

Delivering an incentive for membership bodies to provide workforce development: a discussion paper

December 2003



HM TREASURY



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Revenue



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membership bodies to provide
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a discussion paper**

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Comments should reach us by 29 February 2004. When responding, it would be helpful if you could indicate the name of the organisation on whose behalf you are writing.

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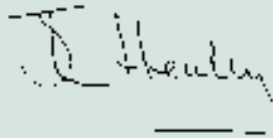
FOREWORD

In this year's Pre-Budget Report, we have renewed our commitment to improving the skills of the workforce. This includes continuing our work, announced in Budget 2003, to review the tax treatment of fees and subscriptions to professional and other approved bodies, to see how it can further strengthen and support the provision of workforce education and skills.

The level of low skills and their impact on productivity is a serious weakness in the UK compared to our partners, including France, Germany and the US. It is not sufficient to focus on school reforms and the education of our young people when two-thirds of today's workforce will still be in the labour market in 2020. That is why the workplace is a critical arena for skills development.

This paper looks at the role that membership-based organisations play in developing workforce skills. If skills gaps are to be closed, and productivity increased, these organisations have an important role to play in making sure that more workers receive the training they need.

The Government provides £60 million a year in tax relief for fees and subscriptions paid to membership organisations. Any changes to the existing rules would have to be affordable and represent good value for money. However, the current system of tax relief is now nearly fifty years old, and there is a good case for considering whether the system could be strengthened and better targeted in order to encourage training and development across the workforce.



John Healey, MP
Economic Secretary to the Treasury



INTRODUCTION

This paper considers the role that professional bodies and other membership-based organisations can play in developing workforce skills and development. It reviews the rules affecting the tax treatment of fees and subscriptions to professional bodies, as announced by the Chancellor of the Exchequer in Budget 2003. It outlines the principles upon which the review is based, describes the current rules, and considers how well these rules meet the Government's objectives. Finally, it invites comments in response.

1.1 Budget 2003 announced that the Government would be reviewing the tax relief for fees and subscriptions to professional and other approved bodies to see how it could further strengthen and support the provision of workforce education and skills.

1.2 Skills have an important role to play in increasing productivity, alongside other factors such as innovation, enterprise, competition and investment. For individuals, skills are a route to stable employment, better wages, and long-term prosperity, as well as personal development. However, the UK has lower levels of workforce skills than other countries. This skills gap is caused by a variety of factors, but evidence shows that there are clear market failures – free-rider problems, fear of poaching, information problems – which lead employers to under-invest in skills relative to the optimum, efficient level from the point of view of the economy as a whole. People with low skill levels and employees of small firms experience particularly severe barriers to the take-up of training, skills and qualifications. Membership organisations, including professional bodies, have an important role to play in encouraging the acquisition of new skills. And Government action is key to addressing these barriers to higher skills.

1.3 The need to improve the supply of skills across the workplace is an ongoing challenge. The Government recognises the important contribution made by a range of organisations in developing workforce skills and wants to build on their achievements. **This document considers how well the existing tax relief for professional fees and subscriptions contributes to this objective and invites comments on how it, or other alternative mechanisms, might do it better.**

1.4 The current system of tax relief allows employees and office holders who are members of certain qualifying organisations to claim a deduction against their taxable earnings for the cost of their annual membership subscriptions. The relief is nearly 50 years old so it comes as no surprise to find that it does not reflect the way the world of work has changed since it was introduced, in particular the increased premium on learning across the workforce as a means of improving productivity. **Against that background, this document seeks views on how the present relief might be better focused to encourage and support the provision of training and skills development opportunities across the workforce and what alternative models could be used to advance that objective.**



2

SKILLS AND PROFESSIONAL DEVELOPMENT

This chapter sets out the Government's skills objectives. It outlines the rules that determine how professional bodies are approved to enable their members to receive tax relief for their fees and subscriptions. And it considers the principles that the Government believes should underpin any reform of the current regime.

IMPROVING WORKFORCE SKILLS AND DEVELOPMENT

2.1 The Government is committed, through improving the skills of the workforce, to securing increased productivity and economic growth. Skilled workers can adapt faster and more effectively to change, and may be better at implementing new investments and pursuing innovation. They can thus increase the ability of a firm to update working practices and products at the rate demanded by rapidly changing markets, making the economy more flexible and productive in the longer term. Moreover, increasing skills levels is central to preventing social exclusion: a level two qualification is becoming the baseline for successful participation in the labour market and an essential foundation for individual progression. Building skills is increasingly key to individuals' job prospects and security.

2.2 There is a range of market failures that can lead to less investment in training and skills than is desirable for the economy as a whole. For example, employers can be deterred from investing in skills by the risk that their employees will become more marketable. They may fear losing the better-trained staff before they have had time to benefit from the returns of their investment. Survey evidence also suggests that people are often poorly informed about the value of training and that time and money are important barriers to take-up. These market failures affect low-skilled workers in particular – people with lower qualifications are much less likely to receive training. There is also strong evidence to suggest that those who work for small firms are less likely to receive training than those who work for larger firms.

2.3 The Government approach is based on tackling these market failures, by reducing the barriers that prevent people – particularly low-skilled people – from training. In July 2003, the Government published *21st Century Skills: Realising Our Potential*¹. It sets out existing policies and further action designed to deliver the skills that individuals, employers and the nation require. The strategy builds on progress already made and places emphasis on making the supply of training more responsive to employers' needs, as well as motivating and supporting more learners.

2.4 With over seven million adults in the workforce without a qualification at level two, it is clear that just improving the flow of new young people into the workforce with better skills will not solve the problem. Those already in work need to be targeted. That is why the strategy has attached importance to giving employers greater choice in and control over their training. Through this demand-led approach it is possible to identify and target more directly the skills gaps in the economy. It will also encourage colleges and training providers to adapt training provision to the needs and pressures of the workplace.

¹ *21st Century Skills: Realising Our Potential*, Department for Education and Skills, July 2003

2.5 Membership organisations, including professional bodies and trade unions, can play an important role in encouraging the growth and upgrading of skills of those already in work. Their approach to skills – which span across employees and firms in different sectors – can help break down the barriers that individual firms may otherwise experience. However, they are not immune from the same market imperfections that the Government is trying to tackle. For example, they may also find it difficult to demonstrate the benefit of training to prospective members. They may also suffer from free-riding by non-members on the opportunities that they help to provide. As such, incentives for individuals to become fee-paying members of these organisations and the amount of training they provide may be sub-optimal from a whole economy point of view. This is why the Government must look at incentives across different approaches to the life-long acquisition and development of new skills, particularly in the workplace.

The Role of Organisations in Workplace Development

Workplace development is not just a concern for employers. Membership organisations already play an important role in supporting the training and development of their members in a variety of ways, including:

- **monthly magazines on work-related issues;**
- **libraries, web-sites and information services;**
- **advice lines on technical and professional issues;**
- **work-related courses and conferences.**

Many organisations have established programmes of work-related training for their members. For example, the Association of Chartered Certified Accountants requires its members to undertake a specified number of hours of personal development each year in order to retain membership, supporting this aim with its own training courses. The National Union of Teachers organises a continuous development programme for its members. And the Institute of Payroll and Pensions Management has founded its own training company, which oversees its members' training.

THE ROLE OF TAXATION

2.6 The tax system can help to deliver the Government's objectives on skills. Taxation and other economic instruments can be used to encourage employers and other bodies to provide training and to help employees to develop their skills. And the revenue raised through taxation can be used to promote general education and the development of workplace skills throughout the economy.

2.7 A fair tax system is one that minimises distortion and reduces the opportunity for tax avoidance. It provides incentives to work, save and invest. And it must be transparent so that taxpayers can make informed, rational choices.

2.8 But a modern tax system must be flexible. It must keep pace with developments in business practice and the global economy. This is the background to the Government's decision to review the tax treatment of fees and subscriptions to professional bodies.

FEES AND SUBSCRIPTIONS

2.9 Currently, the Government provides tax reliefs from income tax for individuals' memberships fees to a number of organisations – particularly professional bodies. The Government is exploring how this element of the tax system can be reformed, to encourage

membership of the organisations most committed to the wider interests of their members' personal skills development. In the context of this overarching objective, the effectiveness of the current relief and alternative models needs to be assessed against a number of principles. These are that the system of support:

- supports the provision of training and staff development opportunities across the workforce;
- acts as an incentive for bodies to expand their commitment to skills development;
- is fair and targeted on those where the market failures are most significant;
- ensures that everyone entitled to relief gets it with the minimum operational burden for organisations and their members;
- contains the burden on taxpayers overall, by limiting its overall cost, and preventing scope for abuse.

2.10 In short, the relief must be properly targeted to advance the Government's workforce development agenda and must give the taxpayer value for money for the investment. To make those judgements we need first to assess the basis of the present relief and the criticisms about how it works in practice.

THE CURRENT RULES

2.11 Sections 343 and 344 of the Income Tax Earnings and Pensions Act 2003 enable an employee or office holder to claim tax relief for annual fees and subscriptions paid to professional bodies and other organisations that meet certain qualifying conditions. The sections are set out in more detail in Annex A.

The Legislation

Section 343 allows relief for amounts that anyone practising a particular profession, stipulated in the legislation, is obliged to pay in order to do so. These include fees paid by health professionals, legal professionals, teachers and those working in the transport industry (including air, road and shipping). Specific examples include fees paid by employees working in the air industry to obtain licences from the Civil Aviation Authority and by teachers for registration with the General Teaching Council.

Section 344 allows employees to claim a deduction for annual subscriptions to bodies which have been approved by the Inland Revenue, where the activities of the body satisfy a number of qualifying conditions and are relevant to the person's employment. Examples of approved bodies include the Chartered Institute of Taxation, the Royal College of Nursing, and the Royal Photographic Society.

2.12 The qualifying conditions for Section 344 are as follows:

- the organisation must not be of a mainly local character; and
- the organisation must not be carried on for profit.

Additionally, the objects of the organisation must be solely or mainly directed towards:

- the advancement or spreading of knowledge (whether generally or among persons belonging to the same or similar professions or occupying the same or similar positions);
- the maintenance or improvement of standards of conduct and competence;
- the indemnification or protection of members of any profession against claims in respect of liabilities incurred by them in the exercise of their profession.

2.13 The legislation recognises that bodies can have mixed objectives. But provided that the main activities of the body are directed towards the advancement of knowledge, the existence of some other activities does not disqualify it from approval. In these cases, the legislation authorises the Board of Inland Revenue to restrict approval to the proportion of the subscription directed towards qualifying objects.

2.14 The rules determining eligibility can lead to unfairness between the treatment of organisations, depending upon the size and scope of their activities. There are also historical inconsistencies in the list of approved bodies. And it is often difficult for organisations to identify the proportion of their activities that is directed towards the advancement of knowledge. These issues are considered in more detail below.

APPLYING THE CURRENT RULES

2.15 The present tax relief was introduced nearly 50 years ago. The relief was designed for a world where the methods of providing knowledge and training to the workforce were very different from today. In today's more fluid working environment the need for improved skills is all the greater. Skilled workers are better equipped to adapt faster and more effectively to change, making the economy more flexible and productive in the longer term. And the focus of relief on professional bodies represents a bias towards specialist skills at the upper end of the skills distribution, which may not be justified by an assessment of the economic rationale for government support.

Supporting the provision of training and staff development opportunities across the workforce

2.16 The justification for a relief is that it is capable of addressing market failures by making an important contribution to delivering increased training and improved skills across the workforce, not just to members of particular professions. A number of representations have been made that the relief as it stands does not achieve this. For example, many organisations that make strong efforts to promote workforce development have other significant commitments, making it impossible for them to raise the proportion of their activity devoted to training and development to a level that would give their members access to the relief.

2.17 Although it is open to any organisation to apply for approval under the existing legislation, the qualifying objects are written in terms of professional bodies, and the requirement that the organisation's activities must be "solely or mainly" directed to those objects reinforces that perception. The "solely or mainly" test is a rigorous one that does not leave a great deal of scope for an organisation to undertake much in the way of non-qualifying activities.

2.18 A consequence of having to satisfy these qualifying objects is that approved bodies are usually professional bodies. The existing relief is therefore concentrated on a limited part of the working population and does not provide an incentive across the workforce generally. Members of approved bodies currently receive tax relief for either the whole or the qualifying part of their annual subscription. Considered against the Government's workforce development agenda, there is a case for considering ways of extending the scope of the relief to a wider range of organisations.

Providing an incentive for membership bodies to expand their commitment to skills development

2.19 The high threshold for qualifying objects set by the "solely or mainly" test means that many organisations have little chance of satisfying this criterion. The gap they would have to span is often so large that the existing relief is so far out of reach that it provides little or no incentive to many bodies to expand their training activities in order to gain approval.

2.20 The legislation also requires that the application for approval must be by the body to which the members' subscriptions are paid. The effect of this is that the qualifying criteria must be applied to the organisation as a whole, making it difficult to obtain approval for a sub-group within the organisation, even one expressly created to carry forward those aims which are the rationale for having tax relief on members' subscriptions. In that sense, the restrictive nature of the legislation makes it inaccessible to the large number of organisations now providing and supporting learning opportunities for their members as part of a wider range of activities.

Fair and targeted on those where market failures are the most significant

2.21 The current legislation authorises the Inland Revenue to vary or withdraw an organisation's approval if circumstances change. However, there is no corresponding obligation on organisations that have approval to notify the Revenue of any such change. In the event, the Inland Revenue has rarely exercised its right to vary or withdraw approval. This has led to a number of anomalies in the list of approved bodies.

2.22 There will be some examples of organisations that have ceased to operate altogether. But it is more likely that bodies will have amalgamated or, over time, changed the focus of their activities. This raises the obvious issue of continued entitlement to approval, and thus whether individual members should continue to get the benefit of tax relief on their subscriptions. Consequently, it is difficult to monitor the legislation and ensure that the relief is being properly targeted at those for whom it was originally intended.

2.23 It can create a sense of unfairness if similar organisations apply for approval but find that they cannot meet the qualifying criteria. This is particularly true for bodies that may be competing with one another for members. It has been suggested that, in order to ensure parity of treatment for individual members in relation to tax relief for their fees and subscriptions, the Revenue has an obligation to keep under review the list of approved bodies.

There is a balance to be struck in order to avoid unnecessary intrusion by the Revenue. But the present position is clearly seen as unsatisfactory for those organisations that feel that it discriminates against their members without a clear and transparent rationale for doing so.

Ensuring that everyone who is entitled to relief gets it with the minimum operational burden

2.24 Under the present system, the body applies for approval and once this has been granted the name is added to the list of approved bodies. Members can then get tax relief by making a personal claim, which results in a change being made to their PAYE coding. Once the coding adjustment has been made it will normally be carried forward to future years until the individual notifies their Revenue office of a change in circumstances. It is therefore relatively straightforward for anyone so entitled to get the relief. Around one million people currently benefit from the relief – and a third change their claim each year, owing to changes in personal circumstances or in the amount they pay.

2.25 However, because the relief is given to individual members, many do not receive their entitlement, either because they are not aware of it or because they do not think it worth the trouble of making the appropriate claim. Although we do not know the numbers concerned, a significant number of members of qualifying bodies may be missing out on tax relief to which they are entitled.

Providing value for money

2.26 Approximately 3,000 bodies have received approval. Not all of these are still active and those that are, vary considerably in size. However, the existing relief cost in the region of £60 million in 2003/04. Any changes to the existing rules or new measure would need to be affordable and deliver value for money. It is not the Government's intention to broaden the relief to all membership organisations. The Government is ready to consider changing the basis for qualification, but the central criterion for any change will be the development of members' workforce skills.

3

ISSUES FOR COMMENT

This chapter lists issues on which the Government would welcome comments, which will be used as a framework for further debate.

3.1 In summary, the principles underpinning the review are that the relief should:

- support the provision of training and staff development opportunities across the workforce;
- act as an incentive for membership bodies to expand their commitment to skills and thus enable their members to get tax relief on their annual subscriptions;
- be fair and targeted on those where the market failures are most significant;
- ensure that everyone who is entitled to relief gets it with the minimum operational burden for organisations and their members;
- contain the burden on taxpayers overall, by limiting its overall cost, and preventing scope for abuse.

3.2 In considering how well the existing relief matches up to these principles, the Government has identified the main aspects on which it would like views:

- establishing appropriate and measurable criteria for getting approval that reflect the wider aims of the Government's workforce development agenda;
- ensuring consistency through monitoring entitlement to approved status;
- delivering relief – making it easier for members to get relief on their subscriptions;
- widening the scope for organisations to get approval by enabling sub-groups that meet the qualifying criteria to apply in their own right;
- and, lastly, the Government would welcome general comments on how the relief might be restructured, in order to allow a broadening of its coverage to members of a wider range of organisations – to pursue workforce and skills development goals.

Measurable criteria

3.3 The Government is committed to supporting membership bodies that provide substantial support for developing the skills and careers of their members. To help achieve this purpose the Government wishes to establish measurable criteria that will enable a body to demonstrate that it is doing so.

3.4 A significant part of the challenge is to articulate how organisations can demonstrate the impact of their efforts. The present legislation puts the emphasis on the proportion of the body's expenditure attributable to the furtherance of qualifying objects. While this is an important factor, a more flexible approach may be needed to measuring inputs and outputs. In some occupations, where qualifications and continuing professional development are mandatory, allocating funding on training and education might be feasible, although, in

practice, few organisations that do so include overheads in the reported figures in their accounts. In others, where it might be more a case of encouraging training awareness and facilitating the take-up of training opportunities, deciding on measurable criteria is more difficult.

3.5 The Government needs to determine how organisations can demonstrate the investment they make in promoting workforce development and the proportion of their activities that it represents, if they are to get the benefit of tax relief for members' subscriptions. The Government would welcome views on the most practical and least regulatory approach that could be adopted, and on which criteria would best encourage greater investment in skills.

3.6 Issues to consider

- What criteria do you think should be used in establishing whether a particular body should be treated as a qualifying body?
- What proportion of your organisation's activities is currently spent directly on members' professional education/training and skills development/maintaining and improving standards of competence?
- How did you arrive at this estimate?
- What other activities does your organisation undertake that have a direct or indirect impact on the provision and take-up of training or professional development opportunities for members? What proportion of the organisation's activities does this represent?
- How does your organisation measure the return on this investment of resources?
- What criteria do you think should be used to determine the extent of an organisation's investment in qualifying activities?
- Is the information required for determining the proportion of qualifying activities readily available, or are there any costs associated with its production?

Monitoring entitlement to approved status

3.7 The present legislation authorises the Inland Revenue to vary or withdraw an organisation's approval if circumstances change, but this has been exercised only very rarely. As a consequence of not operating a periodic review, there are inconsistencies in the list of approved bodies. For example, organisations that have approval, but whose circumstances have changed to an extent that they would not meet the qualifying criteria if they were applying today. Unsurprisingly, this is perceived as less than fair to other organisations operating in the same employment sector that cannot get approval.

3.8 This needs to be addressed, both to be certain that the benefit of tax relief on members' subscriptions reflects the Government's policy aims and to ensure parity between organisations that have approval and those applying for it. In order to do so, the Government needs to establish a system to monitor the activities of approved bodies to ensure that they continue to satisfy the criteria for relief.

3.9 Issues to consider

- Do you agree with the need to monitor entitlement to approval? If not, why not?
- How would you propose monitoring entitlement to approval?
- What would be the costs to your organisation associated with periodic reassessment of qualification for approval?
- How frequently should a qualifying body be monitored? Why?

Delivering relief to individual members

3.10 Some one million employees presently get tax relief on subscriptions paid to approved bodies. Generally, once the employee has made an initial claim, relief is given automatically year on year through the PAYE code. Widening the range of organisations that can apply for approval makes it likely that more employees will be entitled to relief on their subscriptions. It is important that people entitled to relief get it and that they do so with minimum fuss. With that in mind, the Government will look at the present system, which leaves it to individual employees to claim the relief, and consider possible alternatives.

3.11 Issues to consider

- What are your views on the way that the relief is claimed currently?
- What do you see as the main administrative problems?
- Do you think there are any better ways to administer the relief? If so, how do you think it could be better administered?
- Could the Inland Revenue do more to simplify the process?
- What alternative means of delivering relief do you think that the Government should consider and what additional costs might be involved?
- How could the Government extend the existing relief? What are your views on capping the relief at a set amount or the basic tax rate?

Widening the scope of approval of sub-groups

3.12 In recent years, the drive for organisations to amalgamate means that they often cover a wide spectrum of activities across different employment sectors. Under current law, approved status applies to the body to which members' subscriptions are paid and the qualifying criteria must be applied to that organisation. The Government recognises that this presents difficulties for approved bodies that become part of a larger group with wider objects, and for divisions within such groups that cannot apply for approval in their own right because members' subscriptions are paid to the parent body.

3.13 It must therefore be established whether, in keeping with the Government's aims, and to ensure parity of treatment between organisations operating in the same employment sector, there is a case for changing the rule to enable sub-divisions of larger groups to apply for approval in their own right.

3.14 Issues to consider:

- Would such a change be relevant to your organisation?
- Would your organisation welcome such a change?
- What would be the costs to your organisation of seeking approval for a sub-division?
- How many of your members might be affected?
- What proportion of subscriptions would attract tax relief?

Sections 343, 344 and 345 of the Income Tax Earnings and Pensions Act 2003 are as follows:

343 Deduction for professional membership fees

(1) A deduction from earnings from an employment is allowed for an amount paid in respect of a professional fee if –

- (a) the duties of the employment involve the practice of the profession to which the fee relates, and
- (b) the registration, certification, licensing or other matter in respect of which the fee is payable is a condition, or one of alternative conditions, which must be met if that profession is to be practiced in the performance of those duties.

(2) In this section “professional fee” means a fee mentioned in the following Table:

Table

Health professionals

1. Fee payable for entry or retention of a name in any of the following –
 - (a) the Register of Chartered Psychologists,
 - (b) the register maintained by the Registrar of Chiropractors,
 - (c) a roll or record kept for a class of dental auxiliaries,
 - (d) the dentists register,
 - (e) the register of dispensing opticians,
 - (f) the register maintained by the Health Professions Council,
 - (g) the register maintained by the registrar appointed by the Hearing Aid Council,
 - (h) the register of medical practitioners,
 - (i) the register maintained by the Nursing and Midwifery Council,
 - (j) either of the registers of ophthalmic opticians,
 - (k) the register maintained by the Registrar of Osteopaths,
 - (l) the Register of Pharmaceutical Chemists.
2. Fee payable by a chartered psychologist on the issue of a practising certificate.

Animal health professionals

3. Fee payable for entry or retention of a name in any of the following –
 - (a) the register maintained by the registrar appointed by the Farriers Registration Council,
 - (b) the supplementary veterinary register,
 - (c) the register of veterinary surgeons.

Table (continued)

Legal professionals
4. Fee payable to the Council for Licensed Conveyancers on the issue of a licence to practise as a licensed conveyancer.
5. Fee and contribution to the compensation fund or Guarantee Fund payable on the issue of a solicitor's practising certificate.
Architects
6. Fee payable for entry or retention of a name in the Register of Architects.
Teachers
7. Fee payable for entry or retention of a name in any of the following –
(a) the register maintained by the General Teaching Council for England,
(b) the register maintained by the General Teaching Council for Scotland,
(c) the register maintained by the General Teaching Council for Wales.
Patent agents and trade mark agents
8. Registration fee payable by –
(a) a registered patent agent,
(b) a registered trade mark agent.
9. Practising fee payable by –
(a) a registered patent agent,
(b) a registered trade mark agent.
Occupations in the transport sector
10. Fee payable by a driving instructor for entry or retention of a name in the register of approved instructors or on the issue or renewal of a licence authorising its holder to give paid instruction in the driving of a motor car.
11. Fee (including any related medical or technical examination fee) payable, on the issue or renewal of a licence by the Civil Aviation Authority, by –
(a) an aircraft maintenance engineer,
(b) an air traffic controller or student air traffic controller,
(c) a member of the flight crew of an aircraft registered in the United Kingdom,
(d) a flight information service officer.
12. Fee (including any related medical examination fee) payable –
(a) on the issue or renewal of a licence authorising its holder to drive a large goods vehicle or a passenger-carrying vehicle,
(b) by an officer or other seaman on the issue, renewal or endorsement of a certificate, licence or other document which is required as evidence of his qualification or competence to serve in a ship.

Table *(continued)*

13. Fee payable by a seafarer employed in a sea-going United Kingdom ship on the issue or renewal of a medical fitness certificate.
- (3) The Board of Inland Revenue may make an order adding such fee as is specified in the order to the Table of fees mentioned in subsection (2)
- (4) The Board may make an order if they consider that such fee is payable in respect of any registration, certification, licensing or other matter if it is required as a condition, or one of alternative conditions, of the practice of a profession.

344 Deduction for annual subscriptions

- (1) A deduction from earnings from an employment is allowed for an amount paid in respect of an annual subscription if –
- (a) it is paid to a body of persons approved under this section, and
- (b) the activities of the body which are directed to one of more of the objects within subsection (2) are of direct benefit to, or concern the profession practised in, the performance of the duties of the employment.
- (2) The objects are –
- (a) the advancement or dissemination of knowledge (whether generally or among persons belonging to the same or similar professions or occupying the same or similar positions),
- (b) the maintenance or improvement of standards of conduct and competence among the members of a profession,
- (c) the provision of indemnity or protection to members of a profession against claims in respect of liabilities incurred by them in the exercise of their professions.
- (3) The Inland Revenue may approve a body of persons under this section if, on an application by the body, they are satisfied that –
- (a) the body is not of a mainly local character,
- (b) its activities are carried on otherwise than for profit,
- (c) its activities are wholly or mainly directed to objects within subsection (2).
- (4) The Inland Revenue must give notice to the body of their decisions on the application.
- (5) If these activities of the body are to a significant extent directed to objects other than objects within subsection (2), the Inland Revenue may –
- (a) determine the proportion of the activities directed to objects within subsection (2), and
- (b) determine that only such corresponding part of the subscription as is specified by the Inland Revenue is allowable under this section.
- (6) In determining that part, the Inland Revenue must have regard to the proportion of expenditure of the body attributable to objects other than objects within subsection (2) and all other relevant circumstances.
- (7) If a body applies for approval under this section and is approved, a subscription paid to it –
- (a) before it has applied but in the same tax year as the application, or
- (b) after it has applied but before it is approved, is treated for the purposes of this section as having been paid to an approved body.

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