

Hon Simon Watts, Minister of Revenue

Information Release

Student Loan Scheme Repayment Threshold

March 2025

Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2025/ir-cab-25-sub-0012>

Documents in this information release

#	Reference	Type	Title	Date
1	CAB-25-SUB-0012	Cabinet paper	Cabinet paper	22 January 2025
2	CAB-25-MIN-0012	Cabinet minute	Cabinet minute	28 January 2025

Additional information

The Cabinet paper CAB-25-SUB-0012 was considered and confirmed by Cabinet on 28 January 2025 (CAB-MIN-0012 refers).

Accessibility

Inland Revenue can provide an alternate version of this material if requested. Please cite this document's title, website address, or PDF file name when you email a request to policy.webmaster@ird.govt.nz.

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In Confidence

Office of the Minister of Revenue

Chair, Cabinet

STUDENT LOAN SCHEME REPAYMENT THRESHOLD

Proposal

1. I propose that the Cabinet take the decision to suspend the annual adjustment of the student loan repayment threshold. This would retain, or “freeze” the student loan repayment threshold at the current income level of \$24,128 per annum for the foreseeable future.

Policy

2. Section 215(a) of the Student Loan Scheme Act 2011 allows the Governor General to make regulations setting the annual repayment threshold, or a means by which it may be ascertained, via Order in Council. The current Cabinet policy is to adjust the student loan repayment threshold for inflation annually.
3. Accordingly, choosing not to increase the repayment threshold would represent a change in policy and requires an active Cabinet decision.

New Zealand has a relatively generous student support system

4. New Zealand is one of the only countries we know of that does not charge interest on student loans. In addition, our Scheme does not have fixed mortgage-style repayment plans (as many of the US loan schemes do), and students can borrow for course-related costs and for living costs (unlike the Australian Scheme).
5. Borrowers who are facing hardship meeting their repayment obligations can apply for a reduced deduction rate from their salary and wages. There are some challenges comparing the data over time due to system changes at Inland Revenue, however data available from 2012 onwards indicates there has been a trend of gradual increases in applications each year with an apparent dip in the 2019 - 2021 period. For the 2023/24 financial year there were 3,597 approved applications.
6. The Government’s contribution towards the cost of study is significant once the implicit subsidy of interest-free borrowing is considered, at 82% in 2023. New Zealand also provides student allowances (which are grants) for those most in need and in their initial years of study (unlike the UK, which provides maintenance loans).
7. Our student support system aims to best maintain high participation levels while balancing tertiary education costs for taxpayers and for borrowers. International schemes make different trade-offs to balance affordability for borrowers and the Government (e.g. some have higher repayment thresholds and lower repayment rates

but may have tighter loan access and higher interest rates). New Zealand is in the top five of reporting OECD nations for the share of students receiving public financial support, with nearly three-quarters of New Zealand tertiary domestic students receiving some form of publicly supported student loan or grant.

8. Primary to tertiary education expenditure in New Zealand (inclusive of publicly funded loans or grants) was 5.3% of GDP in 2021, a little above the OECD average. New Zealand's expenditure as a share of GDP declined in 2020 and 2021, however this was during a period where GDP increased on average across the OECD. Public expenditure on education increased 3% in real terms since 2015, compared to 2% on average across the OECD.

Financial Implications

9. The current fiscal management approach for changes to the value of student loans is that they are managed outside Budget allowances and have a direct impact on the operating balance. This is because operating impacts related to student loans are highly uncertain and approximately fiscally neutral over time. The fiscal benefit to the Crown comes from the Crown's reduced borrowing costs due to reduced costs to service the student loan book. Fiscal risk would arise from deciding to increase expenditure elsewhere across government based on assuming student loan savings that may not materialise.
10. Given time constraints it has not been possible to prepare comprehensive costings for an indefinite freeze to the student loan repayment threshold. Accordingly, full costings will be prepared as part of the Budget technical process.
11. However, the approximate impact of suspending the current policy of adjusting the repayment income threshold by the CPI for 2025/26 would be an operating savings of \$7.674 million over 5 years and an additional one-off increase in the value of the student loan asset of \$13.017 million in 2024/25. A continued freeze would multiply these savings.
12. I propose that the financial implications for the freeze will be agreed through the Budget technical process and that authority to approve the fiscal impact and the allowance treatment be delegated to the Minister of Finance.

Administrative Implications

13. Threshold adjustments need to be built into payroll specifications for the relevant tax year. Inland Revenue issues specifications to allow payroll providers to gauge the impacts of payroll changes on software well in advance of their application. Deciding this issue today would ensure payroll providers have certainty in respect of what is required of them.

Impact analysis

Climate Implications of Policy Assessment

14. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Regulatory Impact Assessment

15. The Ministry for Regulation has determined that the proposal to freeze the student loan repayment threshold is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor economic, social, or environmental impacts.

Consultation

16. Inland Revenue has consulted with the Ministry of Education and the Treasury on the proposal to retain (or “freeze”) the repayment threshold for the foreseeable future.

Publicity

17. Inland Revenue will inform payroll providers and publish information about the freezing of the student loan repayment threshold on the student loan section of its website.
18. Inland Revenue will publish an article about this matter in its *Tax Information Bulletin*.

Compliance

19. The retention of the student loan repayment threshold complies with:
 - 19.1 The principles of the Treaty of Waitangi;
 - 19.2 The rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 19.3 The principles and guidelines set out in the Privacy Act 1993;
 - 19.4 Relevant international standards and obligations.

Proactive Release

20. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers, in line with the provisions of the Official Information Act 1982, within 30 working days of Cabinet making final decisions.

Recommendations

I recommend that the Cabinet:

1. **Note** that the current Cabinet policy is to adjust the student loan repayment threshold by CPI each year, and that choosing to freeze this threshold at its current level indefinitely would represent the suspension of the existing Cabinet policy.
2. **Note** that a Cabinet decision must be made on the student loan repayment threshold by 28 January 2025 to give payroll providers the required notice of the changes to the specifications for the 2025/26 tax year.
3. **Agree** to indefinitely freeze the current policy of adjusting the student loan repayment threshold by CPI, keeping the threshold at the current income level of \$24,128 per annum.
4. **Note** that the fiscal impact for an indefinite freeze of the student loan repayment threshold is yet to be determined.
5. **Agree** that financial implications for the freeze will be agreed through the Budget technical process.
6. **Authorise** the Minister of Finance to determine allowance treatment as part of developing Budget 2025.

Authorised for lodgement

Minister of Revenue



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Student Loan Scheme Repayment Threshold

Portfolio **Revenue**

On 28 January 2025, Cabinet:

- 1 **noted** that the current policy is to adjust the student loan repayment threshold using the consumer price index (CPI) every year [LEG-22-MIN-0214], and that choosing to freeze this threshold at its current level indefinitely would represent the suspension of the existing policy;
- 2 **noted** that a Cabinet decision must be made on the student loan repayment threshold by 28 January 2025 to give payroll providers the required notice of the threshold specifications for the 2025/26 tax year;
- 3 **agreed** to indefinitely freeze the current policy of adjusting the student loan repayment threshold by CPI, and to retain the threshold at the current income level of \$24,128 per annum;
- 4 **noted** that the fiscal impact of an indefinite freeze of the student loan repayment threshold is yet to be determined;
- 5 **agreed** that the financial implications of the freeze referred to in paragraph 3 above will be agreed through the Budget technical process;
- 6 **authorised** the Minister of Finance to determine allowance treatment of the above decisions as part of developing Budget 2025.

Rachel Hayward
Secretary of the Cabinet