

An overview of tax incentives for legal entities to promote VET in the EU with special reference to Lithuania

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Presentation plan

- Introduction;
- Overview of tax incentives to promote VET in the EU;
- Lithuanian experience in using tax deductions for legal entities;
- Conclusions.

- ◀ • Tax treatment of revenues: ▶
 - Reducing or eliminating a difference between what the purchasers of services pay, and what their providers receive as income.
 - Examples: tax relief on value-added taxes.
- Tax treatment of expenditure:
 - Deduction of certain amounts of expenditure from taxable income or giving a tax credit against such spending.
 - Examples: corporate income or payroll tax deduction, tax credit.
- The study “Sharing the costs of VET. An analysis of schemes in the newer EU Member States” focused on tax deductions and tax credits on corporate income taxes:
 - Tax deduction (or allowance) is the amount deducted from the gross income to arrive at taxable income;
 - Tax credit is the amount deducted from tax due.

Overview of tax incentives to promote VET in the EU

Number of countries applying tax incentives

- Tax incentives are applied in many EU countries.
- In the EU12 tax deductions are more popular than tax credits.
- 1999-2004 BE, FR, IT and NL cancelled some incentives.

	BG	CZ	EE	CY	LV	LT	HU	MT	PL	RO	SI	SK	Total number
Tax deductions	X	X	X	X*	X	X					X		7
Tax credits	X						X						2

* No data was provided.

Source: CEDEFOP study "Sharing the costs of VET. An analysis of schemes in the newer EU Member States", 2009.

	AT	BE	DE	DK	ES	FI	FR	GR	IE	IT	LU	NL	PT	SE	UK	Total number
Tax deductions	X		X			X			X	X		X				6
Tax credits	X				X		X				X	X				5

Source: CEDEFOP study "Using tax incentives to promote education and training", 2009.

- Eligibility requirements:
 - Tax deductions: type of costs (support mostly direct) and type of learning content (mostly firm-/sector-specific);
 - Tax credits: limit target groups or type of learning programmes (certified or any).
- Preferential treatment – none except BG:
 - Tax deductions: employers carrying out manufacturing in regions with high unemployment, hiring unemployed and/or disabled people, agricultural manufacturers;
 - Tax credits: potentially employed.

Overview of tax incentives to promote VET in the EU

Main characteristics of tax incentives in the EU12 (2)

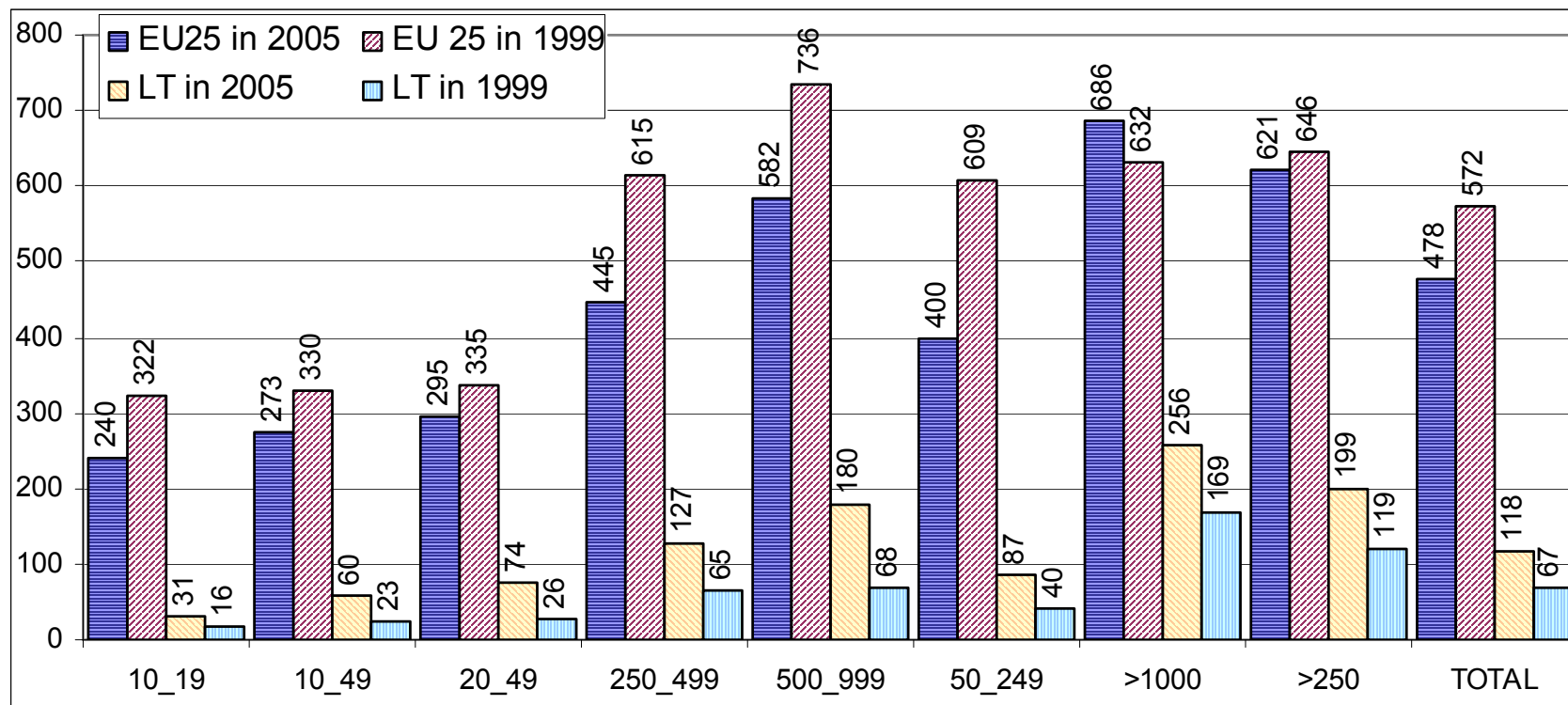
- ◀ • Monitoring and evaluation:
 - Only 1/7 countries (HU) collect data and prepare monitoring reports;
 - Only 2/7 countries evaluate (BG evaluates both deductions and credits, SI – only deductions). Reports are not available;
 - Monitoring and evaluation is practically non-existent in the EU15 countries as well.
- Beneficiary guidance and information campaigns:
 - Tax deductions: 4/6 (CZ, EE, LT and LV) provide guidance;
 - Tax credits: 1/2 (HU) provides guidance and organizes campaigns.
- Plans to change/introduce tax incentives:
 - Tax deductions: EE expands them to IVET in 2009/10; LT simplified the procedure for IVET of current employees in 2008 (see next slides);
 - Tax credits: IE considers introduction of tax credits;
 - GR also considers introduction of tax incentives (type unknown).



Lithuanian experience in using tax deductions for legal entities

General context

- LT enterprises doubled spending on CVET (measuring the cost of CVT courses per employee in PPS) between 1999 and 2005 (Continuing Vocational Training Surveys 2 and 3):



Lithuanian experience in using tax deductions for legal entities

General context

- Lithuania, compared to other EU12 countries, scores low according to many indicators on CVET (CVTS3):

Indicator	LT score	Rank among EU12	EU12 average	EU27 score
Percentage of employees (all enterprises) participating in CVT courses	15	10-12	27.7	33
Training enterprises as % of all enterprises (any type of training)	46	7-8	50.3	60
Cost of CVT courses as % of total labour cost (all enterprises)	1.2	9	1.5	1.6
Cost of CVT courses per participant, in PPS	808	7	922.3	1403
Number of hours in CVT courses per participant (without CY and MT)	25	8	28.6	28

Lithuanian experience in using tax deductions for legal entities

General context

- Type of obstacles reported as the most important by sex, age groups and highest level of education attained (Adult Education Survey 2007):

Type of obstacle	Training was too expensive or respondent could not afford it		Respondent did not have time because of family responsibilities		Training conflicted with the work schedule	
	EU27	LT	EU27	LT	EU27	LT
geo	EU27	LT	EU27	LT	EU27	LT
F	16.7	32.5	31.8	19.1	14.0	18.3
M	13.4	24.9	12*	10.1	30.3	37.8
Y25_34	20.7	32.7	25.3	22.0	19.3	23.9
Y35_54	14.5	26.8	22.6	9.2*	24.0	30.5
Y55_64	8*	27.0	16.7	21.1	18.4	9.5*
ISCED0_2	11.7*	17.4	24.1	21.8	16.0	24.9
ISCED3_4	18.8	34.0	20.0	15.2	21.6	23.7
ISCED5_6	13.6	20.8	24.2	14.2	29.3	33.3
TOTAL	15.1	29.3	22.4	15.3	21.7	26.4

*Other obstacles (in case of 55-64 year olds in LT the most important other obstacle is health or age).

- LT applies only corporate income tax deductions. Tax credits are not applied.
- Corporate income tax deductions are differentiated between:
 - Initial and continuing VET;
 - Current employees and potential/future employees.

- ◀ • Tax deductions applied to short-term CVET training courses for employees:
 - Possible as early as 1995;
 - Detailed legal regulation from 2002;
 - Detailed official commentary clarifying the procedure in 2004.
- Entities can deduct 100% of these costs from taxable profits.
- Only applicable to courses related to present professional activity of the person and necessary to earning entity's income.

- Tax deductions are applied to IVET since 2005. Until 2008 they were treated as long-term intangible assets, which could be included into entity's costs over 4 year amortisation period.
- Since April 2008 difference between existing and future employees was introduced:
 - Payments for non-employees may be attributed to long-term intangible assets and amortised over 4 years if person starts to work for the entity;
 - Payments for current employees may be deducted from the taxable profit over the tax period.
- Education sponsored by employer has to be necessary to earning entity's income.

Lithuanian experience in using tax deductions for legal entities

Major strengths

- Tax deductions applicable to all types of VET and even to potential employees.
- Official commentary (and free consultations) provided by the tax authorities to explain legal provisions.
- Gradual improvement of regulation of tax incentives, making them clearer and more comprehensive:
 - For example: simplification of tax treatment of payments for IVET courses of current employees (reduce risk and accounting burden).

Lithuanian experience in using tax deductions for legal entities

Major weaknesses

- Legal entities are still improperly informed about opportunities (lack of information about existence and use of incentives, ambiguities regarding what and how costs can be deducted and complex accounting).
- Due to complex accounting and risk employers are not encouraged to invest in education of their *future/potential* employees.
- Unequal access opportunities for small and large enterprises (different profits/costs ratios and administrative/accounting abilities) lead to potentially high deadweight effects...
- ...which are not exactly known as authorities neither monitor nor evaluate the use of tax incentive.

Overall conclusions

- Useful provisions in legal acts do not automatically transform into smooth implementation. It takes time and resources to:
 - Co-ordinate between tax and education authorities;
 - Prepare proper and timely official commentaries;
 - Launch information campaigns on introduction;
 - Provide constant support.
- Tax incentives should be better targeted and combined with other financing mechanisms to achieve a more balanced impact.

Thank you for your attention!



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