

[IN CONFIDENCE]



Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Student Loan Scheme (Repayment Threshold) Regulations 2021

Date:	20 October 2021	Priority:	High
Security level:	In Confidence	Report number:	IR2021/486

Action sought

	Action sought	Deadline
Parliamentary Under-Secretary to the Minister of Revenue	Agree to recommendations	4 November 2021

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead	s 9(2)(a) [Redacted]
Richard McLaughlan	Policy Advisor	s 9(2)(a) [Redacted]

20 October 2021

Parliamentary Under-Secretary to the Minister of Revenue

Student Loan Scheme (Repayment Threshold) Regulations 2021

Executive summary

1. This report outlines the process for increasing the student loan repayment threshold for New Zealand-based borrowers from 1 April 2022 and recommends you take a paper to Cabinet on this matter.
2. The current policy is to adjust the loan repayment threshold for movement in the Consumer Price Index – all groups excluding cigarettes and other tobacco products (CPI-ex tobacco) every year.
3. The current repayment threshold is \$20,280. Under the current policy the new threshold would be \$21,268 and would apply from 1 April 2022. This would allow New Zealand-based student loan borrowers to earn an additional \$988 of income per year (or \$19 per week) before they must begin to make loan repayments.
4. The impacts of adjusting the repayment threshold are already accounted for in the forecast. However, the Parliamentary Counsel Office will need to be instructed to draft the necessary regulations to increase the threshold and Cabinet authorisation is needed for the regulations to go to the Executive Council.
5. Any new repayment threshold needs to be included into payroll software in time for the 2022/23 income year. To provide payroll providers time to make and test changes to payroll software, Inland Revenue starts issuing payroll specifications about 4 months before the start of the next income year. We therefore recommend aiming to have this matter considered by Cabinet Legislative Committee on 11 November.

Recommended action

We recommend that you:

6. **Note** that under the current policy, the student loan repayment threshold is adjusted for inflation annually.

Noted

7. **Agree** that the Parliamentary Counsel Office be instructed to draft the necessary regulations to increase the student loan repayment threshold to \$21,268 and that the threshold apply from 1 April 2022.

Agreed/Not Agreed

8. **Agree** to take the attached paper to the Cabinet Legislation Committee on 11 November, which asks for authority to submit the Student Loan Scheme (Repayment Threshold) Regulations 2020 to the Executive Council, following consultation with the Minister of Revenue.

Agreed/Not Agreed

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9. **Agree** to proactively release the Cabinet paper, associated minutes, and key advice papers in full, in line with the provisions of the Official information Act 1982, within 30 working days of Cabinet making final decisions.

Agreed/Not Agreed

10. **Refer** this report to the Minister of Revenue for his information.

Referred/Not referred

11. **Refer** this report to the Minister of Education for his information.

Referred/Not referred

s 9(2)(a)

Maraina Hak

Policy Lead

Policy and Regulatory Stewardship

Dr Deborah Russell

Parliamentary Under-Secretary to the Minister of Revenue

/ /2021

Background

12. The student loan repayment threshold sets the amount of annual income at which a New Zealand-based borrower is required to begin making loan repayments. The threshold is a mechanism to reduce the likelihood that a low-income borrower would be placed into financial hardship as a consequence of their student loan repayment obligations.
13. The student loan repayment threshold is prescribed by regulation through an Order in Council.
14. The Student Loan Scheme (Repayment Threshold) Regulations 2020 set the annual repayment threshold for the 2021/22 tax year at \$20,280. This was an increase from \$20,020 for the 2020/21 tax year.

Process for calculating the threshold adjustment

15. Since 2016, Government policy has been that the student loan repayment threshold is adjusted annually in line with the CPI-ex tobacco (September quarter) [CAB-16-MIN-0655 refers]. Adjusting the repayment threshold for inflation maintains the real value of the amount of income someone can earn before they are required to begin repaying their student loan.

The threshold for the 2022/23 tax year

16. The CPI-ex tobacco for the quarter ending 30 September 2021 was up 4.7% on the September 2020 quarter. Applying the CPI-ex tobacco value to the formula set out in the Appendix to this report produced a new annual threshold of \$21,268. This would mean that New Zealand-based student loan borrowers could earn an additional \$988 per year (or \$19 per week) before being required to make loan repayments.

Regulations to be made by Order in Council

17. To increase the student loan repayment threshold to \$21,268 per year from 1 April 2022, the Parliamentary Counsel Office needs to be instructed to draft regulations under s 215(a) of the Student Loan Scheme Act 2011.
18. Ideally, the Order in Council should be made before the end of 2021. This provides sufficient certainty and time for payroll providers to build and test any new repayment threshold amount into payroll software in time for the 1 April 2022 application date.

Financial implications

19. The impacts of adjusting the threshold from 1 April 2022 using the current methodology are already accounted for in the forecast [CAB-16-MIN-0655 refers].

Administrative and system implications

20. Threshold adjustments need to be built into payroll specifications for the relevant tax year and tested. Inland Revenue issues a number of draft specifications to allow payroll users to gauge the impacts of payroll changes well in advance of their application. These specifications are normally published in December to apply for the following tax year.

Proactive release considerations

21. If the student loan repayment threshold is adjusted, officials recommend that the Cabinet paper, associated minutes, and key advice papers be proactively released within 30 working days of Cabinet making final decisions.

Next steps

22. We recommend the attached Cabinet paper be lodged with the Cabinet Office by 4 November for consideration at the Cabinet Legislation Committee meeting on 11 November.

Appendix

Method	Application from 1 April 2022
<p>The formula to calculate the student loan repayment threshold for the 2022/23 tax year is:</p> $T_{\text{new}} = RU (19084 \times \text{CPIexcl2} / 986.6778)$ <p>Where:</p> <p>T_{new} is the new threshold to be effective from 1 April 2022 to 31 March 2022</p> <p>Ru() is a function which rounds its argument up to the next multiple of 52</p> <p>CPIexcl2 is the value of the Consumer Price Index excluding cigarettes and tobacco products for 30 September Y-1</p> <p>19084 is the repayment threshold for the year ending 31 March 2017</p> <p>And 986.6778 is the All groups less cigarettes and tobacco subgroup (series SE9NS14800) for September 2015</p>	<p>CPIexcl2 = 1099 (index for September 2021)</p> <p>T_{new} =</p> $Ru (19084 \times \text{CPIexcl2} / 986.6778)$ $Ru (19084 \times 1099/986.6778)$ $Ru (19084 \times 1.11384)$ $Ru (\$21,256.50)$ <p>The next multiple of 52 above 21256.50 is 21268 (52 x 409). 21256.50 is therefore rounded up to 21268.</p> <p>T_{new} = \$21,268</p> <p>Proposed threshold from 1 April 2022 is \$21,268.</p>