>
<td>MBA</td>
<td>Masters in business administration</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay as you earn system</td>
</tr>
<tr>
<td>PhD</td>
<td>Doctor of Philosophy</td>
</tr>
<tr>
<td>PIT</td>
<td>Personal income tax</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>SMIC</td>
<td>Salaire minimum interprofessionnel de croissance [French minimum legal wage]</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>VATA</td>
<td>Value-Added Tax Act (Austria)</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational education and training</td>
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</tbody>
</table>
Bibliography


CNRAA – Centre National de Ressources pour l’alternance en apprentissage.


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Annex A  Methodology

This report combines two main sources of information: an extensive review of written information on tax incentives for education and training conducted at international and national level (in the countries analysed in this research); and interviews with privileged informants on the research issue (Annex B), carried out to complement the available information and reflecting different views on the issue (including views from social partners, representatives of the public authority and national tax experts on the education and training issue).

Due to the key importance of reaching national sources of information, Ikei Research and Consultancy collaborated with a network of national experts to collect information at national level, including the interviews. Table A1 shows the network, coordinated by Ikei Research and Consultancy.

Table A1.  Network of national experts involved in the research

<table>
<thead>
<tr>
<th>Country</th>
<th>Experts</th>
<th>Institute/research organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>Thomas Oberholzner</td>
<td>KMU Forschung Austria (Austrian Institute for SME Research)</td>
</tr>
<tr>
<td>FI</td>
<td>Katri Suvanto</td>
<td>Turku School of Economics</td>
</tr>
<tr>
<td></td>
<td>Ulla Hytti</td>
<td></td>
</tr>
<tr>
<td>FR</td>
<td>Arielle Feuillas</td>
<td>CITIA</td>
</tr>
<tr>
<td>DE</td>
<td>Thomas Oberholzner</td>
<td>KMU Forschung Austria (Austrian Institute for SME Research)</td>
</tr>
<tr>
<td>IE</td>
<td>Tom Martin</td>
<td>Tom Martin &amp; Associates/TMA</td>
</tr>
<tr>
<td>NL</td>
<td>Pawan Bhansing</td>
<td>EIM Business &amp; Policy Research</td>
</tr>
<tr>
<td></td>
<td>Jacqueline Snijders</td>
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</table>

Ikei Research and Consultancy, in collaboration with Cedefop, created a methodological dossier to guide the information gathering process. This dossier was conceived to offer a mutual understanding of the objectives, methods and general concepts relevant for the study among all national members of the research team. The dossier also included a research guideline, to steer homogeneously the work of all partners, comprising the instructions as to how to conduct the research in practical terms. All the work (including data collection and drafting of documents) was carried out from March 2008 to December 2008.
## Annex B  Contacted national experts

<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>Organization/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Matthias Gruber</td>
<td>Economic Policy Division, Federal Ministry of Finance</td>
</tr>
<tr>
<td></td>
<td>Alexander Hölbl</td>
<td>Federal Ministry of Economics and Labour</td>
</tr>
<tr>
<td></td>
<td>Thomas Mayr</td>
<td>IBW – Institute for Research on Qualifications and Training of the Austrian Economy</td>
</tr>
<tr>
<td></td>
<td>Verena Purer</td>
<td>Training consultant at BAB, which provides training-related consultancy to firms on behalf of the Austrian public employment service</td>
</tr>
<tr>
<td></td>
<td>Michael Tölle</td>
<td>Education Policy Department, Vienna Chamber of Labour</td>
</tr>
<tr>
<td>Finland</td>
<td>Vesa Korpela</td>
<td>Executive lawyer of the Taxpayers’ Association of Finland</td>
</tr>
<tr>
<td></td>
<td>Virpi Pasanen</td>
<td>Tax consultant of the Confederation of Finnish Industries EK</td>
</tr>
<tr>
<td></td>
<td>Jouko Narikka</td>
<td>Budget councillor of the Finnish Ministry of Finance</td>
</tr>
<tr>
<td>France</td>
<td>Paul Perpere</td>
<td>Sous-directeur, Ministère du Budget, in charge of tax regulations texts</td>
</tr>
<tr>
<td></td>
<td>Jean-François Veysset</td>
<td>Vice-President of CGPME (Confédération Générale des PME)</td>
</tr>
<tr>
<td></td>
<td>Catherine Demier</td>
<td>General Secretary of the Conseil des Prélèvements Obligatoires</td>
</tr>
<tr>
<td>Germany</td>
<td>Rolf Klein; Jutta Schubert</td>
<td>Federal Ministry of Education and Research</td>
</tr>
<tr>
<td></td>
<td>Dieter Dohmen</td>
<td>Institute for Education and Socio-Economic Research and Consulting</td>
</tr>
<tr>
<td></td>
<td>Isabel Klocke</td>
<td>Bund der Steuerzahler (Association of taxpayers)</td>
</tr>
<tr>
<td>Ireland</td>
<td>Pat Hayden</td>
<td>Principal of the Employment and Training Strategy Unit in the Department of Enterprise, Trade and Employment</td>
</tr>
<tr>
<td></td>
<td>Marie Bourke</td>
<td>Department Manager of the Tax/Finance Policy and Enterprise Surveys Department in Forfás (National policy and advisory board for enterprise, trade, science, technology and innovation)</td>
</tr>
<tr>
<td></td>
<td>Garrett O’Rorke</td>
<td>Responsible of Tax Incentives Division in the Department of Finance</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Paul Meltzer</td>
<td>Director BE in the Dutch Ministry of Education, Culture and Science</td>
</tr>
<tr>
<td></td>
<td>Jurgen Warmerdam</td>
<td>Fiscal Specialist in MKB-Nederland (central employers organisation for SMEs)</td>
</tr>
<tr>
<td></td>
<td>Gerrit Veneboer</td>
<td>Manager Employment and Education Policies in COLO (Centres of Expertise on vocational education)</td>
</tr>
</tbody>
</table>
Using tax incentives to promote education and training

This Cedefop report examines tax incentives for education and training across Europe. It describes tax concessions on revenue earned from selling learning services and on expenditure on learning by individuals or companies in Germany, Ireland, France, the Netherlands, Austria and Finland. Evaluation and impact assessment of tax incentives (allowances, exemptions, credits, relief and deferrals) to promote education and training is focused on three main types of tax: personal income tax, corporate income tax and value-added tax.

Tax incentives to stimulate enterprises and individuals to undertake education and training are readily available in Europe but they are not the backbone of public education and training policies. Most EU Member States opt for direct funding and provision of learning services. In addition, tax policies are largely unconnected with education and training strategies, though in recent years increasing attention has been devoted to this issue. Selected experience shows that tax incentives are considered more effective where they are used in concert with other policy measures rather than on their own.