Hon Chris Hipkins, Minister of Education

Hon Stuart Nash, Minister of Revenue

Information Release

Student loan Business Transformation policy changes for 2020

Cabinet paper, regulatory impact assessment, and minute

July 2019

Availability

This information release is available on Inland Revenue's Tax Policy website at http://taxpolicy.ird.govt.nz/publications/2019-ir-cab-swc-19-sub-0014/overview.

Documents in this information release

1. SWC-19-SUB-0014 – Cabinet paper: Student loan Business Transformation policy changes for 2020 (13 March 2019)
2. SWC-19-SUB-0014 – Regulatory impact assessment: Student loans: limiting student loan scheme rules relating to the 2013 and prior years (31 January 2019)
3. SWC-19-MIN-0014 – Minute: Student loan Business Transformation policy changes for 2020 (13 March 2019)

Additional information

The Cabinet paper was considered by the Cabinet Social Wellbeing Committee on 13 March 2019 and confirmed by Cabinet on 18 March 2019.

Information withheld

No information was withheld for this information release.

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Office of the Minister of Education

Office of the Minister of Revenue

Chair, Cabinet Social Wellbeing Committee

STUDENT LOAN BUSINESS TRANSFORMATION POLICY CHANGES FOR 2020

Proposal

1. This paper seeks the Cabinet Social Wellbeing Committee's agreement to changes to the Student Loan Scheme Act 2011 enabled by Inland Revenue's business transformation programme. These changes are largely administrative in nature. They are:

    1.1 Limiting student loan scheme rules relating to the 2013 and prior years.

    1.2 Renaming the student loan repayment holiday.

    1.3 Writing off student loans in cases where borrowers have been able to prove they did not take out the loan.

    1.4 Giving Inland Revenue the ability to notify employers when borrowers' loans are close to being fully repaid.

    1.5 Treating overseas based borrowers in exceptional circumstances as New Zealand based.

Executive Summary

2. Inland Revenue's multi-year transformation programme is enabled by changes to policy, process, technology, and organisation design. In April 2020, the management of student loans and KiwiSaver will move to new systems and processes.

3. Officials have identified several policy changes that will make it easier for borrowers to meet their obligations and enhance the administration of the student loan scheme (the scheme). Some of these are currently being progressed as part of the Taxation (Annual rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Bill. This paper proposes further changes, being:

    3.1 Limiting changes to borrowers' repayment obligations prior to 1 April 2013 to changes in residency status, fraud, or where a tax return has not been filed and it is cost effective to do so. This would reduce the administrative complexity of the system. If this is not progressed, the new systems and processes would need to include a large number of historic changes to policy and legislation, some of which have since been repealed.

3.2 Renaming the student loan ‘repayment holiday’ to ‘repayment obligation suspension’. This will make it clearer to borrowers heading overseas that their repayment obligations are only temporarily on hold and they must start making payments again when their repayment obligation suspension ends (or they return to New Zealand).

3.3 Writing off student loans in a small number of cases pre-2000 where borrowers have been able to prove they did not take out the loan, and where the correct borrower cannot be identified. Cases post-2000 are managed by MSD, who already have the power to reverse such loans.

3.4 Giving Inland Revenue the ability to notify employers when borrowers’ loans are close to being fully repaid. This would allow employers to make final deductions equal to the remaining loan balance, preventing overpayments and borrowers having to contact Inland Revenue to get a refund.

3.5 Treating overseas based borrowers in exceptional circumstances as New Zealand based. There are a small number of overseas based borrowers living with a serious illness or disability, who are unlikely to repay their loans. Treating these borrowers as New Zealand based would mean the borrower has repayment obligations based on their income, and an interest free loan.

4. We propose progressing the necessary legislative changes in the Taxation (1st 2019 Omnibus Issues, and Remedial Matters) Bill, for introduction in mid-2019. The proposals would apply from 1 April 2020.

Background

5. Inland Revenue’s multi-year transformation programme will modernise New Zealand’s revenue system. Once complete, customers will spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements.

6. Business transformation is enabled by a combination of changes to policy, process, technology and the organisation design of Inland Revenue. It is far more than an upgrade of technology and has provided the opportunity to fundamentally review how the revenue system is administered and consider what changes may be needed.

7. New Zealand’s revenue system is being transformed in four broad stages – digital services, tax, social policy, and a final wrap up. Modernisation of the revenue system is now well underway, with the first two releases having been successfully implemented. Release 3, which will move income tax and Working for Families to new systems and processes, is scheduled to go-live on 26 April 2019. Management of the student loan scheme will move to new systems and processes as part of Release 4 in April 2020.

8. Moving student loans to new systems and processes creates opportunities to make it easier for borrowers to meet their obligations and improve the administration of the scheme.

9. Legislation has already been introduced to deduct student loan repayments from schedular, election-day and casual agricultural income, and to not charge loan

interest for New Zealand based borrowers (currently, interest is charged and then written off).

10. The proposed policy changes in this paper seek to:

    10.1 Reduce compliance effort and improve the borrower's experience.

    10.2 Reduce complexity.

    10.3 Reduce administration costs.

Limiting student loan scheme rules relating to the 2013 and prior years to simplify administration of the Scheme

11. From time to time, information comes to light that means Inland Revenue needs to change borrowers' historical repayment obligations. Inland Revenue is currently required to maintain rules back to 1992 when the scheme was introduced in cases where either the Commissioner or borrower seek to review a borrower's repayment obligation.

12. Retaining rules going back to 1992 has increased the complexity of the scheme. Compliance costs for borrowers are high, as understanding changes to their loan balance is difficult due to historical rules applying for previous years. Administration costs for Inland Revenue are also high, with little benefit.

13. To simplify the system going forward, we propose incorporating all student loan rules back to 1 April 2013 into the new systems and processes, and a simplified set of rules from 1992 to 1 April 2013. This will reduce compliance costs for borrowers, the administration costs for Inland Revenue, and the time and cost of implementing future changes to the student loan scheme.

14. Incorporating rules back to 1 April 2013 into the new system will capture 93% of all changes to repayment obligations and largely replicate the current scheme. For 1992 to 1 April 2013, we propose a simplified set of rules apply in cases where a borrower's residency status changes, where a borrower has committed fraud, or where a tax return has not been filed and it is cost effective to make changes. These are the situations that have the greatest impact on a borrower's repayment obligations and their loan balance.

15. For example, where a borrower has gone overseas in 2008 but has been treated as New Zealand based, interest would be calculated on the borrower's loan from the date they went overseas in 2008. However, the borrower's repayment obligations would only be changed from 1 April 2013 onwards.

16. Where a borrower has committed fraud or not declared income, a simplified calculation would be applied. Repayment obligations would only be calculated on the adjusted net income figure and the other rules that applied in that year would be disregarded. A one-off penalty would be imposed on the undeclared income in cases of fraud and may be imposed on unfiled returns. Late payment interest would only be imposed on unmet obligations for 1 April 2013 onwards.

17. The number of borrowers expected to be impacted by this change each year is small and reducing over time. In the 2018 year, only 1,314 borrowers had their repayment

obligation for the 2013 or prior years changed. This represents less than 0.2% of the 700,000 student loan borrowers and the repayment obligations involved was $1.2 million. These figures are expected to reduce further before the introduction of these changes in 2020.

18. This proposal would retain equity between compliant and non-compliant borrowers. These changes could result in slight variations in a limited number of borrowers' loan obligations and repayment period, which could either increase or decrease borrowers' loan obligations.

19. This option reduces the complexity of the scheme, and therefore reduces compliance costs for borrowers and administration costs for Inland Revenue. This option has no material impact on the valuation of the scheme and improves the Government's flexibility to make policy changes in the future.

Renaming the repayment holiday

20. Currently, borrowers heading overseas can apply for a repayment holiday, which suspends their repayment obligation for up to one year. Interest continues to be charged on the loan.

21. We propose renaming the repayment holiday to repayment obligation suspension. This will make it clearer to borrowers that their obligations are only temporarily on hold and they must start making repayments again when their repayment obligation suspension ends (or they return to New Zealand). It will also remove the potentially positive association with the word 'holiday'.

Writing off loans in cases where borrowers have been able to prove that they did not take out the loan

22. Inland Revenue is aware of a very small number of cases where borrowers have been able to prove that they did not take out a loan, and it is likely that that their identity has been stolen. Inland Revenue manages cases occurring before 2000 and does not have the power to write these loans off if the correct borrower cannot be identified. Cases occurring after 2000 are managed by MSD, who do have the power to reverse loans if they cannot locate the correct borrower.

23. We propose that Inland Revenue should be able to write off loans where borrowers have been able to prove that they did not take out the loan and the correct borrower cannot be identified. This change will make the scheme fairer for borrowers in these situations.

Giving Inland Revenue the ability to notify employers of a borrower's loan balance, when the loan is close to being repaid

24. Currently, Inland Revenue can tell employers if an employee has a student loan or not, to ensure that they use the correct tax code, but cannot tell employers what the loan balance is. This results in overpayments and delays when loans are repaid, as employers currently make student loan deductions at 12% until they are told to stop.

25. Enabling Inland Revenue to notify employers of a borrower's remaining loan balance, where the loan balance is close to being paid, will mean they can make a final deduction equal to the remaining loan balance. This will improve borrower experience by avoiding overpayments in many situations.

Treating overseas based borrowers in exceptional circumstances as New Zealand based

26. Overseas based borrowers' repayment obligations are based on the size of their loan and they are charged interest on their student loans. Inland Revenue is aware of a few overseas based borrowers who are living with a serious illness or disability and are unlikely to ever be able to make loan repayments.

27. In some circumstances, borrowers can apply to be treated as New Zealand based. We believe it is appropriate to treat the above-mentioned borrowers as New Zealand based. This would seek to align their repayment obligations with their ability to repay and they would not be charged interest. This will also prevent loan balances from increasing due to interest.

Consultation

28. The Ministry of Education and Inland Revenue have consulted with the following agencies in preparing this paper: The Treasury, the Ministry of Social Development, and the Office for Disability Issues. The Office of the Privacy Commissioner has also been consulted.

Financial Implications

29. The costs of making these changes are included as part of Inland Revenue's business transformation programme, and no additional funding is sought. The impact of the changes on the future cash flows of the scheme has been considered and there are no material impacts on the valuation.

Legislative Implications

30. Implementing these proposals requires changes to the Student Loan Scheme Act 2011.

31. If approved, we propose that the changes be included in the Taxation (1st 2019 Omnibus Issues, and Remedial Matters) Bill, scheduled for introduction in mid-2019. The proposals would apply from 1 April 2020 for the 2020/21 tax year. This aligns with the transition of the management of student loans to the new systems and processes as part of Inland Revenue's business transformation.

Impact Analysis

32. The Quality Assurance Team at Inland Revenue has reviewed the *Student Loans: Back-year reassessments prior to 2013* regulatory impact assessment prepared by Inland Revenue and:

    32.1 Considers that the information and analysis summarised in the regulatory impact analysis **partially meets** the quality assurance criteria.

    32.2 In light of the time constraints on the policy development process that are identified in the Key Limitations or Constraints on Analysis section, the reviewer considers that the information in the RIA is as complete as could be expected and identifies the main risks and uncertainties.

    32.3 However, the time constraint has meant that public consultation particularly with affected parties has not been carried out. Consequently, the reviewer cannot be sure that the full range of impacts have been identified or that the preferred options are the best options to address the problem and achieve the desired objectives.

33. The Regulatory Quality Team at the Treasury has determined that the remaining decisions sought in this paper are exempt from the requirement to provide a Regulatory Impact Assessment as they have no or minor impacts on businesses, individuals or not for profit entities.

Human Rights

34. This paper does not have any significant human rights implications. The proposal to notify an employer of a borrower's remaining loan balance has minor privacy implications.

Gender Implications

35. The proposals in this paper are generally administrative in nature. Officials are not aware of any significant gender implications arising from these proposals.

Disability Perspective

36. Treating overseas based borrowers with serious illnesses or disabilities as New Zealand based will provide relief to borrowers who are unlikely to be able to repay their loans. It will better align their repayment obligation with their ability to repay, and their loans would be interest free. This will be beneficial for these borrowers.

Publicity

37. An announcement on the contents of the Bill, including these proposals, will be made when the Taxation (1st 2019 Omnibus Issues, and Remedial Matters) Bill is introduced. A commentary on the Bill will also be released at this time. Inland Revenue will include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted.

38. The proposals are unlikely to be controversial as they largely seek to make it easier for borrowers to repay their loans and to improve the administration of the scheme.

Proactive Release

39. We propose to delay the release of the attached Cabinet paper in full and associated minutes until the proposed Taxation (1st 2019 Omnibus Issues, and Remedial Matters) Bill containing legislative amendments to give effect to the recommendations in this paper is introduced.

Recommendations

The Minister of Education and Minister of Revenue recommend that the Cabinet Social Wellbeing Committee:

1. **note** that Inland Revenue is planning to move the student loan scheme to new systems and processes in April 2020;

2. **note** that there are several policy changes requiring legislative change that can make it easier for borrowers to meet their obligations and improve the administration of the student loan scheme;

3. **agree** that changes to borrower's repayment obligations prior to 1 April 2013 be limited to changes in residency status, where fraud is involved, or where a tax return has not been filed and it is cost effective to make changes;

4. **agree** to rename the student loan repayment holiday to student loan obligation suspension;

5. **agree** that Inland Revenue have the ability to write-off student loans taken out before 2000, in cases where borrowers have been able to prove that they did not take out the loan;

6. **agree** that Inland Revenue have the ability to notify a borrower's employer when the borrower's student loan is close to being fully repaid;

7. **agree** that overseas based borrowers with serious illness or disabilities should be treated as New Zealand based;

8. **agree** that recommendations 3-7, if agreed, will apply from 1 April 2020; and

9. **invite** the Minister of Revenue to instruct Parliamentary Counsel Office to draft the necessary amendments to give effect to the changes recommended in this paper.

Authorised for lodgement

Hon Chris Hipkins
Minister of Education

Hon Stuart Nash
Minister of Revenue

Impact Summary: *Student Loans: Limiting Student Loan Scheme rules relating to the 2013 and prior years*

Section 1: General information

Purpose
This analysis and advice informs key policy decisions to be taken by the Minister of Revenue ahead of final decisions by Cabinet on whether to proceed with a policy change to reduce the need to amend pre-2013 student loan obligations after April 2020. Inland Revenue is solely responsible for the analysis and advice set out in this Regulatory Impact Summary.
Key Limitations or Constraints on Analysis
The key limitations on the analysis are as follows. **Time to enact legislation** As part of Inland Revenue's Business Transformation programme, the Student Loan Scheme will be moved to new systems and processes with effect from April 2020. This transfer provides an opportunity to reduce the current complexity of the scheme caused by having to administer rules for previous years that have subsequently been repealed. Any legislative changes that are to apply from 2020 would need to be introduced into Parliament by mid-2019. The timeframe to enact legislation has reduced the time available to develop and analyse the options and to consult with stakeholders. **No consultation with external stakeholders** Inland Revenue has not consulted with affected borrowers as the number of borrowers likely to be impacted by the proposed option is small and the legislative process provides an opportunity for the public to make submissions on the proposals as the Bill progresses through Parliament. **Scale of the problem** The scale of the problem in terms of the impact of the status quo on borrower compliance has not been accurately identified. Research suggests that borrowers do not understand how the student loan rules for previous years impact any changes their loan obligations. **Impact of proposals on the student loan valuation** Proposals that have a material impact on the valuation require a Budget bid and would need to be prioritised alongside other bids for Government funding. In order to proceed with reducing the complexity of changes to prior years' repayment obligations, officials focussed on options that would not materially impact the student loan valuation. None of the limitations materially affect the analysis.
Responsible Manager (signature and date):
   Melody Guy Policy Manager Policy and Strategy Inland Revenue 31 January 2019

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

The underlying problem is the complexity of the student loan rules relating to previous years that no longer feature in the current scheme. This complexity means there is a lack of understanding by borrowers of the rules prior to 1 April 2013.

As part of Inland Revenue's Business Transformation programme, the Student Loan Scheme will move to new systems and processes in April 2020. This transfer process provides an opportunity to make legislative changes to reduce the complexity of the student loan rules prior to April 2013, make it cheaper and easier to make changes to the scheme in the future, reduce compliance costs (by increasing understanding of rules) for borrowers, and increase consistency between tax and student loans. April 2013 has been chosen as this date captures 93% of all changes to student loan obligations for previous years and is the point where the rules are largely the same as apply today.

The Student Loan Scheme was introduced in 1992 and is governed by the Student Loan Scheme Act 2011, and loan contracts between the government and each borrower. A significant number of changes have been made to the Student Loan Scheme since its introduction with changes being made in 21 of the last 26 years. Under current legislation, the importance of accurate borrower's obligations outweighs compliance and administrative costs. For example, either the borrower or Inland Revenue can seek to amend a prior year's loan obligation, regardless of the amount of money involved.

A repayment obligation is changed where an error is identified in the calculation of a borrower's repayment obligation for a year. Unlike income tax, which generally has a period of 4 years from the date a return is filed to make changes to a tax obligation, student loan obligations can be changed back to the date the loan was taken out, which could be as far back as 1992 when the loan scheme was introduced. Therefore, where a student loan obligation for a previous year changes, the rules relating to that year apply. This requirement to retain rules for previous years has increased the complexity of the Student Loan Scheme administration, reduced the overall customer experience by making it difficult for borrowers to understand changes to their loan balance, and increased the administration costs. A significant number of the rules relating to previous years have since been repealed.

Decisions on whether to simplify the Student Loan Scheme are required by March in order for any legislative changes to be enacted in time for an April 2020 application.

2.2 Who is affected and how?

Borrowers affected are those whose obligations prior to 2013 are amended. In the 2018 year, of the 700,000 student loan borrowers, less than 0.2 percent had their repayment obligations prior to April 2013 amended (1,314) resulting in increased repayment obligations of $1.2 million. The number of borrows affected is expected to reduce significantly by 2020 due to Inland Revenue's efforts to reduce the number of outstanding tax returns and to contact non-compliant overseas based borrowers.

2.3 Are there any constraints on the scope for decision making?

The major constraint on our analysis is the time to enact legislation.

Inland Revenue is part way through a multi-year transformation programme to modernise New Zealand's revenue system. Business transformation is enabled by a combination of changes to policy, processes, technology and the organisation design of Inland Revenue. It is far more than an upgrade of technology and has provided the opportunity to fundamentally review how the revenue system is administered and consider what changes may be needed.

Options to simplify the prior years' student loan rules require a legislative change. For legislation to be enacted by April 2020, changes would need to be introduced into Parliament in mid-2019 and therefore Cabinet decisions on policy changes are required in March 2019.

The timeframe to enact legislation has reduced the time available to consult with stakeholders. Inland Revenue does not intend to consult separately with affected borrowers. However, mitigating factors are that the number of borrowers likely to be impacted by the preferred option is small and public submissions can be made on the proposals at the Select Committee stage as the Bill progresses though Parliament.

Another constraint is the impact on the student loan valuation. Options that have an impact on the valuation would require a Budget bid as part of Budget 2019. These options would have to be prioritised together with other Government initiatives. Officials do not propose pursuing options that materially impact on the student loan valuation.

Section 3: Options identification

3.1 What options have been considered?

Transferring the Student Loan Scheme to the new systems and processes provides an opportunity to reduce the administrative complexity of the Student Loan Scheme. Reducing the complexity of the Student Loan Scheme can only be resolved through legislative changes. Officials have considered non-legislative options, such as manually undertaking changes to prior year obligations, but these options may reduce but will not resolve the complexity issue. Therefore, the options proposed to simplify the Student Loan Scheme are legislative only.

The options considered are retaining the status quo and two options to simplify the Student Loan Scheme rules relating to the 2013 and prior years.

The policy objective is to implement the Student Loan Scheme into the new systems and processes within the timeline (April 2020) and reduce the complexity of the scheme, whilst ensuring equity among borrowers, and no material impact on the student loan valuation.

In considering the options, officials evaluated the options against the following criteria:

- equity between borrowers (current versus past borrowers, compliant versus non-compliant borrowers, and New Zealand based versus overseas based borrowers);
- the impact of the complexity of the scheme on both the compliance costs of borrowers and administrative costs for Inland Revenue;

- the impact of the options on the valuation of the Student Loan Scheme; and
- the cost and time to make policy changes in the future.

Option One: Status quo – implement the rules back to 1992
This option involves implementing all the prior years' student loan rules back to 1992 into new systems and processes. However, as student loans repayments for New Zealand based borrows are based on income for tax purposes, and as income tax generally has a period of 4 years for making changes to tax obligations, there will be no income generated student loan changes prior to 2013. Changes to loan obligations prior to 2013 would be those where fraud or non-filing of tax returns is involved and it is cost effective to do so, changes in residence status, or changes due to other student loan rules such as repayment holiday entitlement, or entitlement to the voluntary repayment bonus.

This option would have no material impact on the student loan valuation and retains the current equity among borrowers. However, it retains the current complex rules prior to April 2013 which would need to be built into new systems and processes. This complexity imposes administration costs on the government and would impact very few borrowers.. Also, future policy changes should still accommodate the rules prior to 1 April 2013.

This option is not preferred by officials.

Option Two: No new changes to repayment obligations prior to April 2013
Under this option the student loan rules would only be incorporated into new systems and processes back to 1 April 2013. This date was chosen as it captures almost all changes to student loan repayment obligations and the rules applying from April 2013 are largely the same as apply today. The rules relating to policy changes prior to 2013 will not be built into new systems and processes. Changes to repayment obligations prior to this date would only occur in exceptional circumstances such as cases of tax or student loan fraud or non-filing of tax returns showing a significant liability. These cases would be processed manually.

This option simplifies the current rules, removes the need to build the rules prior to 1 April 2013 into the new systems and processes, and reduces both compliance and administrative costs. However, there are instances where equity between compliant and non-compliant borrowers would not be retained, such as where a borrower who Inland Revenue considers is New Zealand based is found to have gone overseas prior to April 2013 without notifying Inland Revenue as required in their loan contract. Under this option the borrower would only have interest imposed back to 1 April 2013 not the earlier date when they became overseas based.

This option would reduce the cost and time to implement policy changes in the future as changes would not have to accommodate rules prior to April 2013. However, it would also have a material impact on the student loan valuation and for this reason is not preferred by officials.

Option Three: Limited changes to loan obligations in relation to the 2013 and prior years (preferred option)
This option would incorporate the student loan rules into new systems and processes back to 1 April 2013. For periods prior to 1 April 2013, changes to repayment obligations would only occur where a borrower changes their residence status, for example, Inland Revenue receive new information that a borrower had gone overseas, or in cases of unfiled returns where it is cost effective to do so, or fraud.

Where a borrower's residency status changes, interest would be calculated on their loan balance from the date the borrower's status changed at the interest rates that applied in the relevant years. Changes in the borrower's repayment obligation for the period up to 1

April 2013 would be ignored. However, changes to obligations from 1 April 2013 onwards would be assessed as they are now.

In cases of fraud, or unfiled tax returns where the obligation is material, a simplified calculation would be used by applying the student loan repayment rate to the amended income figure. A one-off penalty may also apply to penalise the non-compliant action. Late payment interest will only be imposed on adjusted repayment obligations from 1 April 2013 onwards.

Imposing late payment interest on repayment obligations for the period 1992 to 2013 can disproportionately increase the debt owed to Inland Revenue to the point where the borrower cannot repay the debt and disengages with the Student Loan Scheme.

Adjustments to residency status and the associated interest impact together with situations where under-declared income or fraud is involved have the greatest impact on the loan balance and time to repay the loan. This option incorporates these situations.

This option simplifies the calculation of repayment obligations prior to April 2013, removes the need to build these rules into the new systems and processes, reduces the complexity of the scheme and therefore reduces both compliance costs and administrative costs.

As this option takes account of residency changes and applies the historical loan interest rates, equity between compliant and non-compliant overseas-based borrowers would be preserved. Also, the inclusion of borrowers who fail to file returns of a material value or commit fraud also retains equity between compliant and non-compliant borrowers.

This option has no material impact on the student loan valuation and reduces the time and cost of making policy changes in the future as changes would not have to accommodate rules prior to April 2013. This option is preferred by officials.

How each option would work

The following examples illustrate the differences in treatment of a borrower under each option.

Example 1

A borrower went overseas in 2008, did not advise Inland Revenue and was not picked up through the passenger movement match with NZ Customs. The borrower has been treated as New Zealand-based and therefore not charged loan interest. In 2021 the borrower returns to New Zealand. Inland Revenue identifies that the borrower has been overseas for the preceding years and updates the borrower’s residency status for the time they were away.

Under Option One, the borrower’s residency status will be changed with effect from the date they went overseas in 2008 and loan interest, repayment obligations and late payment interest would be imposed from that date.

Under Option Three, the borrower’s residency status will be changed with effect from the date they went overseas in 2008 and loan interest will be imposed from that date. However, repayment obligations and late payment interest would only be imposed from 1 April 2013 onwards.

Under Option Two no changes would be made to the borrower’s residency status prior to April 2013 but loan interest, repayment obligations, and late payment interest would be imposed from 1 April 2013 onwards.

Example 2

In 2009 the voluntary repayment bonus feature was introduced which rewarded borrowers for making voluntary repayments above what they were required to repay. The bonus applied for 5 years (2009-2013) before being repealed.

In 2020 a borrower identifies an error in the calculation of their voluntary repayment bonus for the 2010 year although their income remains unchanged. They apply to have the voluntary repayment bonus recalculated for the 2010 year. Under Option One, the borrower would be able to receive the bonus but under Options Two and Three, they would not. We do not expect lack of retrospective entitlement to the voluntary repayment bonus to be a significant issue, given that few people took it up and there has been a long period during which any affected borrowers could have sought a recalculation of their entitlement.

Example 3

A taxpayer has committed fraud through not declaring a large source of income for the 2008 year. This has implications for both their income tax and student loan obligations. The four-year period for making changes to an income tax obligation after a return is filed does not apply where fraud is involved. Therefore, the Commissioner amends the taxpayer's income tax liability for the 2008 year. Under Options One, Two, and Three, the student loan repayment obligation would also be changed. Under Options One and Two, the student loan repayment obligation would be calculated on both the adjusted income for the year and the relevant student loan rules for that year. Under Option Three, the repayment obligation would only be calculated on the adjusted income and late payment interest would only apply from 1 April 2013 onwards.

3.2 Which of these options is the proposed approach?

Officials consider Option Three to be the preferred option. This option addresses the policy problem set out in 2.1 and has advantages in terms of ensuring equity between compliant borrowers and non-compliant overseas borrowers, those who under declare income, or those who commit fraud. It also reduces the complexity of the scheme and therefore makes it easier for borrowers to understand their loan obligations and reduces the administration costs for Inland Revenue over the status quo. This option has no material impact on the student loan valuation and reduces the time and cost of making policy changes in the future.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties *(identify)*	**Comment**: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	**Impact** *$m present value, for monetised impacts; high, medium or low for non-monetised impacts*
Additional costs of proposed approach, compared to taking no action		

Regulated parties (*affected borrowers)*[1]	The cost to borrowers in reduced accuracy of prior years' obligations may increase or decrease a borrower's repayment liability and reduce or increase the time period to repay the loan accordingly. Changes to repayment obligations by Inland Revenue would tend to increase a borrower's repayment liability. Borrowers not being able to receive the voluntary repayment that they may have been entitled to prior to this change (pre-April 2020).	The extent of the impact is dependent on the amount of the assessed obligation, but any impact on a borrower's repayment time period is expected to be low. Low
Regulators (*Inland Revenue)*	None	None
Wider government	None	None
Other parties	None	None
Total Monetised Cost	Financial impact for borrowers	Borrowers face either an increased or decreased repayment obligation
Non-monetised costs	Compliance costs for borrowers	*Low*

Expected benefits of proposed approach, compared to taking no action		
Regulated parties *(affected borrowers)*	Ongoing compliance costs savings for borrowers affected by a prior year's repayment obligation. The proposal reduces the need for affected borrowers to understand how the old rules impact their student loan liability. By way of example, borrowers with changes to prior year's obligations will no longer be required to understand the impact of the voluntary repayment bonus or 3-year repayment holiday on their loan balance. However, they may have had a higher loan balance through not receiving the voluntary repayment bonus. Borrowers who may have been required to pay late payment interest due to a changed repayment obligation prior to 1 April 2013 would not be required to pay this after this change (April 2020)	Low/Medium depending on the extent of the changes to repayment obligations and number of years involved Low

1 In the 2018 year, of the 700,000 student loan borrowers, less than two percent had their repayment obligations prior to April 2013 amended (1,314). This number is expected to reduce significantly by 2020 due to Inland Revenue's efforts in recent years to reduce the number of outstanding student loan returns and to contact non-compliant overseas based borrowers.

Regulators *(Inland Revenue)*	Reduced implementation costs for IR. Reduced ongoing costs of changing prior years' obligations, training staff and retaining administrative processes. These costs will form part of the savings from Inland Revenue's Business Transformation Programme.	Low/Medium
Wider government	None	None
Other parties	None	None
Total Monetised Benefit	None	None
Non-monetised benefits	Reduced compliance costs for borrowers and administrative benefits for Inland Revenue	*Low/Medium*

4.2 What other impacts is this approach likely to have?

Two different borrowers may be treated differently in the same situation, depending on when the change is identified. For example, assuming no fraud or non-filing of a material amount is involved, a change in a borrower's income that occurred prior to April 2013 would be included in the borrower's repayment obligation if the change was identified last year but would not occur if the change was identified after April 2020. The amended repayment obligation would result in the time to repay the loan being varied slightly either earlier (if the repayment obligation increases) or later (if the repayment obligation reduces). The greater the adjustment in repayment obligation the greater the impact on the loan repayment period. Most changes to borrowers' obligations occur in the first 3-4 years following the tax year. After that the number of changes falls dramatically. In the 2018 year the number of borrowers who had changes to their repayment obligations for the 2013 or prior years was 1,314, and the total increased repayments obligations was $1.2 million (although the amount expected to be collected is less than this). These figures are expected to reduce significantly by 2020 due to Inland Revenue's continued efforts to reduce the number of outstanding tax returns and to contact non-compliant overseas based borrowers.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?
The timeframe to enact legislation and implement student loans into the new systems and processes has limited Inland Revenue's ability to consult with those borrowers affected by the preferred option. This means that the problem identification, options identification, and impacts have been generated by officials based on the information available. It is recognised that consultation with those affected by a change is an important part of the Generic Tax Policy Process. However, mitigating factors are that the number of borrowers likely to be impacted in future by the preferred option is small and expected to reduce in future. Also, there will be an opportunity for the public to submit on the measure during the Select Committee process and feedback will be considered at that point. The Ministry of Education have been consulted in developing the options and agree with the recommended proposal.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?
It is intended that the preferred option be included in the next available taxation bill which is expected to be introduced into Parliament later in the year. Inland Revenue will be responsible for the operation of this preferred option and this will form part of its business as usual function. The preferred option will reduce the implementation risks associated with transferring the Student Loan Scheme from the current computer platform to the new systems and processes. It is proposed that legislation apply to limit changes in repayment obligations for the 2013 or prior years where the change occurs on or after April 2020. This will enable sufficient preparation time for Inland Revenue to implement the changes. The proposed approach will be included in the commentary on the taxation bill and consultation by select committee is expected to provide an opportunity for interested parties to express their views on this proposed change.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?
Inland Revenue would monitor the effectiveness of the proposed legislation in the first 12 months of operation. If we identify anything that suggests the legislation is not operating as intended, then we will undertake a review.

Inland Revenue currently have metrics to monitor the administration of the Student Loan Scheme. Work is progressing on designing the new system and processes and although work on the metrics to enable ongoing monitoring of volumes of changes to repayment obligations prior to 2013 has not commenced yet, officials expect the new systems and processes to replicate the existing metrics.

7.2 When and how will the new arrangements be reviewed?

The final step in the Generic Tax Policy Process is the implementation and review stage, which involves post implementation review of legislation, and the identification of remedial issues. Post implementation review is expected to occur around 12 months after implementation. Opportunities for external consultation are built into this stage.

Any necessary changes identified from the review would be recommended for addition to the Government's tax policy work programme.

Cabinet Social Wellbeing Committee

Minute of Decision

Student Loan Business Transformation Policy Changes for 2020

Portfolio **Education / Revenue**

On 13 March 2019, the Cabinet Social Wellbeing Committee:

1 **noted** that Inland Revenue is planning to move the student loan scheme to new systems and processes in April 2020;

2 **noted** that there are several policy changes requiring legislative change that can make it easier for borrowers to meet their obligations and improve the administration of the student loan scheme;

3 **agreed** that changes to borrower's repayment obligations prior to 1 April 2013 be limited to changes in residency status, where fraud is involved, or where a tax return has not been filed and it is cost effective to make changes;

4 **agreed** that the Commissioner of Inland Revenue have the ability to return an adversely affected borrower, who notifies the Commissioner, to the position they would have been in but for the proposal in paragraph 3;

5 **agreed** to change the name of the student loan repayment holiday to student loan temporary repayment suspension;

6 **agreed** that Inland Revenue have the ability to write-off student loans taken out before 2000, in cases where borrowers have been able to prove that they did not take out the loan;

7 **agreed** that Inland Revenue have the ability to notify a borrower's employer when the borrower's student loan is close to being fully repaid;

8 **agreed** that overseas-based borrowers with serious illness or disabilities should be treated as New Zealand based;

9 **agreed** that the decisions in paragraphs 3-8, if agreed, will apply from 1 April 2020;

10 **invited** the Minister of Revenue to instruct Parliamentary Counsel Office to draft the necessary amendments to give effect to the changes recommended in the paper under SWC-19-SUB-0014.

Jenny Vickers
Committee Secretary

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Present:
Rt Hon Jacinda Ardern
Rt Hon Winston Peters
Hon Kelvin Davis
Hon Phil Twyford
Hon Chris Hipkins
Hon Andrew Little
Hon Carmel Sepuloni (Chair)
Hon Dr David Clark
Hon Stuart Nash
Hon Jenny Salesa
Hon Tracey Martin
Hon Willie Jackson
Hon Aupito William Sio
Michael Wood MP
Jan Logie MP

Officials present from:
Office of the Prime Minister
Department of the Prime Minister and Cabinet
Office of the Chair of SWC
Officials committee for SWC

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