



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Student Loan Scheme (Repayment Threshold) Regulations 2022

Date:	27 October 2022	Priority:	Medium
Security level:	In Confidence	Report number:	IR2022/458

Action sought

	Action sought	Deadline
Parliamentary Under- Secretary to the Minister of Revenue	Agree to recommendations Refer this report to Ministers of Revenue and Education	9 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead	s 9(2)(a)
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27 October 2022

Parliamentary Under-Secretary to the Minister of Revenue

Student Loan Scheme (Repayment Threshold) Regulations 2022

Executive summary

1. This report outlines the process for increasing the student loan repayment threshold for New Zealand-based borrowers from 1 April 2023 and recommends you take a paper to Cabinet on this matter.
2. Since 2016, the student loan repayment threshold has been annually adjusted for movements in the Consumer Price Index – all groups excluding cigarettes and other tobacco products (CPI-ex tobacco). This measure was used to prevent on-going increases in tobacco excise, as well as any other price changes for tobacco products, flowing through to increases in financial assistance.
3. As the tobacco excise is no longer increased on an annual basis, the Government is returning to a CPI measure which includes tobacco products (CPI-all groups) when adjusting for the cost of living in other social assistance programmes. We recommend you seek approval from the Cabinet Legislative Committee for this approach to apply to the method used to index to the student loan repayment threshold.
4. The current repayment threshold is \$21,268. Adjusting for CPI-all groups inflation between September 2022 to September 2023, the new threshold would be \$22,828. This would allow New Zealand-based student loan borrowers to earn an additional \$1,560 of income per year (or \$30 per week) before they must begin to make loan repayments.
5. The fiscal impact 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.
6. Any new repayment threshold also needs to be included into payroll software in time for the 2023/24 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.
7. We therefore recommend aiming to have this matter considered by Cabinet Legislative Committee on 24 November.

Recommended action

We recommend that you:

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

Noted

- b) **Agree** that the adjustments to the student loan income repayment threshold for 2023/24 and subsequent years will be calculated using the consumer price index-all groups measure (noting this is a departure from the previous CPI measure which excluded tobacco products).

Agreed/Not Agreed

- c) **Agree** that the Parliamentary Counsel Office be instructed to draft the necessary regulations to increase the student loan repayment threshold to \$22,828 and that the threshold apply from 1 April 2023.

Agreed/Not Agreed

- d) **Agree** to take the attached Cabinet paper to the Cabinet Legislation Committee on 24 November, seeking agreement to recommendation (b) and asking for authority to submit the Student Loan Scheme (Repayment Threshold) Regulations 2022 to the Executive Council.

Agreed/Not Agreed


- e) **Agree** to proactively release the Cabinet paper, associated minutes, and key 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

- f) **Refer** this report to the Ministers of Revenue and Education for their 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

/ /2022

Background

8. 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 because of their student loan repayment obligations.
9. The student loan repayment threshold is prescribed by regulation through Order in Council.
10. The Student Loan Scheme (Repayment Threshold) Regulations 2021 set the annual repayment threshold for the 2022/23 tax year at \$21,268.

Process for calculating the threshold adjustment

11. 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.
12. In 2016, Cabinet agreed that the student loan repayment threshold is adjusted annually in line with the CPI-ex tobacco (September quarter) [CAB-16-MIN-0655 refers]. Using this measure reflected an all of Government approach to indexation to prevent on-going increases in tobacco excise, as well as any other price changes for tobacco products, flowing through to increases in financial assistance.
13. As the tobacco excise is no longer increased on an annual basis, the Government is returning to a CPI measure which includes tobacco products (CPI-all groups) when adjusting financial assistance for inflation¹. We recommend that this change of approach also apply to the method for indexing the student loan repayment threshold.
14. Given returning to CPI-all groups is consistent with wider government policy, this approval can be sought through the attached Cabinet paper going to the Cabinet Legislative Committee. The Cabinet Office is comfortable with this approach.

The threshold for the 2023/24 tax year

15. The CPI-all groups for the quarter ending 30 September 2022 was up 7.2% from the September 2021 quarter. Applying the CPI-all groups value to the formula set out in the Appendix to this report produced a new annual repayment threshold of \$22,828². This would mean that New Zealand-based student loan borrowers could earn an additional \$1,560 per year (or \$30 per week) before being required to make loan repayments.

Regulations to be made by Order in Council

16. To increase the student loan repayment threshold to \$22,828 per year from 1 April 2023, the Parliamentary Counsel Office needs to be instructed to draft regulations under s 215(a) of the Student Loan Scheme Act 2011.
17. Ideally, the Order in Council should be made before the end of 2022 to provide sufficient certainty and time for payroll providers to build the new repayment threshold amount into payroll software in time for the 1 April 2023 application date.

¹ In November 2021, Cabinet agreed to update the CPI measure used to calculate the indexation of the Family Tax Credit and Best Start Tax Credit to the consumers price index-all groups [CAB-21-MIN-0457 refers]

² If the CPI-ex tobacco measure was used, the 2023/24 repayment threshold would also be \$22,828

Financial implications

18. The impacts of adjusting the threshold from 1 April 2023 using the proposed methodology are already accounted for in forecasts [CAB-16-MIN-0655 refers].

Administrative and system implications

19. 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 providers 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.

Consultation

20. Inland Revenue has consulted with the Ministry of Education and the Treasury on the proposal to increase the repayment threshold for the 2023/24 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 17 November for the Cabinet Legislation Committee meeting on 24 November.
23. With your agreement, we will instruct PCO to draft the necessary regulations to increase the student loan repayment threshold to \$22,828, applying from 1 April 2023. Drafting instructions need to be provided to PCO by 10 November.

Appendix – Calculation method for the student loan repayment threshold

Method in general for calculating the threshold for the year starting 1 April Y (from 2023 onwards)	Application of the method for the 1 April 2023 to 31 March 2024 year
<p>$T_{new} = RU (K \times (CPI / 1106))$</p> <p>Where:</p> <p>Tnew is the new threshold to be effective from 1 April Y to 31 March Y+1</p> <p>Ru() is a function which rounds its argument up to the next multiple of 52</p> <p>K = $19084 \times 1099 / 986.677769$</p> <p>= 21256.50</p> <p>being the 2016/17 repayment threshold inflated by CPI excluding tobacco products for the period from 30 September 2015 to 30 September 2021 without rounding.</p> <p>CPI is the value of the Consumer Price Index all groups for 30 September Y-1</p> <p>1106 is the CPI all groups for September 2021</p>	<p>CPI = 1186 (index for September 2022)</p> <p>$T_{new} = Ru (21256.50 \times CPI / 1106)$</p> <p>= $Ru (21256.50 \times 1186 / 1106)$</p> <p>= $Ru (21256.50 \times 1.07233)$</p> <p>= $Ru (22794.04)$</p> <p>The next multiple of 52 above 22794.04 is 22828 (52 x 439). So 22794.04 is rounded up to 22828.</p> <p>$T_{new} = 22828$</p> <p>Proposed threshold from 1 April 2023 is \$22,828.</p>