

Regulatory Impact Statement: Student loan interest relief

Decision sought	Final Cabinet Decisions
Agency responsible	The Ministry of Education and Inland Revenue
Proposing Ministers	Hon Shane Reti, Minister for Universities Hon Simon Watts, Minister of Revenue
Date finalised	18 November 2025

This proposal seeks to introduce a legislative discretion to allow the Commissioner of Inland Revenue (the Commissioner) to provide relief from student loan interest when the Commissioner considers it equitable to do so. Currently, the Commissioner can only provide relief from late payment interest that applies to student loans.

Summary: Problem definition and options

What is the policy problem?

The purpose of New Zealand's Student Loan Scheme is to enable access to tertiary education for all students so that finance is not a barrier. However, this needs to be balanced against the cost of the Scheme to current and future generations.

In the context of a slowing economy, Ministers are focusing on improving the value of student loan spending. A major area of low-value lending is to borrowers who go overseas and do not repay their loans (who may or may not have high incomes). Overseas-based borrowers (OBBs) have much lower repayment compliance and slower repayment times than domestic borrowers.

As of October 2025, total student loan debt was at \$2.6 billion, and OBBs accounted for 93% of that debt (\$2.4 billion).

Compliance declines over time, with only around a third of OBBs remaining engaged with their loans and making some repayments after 10 years of being overseas. Low compliance rates combined with the accumulation of interest and penalties on these loans results in a growing student loan debt book. Under current settings, OBB student loan debt could surpass \$3 billion by 2029 and \$5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25. This growth is reflected in the student loan valuation.

Borrowers with significant debt are reluctant to engage with Inland Revenue and there are limited incentives for these borrowers to repay their debt. There are also limited operational tools to resolve their debt when borrowers approach Inland Revenue.

While some OBBs do accept responsibility for the situation they are in, many are requesting greater flexibility to negotiate settlement of their loan. Inland Revenue can currently only provide relief from late payment interest on student loans (that is, interest that applies when a borrower does not make a payment on time). While this discretion does incentivise some borrowers to engage with Inland Revenue, in many cases, it is not sufficient to enable full settlement.

What is the policy objective?

The primary objective is to collect the highest amount possible from student loan borrowers, while aiming to improve the Crown's financial position, through obtaining value from student loans in default. To achieve this, Inland Revenue needs to re-engage non-compliant borrowers to repay their loans.

A secondary objective is to provide relief to individual borrowers whose balances have become significant due to the accumulation of penalties and interest. This accumulation is causing stress and anxiety for some borrowers and can contribute to an unwillingness to engage with Inland Revenue because they perceive the debt is insurmountable.

In some situations, there will be a tension between these objectives. Providing relief could improve the value of the Scheme if it enables Inland Revenue to recover amounts that would otherwise not be collected. However, there may be instances in the administration of this policy when the recovery amount is less than would have been collected over time.

What policy options have been considered, including any alternatives to regulation?

Scope

As part of longer-term work on improving compliance, Ministers focused on measures that have the greatest impact in the short term. As a result, Ministers requested advice on a discretion to provide relief from student loan interest.

Option considered in the RIS

This document considers an option to provide relief from student loan interest (option 2) compared to the status quo (option 1).

Officials provided advice on ways to design a discretion to provide interest relief (within option 2) to determine how broad the discretion would be. Within Option 2, several legislative design elements were considered including:

- Option A: Discretion limited by purpose only (to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position).
- Option B: Discretion limited by decision-making criteria, using either:
 - (i) broad criteria (**consistent with current penalty relief provision and the option Ministers agreed to**), or
 - (ii) specific criteria (such as the borrower's ability to pay and how long they have been overseas).

- Option C: Discretion limited by how it can be applied (such as for full and final settlements only).
- Implementation option: The discretion could either be implemented on an ongoing or trial basis (introducing a sunset clause to either extend or end the discretion).

Inland Revenue continues to use existing powers to improve OBB compliance, as well as non-regulatory measures such as education via marketing, direct communications, nudges and prompting.

What consultation has been undertaken?

No external consultation on this specific proposal has been undertaken due to time constraints. However, regular engagement with OBBs and their representatives indicate that this proposal will be well received by many of these borrowers. Greater ability to negotiate with Inland Revenue as to the repayment of OBB loans has been the most requested change.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

The Ministry of Education and Inland Revenue have different preferred options. This is primarily due to different views about the risks to broader student loan compliance, which are uncertain.

- The option presented in the Cabinet paper is Inland Revenue’s preferred option. Inland Revenue considers the risks to broader compliance are low. It has not observed links from exercising similar discretions¹ to broader compliance and considers the design and administration of the discretion can mitigate the risk.
- The Ministry of Education’s preferred option is retaining the status quo. The student loan debt book is sensitive to changes in compliance, even a small change can have a significant impact on the value of debt. They consider the risk to broader compliance outweighs the benefits of the interest relief discretion.

Summary: Minister’s preferred option in the Cabinet paper

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The Ministry of Education is concerned that writing-off interest will undermine the incentives that current borrowers overseas have to repay their loans. Therefore, while a discretion to write off standard interest may generate cash, there is a risk that it would reduce overall repayments from those overseas, creating a net loss for the Crown. The change in current borrower repayment behaviour is uncertain with the Ministry anticipating that it may be higher than Inland Revenue anticipates or that could be fully mitigated through operational policy design.

¹ Such as in the Tax Administration Act 1994.

The proposal will have a minor cost on Inland Revenue to administer the discretion. This cost will be managed within baselines and incorporated into the administration of the current discretion for penalty relief. This cost is expected to be more than offset with longer-term administrative savings (see discussion under Benefits).

There will also be minor compliance costs imposed on OBBs to access relief, however these currently exist. OBBs will need to engage with Inland Revenue to assess their eligibility either by phone or electronic message via myIR.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (eg, what people or organisations, or environments), and the nature of those impacts (eg, direct or indirect)

The proposal is also expected to have a modest one-off gain of around \$1.5 million to the Crown. However, there is significant uncertainty in the fiscal implications because the impact of the proposal on OBB repayment behaviour is not known. A small reduction in compliance (due to the moral hazard risk) may outweigh the fiscal benefits of the preferred option.²

The proposal would have positive benefits for eligible OBBs in the form of relief from interest. The benefits will vary because the discretion is applied on a case-by-case basis. This is expected to reduce stress and anxiety experienced by some OBBs with large balances and may encourage some OBBs to return to New Zealand and contribute to the New Zealand economy.

The proposal would also reduce some long-term administrative costs because Inland Revenue would no longer have to seek future payments and take enforcement actions against those OBBs who are encouraged to settle their loans as a result of this proposal.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

Inland Revenue considers the benefits of the proposal outweighs the costs. The Ministry of Education considers the risks of the proposal to broader compliance outweighs the benefits.

The impact on current OBB compliance is uncertain. For this reason, the use of the discretion will be closely monitored, and Inland Revenue will report to the Minister of Revenue and Minister for Universities every six months.

It is also proposed that once the amount of interest relief exceeds \$30 million the Minister for Universities and Minister of Revenue will report to Cabinet with an assessment of whether the policy is achieving its policy purpose. Furthermore, if at any time a problem emerges, Cabinet may consider whether the discretion be continued.

² The \$1.5 million estimated gain would be outweighed by a 0.02% reduction in the probability of OBB repayment. This is based on the PwC valuation model.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Inland Revenue will administer the discretion. It is proposed the discretion be in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage scheduled for early next year. The Bill is due to be passed by the end of March 2026. The legislative changes would apply from date of enactment.

Inland Revenue has extensive experience at applying the current discretion for relief from student loan penalties. The proposal will be integrated into current processes that are viewed by operational teams as working well. Inland Revenue will implement a continuous improvement model to adapt its operational practices in real time to things it is seeing and to ensure the objectives are being achieved and Inland Revenue is delivering the highest value to the Crown.

Limitations and Constraints on Analysis

The key limitation is estimating the behavioural impacts of introducing the discretion, such as how many OBBs will be incentivised to engage with Inland Revenue to settle their loans and what the impact will be on compliance behaviour. As discussed above, the impacts on compliance will be closely monitored and updates provided to the Minister of Revenue and Minister for Universities every six months.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Managers

**Carolyn Elliott
Policy Lead,
Inland Revenue**

18 November 2025

s 18(c)(i), s 9(2)(a)

**Nicki Ablitt
Senior Policy Manager,
Ministry of Education**

18 November 2025

s 9(2)(a)

Quality Assurance Statement	
Reviewing Agency: Inland Revenue and the Ministry of Education	QA rating: partially meets
<p>Panel Comment: The Quality Assurance panel from Inland Revenue and the Ministry of Education has reviewed the “Student loan interest relief” regulatory impact statement (RIS) prepared by Inland Revenue and Ministry of Education and considers that the information and analysis summarised in the RIS partially meets the quality assurance criteria. This is because there is a fundamental uncertainty around the behavioural response of existing compliant or partially compliant overseas borrowers. This uncertainty cannot easily be resolved as there is limited comparable empirical evidence available.</p> <p>Detailed consultation has not been undertaken; however, this is considered reasonable given there are limited interested third parties other than the borrowers themselves.</p>	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The purpose of New Zealand's Student Loan Scheme is to enable access to tertiary education for all students so that finance is not a barrier.³ However, this needs to be balanced against the cost of the Scheme to current and future generations. New Zealand's Student Loan Scheme is unique in that we have different settings for domestic and overseas-based borrowers (OBBs). The key differences are how repayments are calculated and that domestic borrowers are not charged interest.
2. Information on borrower location is gathered from the New Zealand Customs Service, so Inland Revenue has more accurate systems to identify OBBs than other countries and therefore has a fuller picture of compliance.
3. OBBs have much lower repayment compliance and slower repayment times than domestic borrowers. On average, over the past year only around 30% of OBBs are meeting their repayment obligations. Compliance can fluctuate for various reasons, a key factor is time overseas as shown in the table below:

Overseas for less than 10 years (54,000 borrowers) ⁴	Overseas for more than 10 years (60,000 borrowers)
56% (30,000) fully compliant	16% (9,600) fully compliant
15% (7,900) making some payments (partially compliant)	12% (7,100) making some payments (partially compliant)

4. Low compliance impacts on the value of OBB student loans in the Government books. For those who did not make a repayment in the 2023–24 tax year (ie, to 31 March 2024) and who have been overseas for more than 10 years, the fair value of the loans is on average 14% (compared to a fair value of on average 75% if they did make any repayments during that year).
5. Inland Revenue is responsible for the administration of the Student Loan Scheme. Addressing low compliance among OBBs has been a persistent challenge. As of October 2025, total student loan debt was at \$2.6 billion, and OBBs accounted for 93% of that debt (\$2.4 billion). Debt in this context refers to the part of a student loan balance made up of missed payments and any penalties and late payment interest. There are approximately 114,000 OBBs, of which 82,000 (72%) have overdue debt. In comparison, only 5.7% of New Zealand-based borrowers have overdue debt.
6. Budget 2024 compliance funding is making a difference, and Inland Revenue has been exceeding its targets. Inland Revenue's target was \$189 million in repayments for the

³ The student support system is complemented by tuition subsidies, fee subsidies and fee regulation, which together manage the costs of tertiary education for students.

⁴ Figures are rounded to the nearest thousand.

financial year ending 30 June 2025, however, it received a total of \$242.94 million. This is a 40% increase in comparison to repayments collected in the previous year.

7. Despite this, the student loan debt book is forecast to grow. Under current settings, OBB student loan debt could surpass \$3 billion by 2029 and \$5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25. Because this growth pattern is already reflected in the valuation, no additional impairment is expected, unless borrower repayment behaviour worsens.⁵
8. Low OBB compliance is not unique to New Zealand, other countries also struggle to collect repayments, have limited visibility of OBBs, and rely on voluntary compliance.

What is the policy problem or opportunity?

9. In the context of a slowing economy, Ministers are focusing on improving the value of student loan spending. A major area of low-value lending is to borrowers who go overseas and do not repay their loans (who may or may not have high incomes). These OBBs have much lower repayment compliance and slower repayment times than domestic borrowers.
10. There is a range of policy and operational levers available to improve collections, however we are more limited in our ability to influence OBB debt than New Zealand-based borrower debt through operational and policy settings.
11. Inland Revenue lacks the jurisdictional reach to apply powers or authority overseas, and contacting OBBs can be difficult to due limited or outdated information. For OBBs, paying requires active decision-making compared to those based in New Zealand, where paying is largely automated and requires little or no action by the borrower. Customer research suggests that OBBs lack motivation due to a low sense of obligation or urgency to pay, combined with limited incentives to pay and a perceived lack of consequence.
12. Stemming the flow of new OBBs defaulting and getting borrowers into good repayment habits from the start is important for improving their compliance over the long term. This is because once borrowers stop repayments, it is difficult to get them to start again. Approximately half of new OBBs do not make their first repayment on time. While some pay later, a similar percentage will miss their second repayment. If borrowers miss four repayments, the probability they will ever make a repayment again is less than 10%.
13. However, stemming the flow of new OBBs defaulting will not prevent the overall amount of student loan debt from increasing. This is because historic debt is growing due to the accumulation of interest and late payment interest. For example, while the proportion of OBBs in default reduced by 2% as a result of Inland Revenue's compliance activities, debt still increased by 5.6% or \$123 million. Around \$111 million (or 91%) of that increase was penalty interest alone.⁶

⁵ As new lending occurs it is written down to fair value. This write-down incorporates current borrower behaviour including current OBB levels of non-compliance. Therefore, while current rates of non-compliance will result in growing debt it does not lead to a new impairment of the book (it is effectively pre-paid).

⁶ Figures from June 2024 to June 2025.

14. Based on correspondence and direct engagement with borrowers, for some their debt has become so large they avoid engagement with Inland Revenue. This is due to the inability to pay off such a large amount and perceived unfairness. At this point, interest and penalties can act as a barrier to compliance. Borrowers with high levels of debt are experiencing anxiety and stress due to limited options available to resolve the debt. Many fear returning to New Zealand due to the risk of getting arrested at the border.
15. The example below, based on a borrower's experience, demonstrates what can happen when a borrower falls behind in their payments.

Example 1: Impact of interest on OBB ⁷

Lana borrowed **\$44,000** in student loans between 1998 and 2005. She moved overseas in 2005 and has not moved back.

In 2017, Lana finally started dealing with her student loan, by which time it was **\$120,000**, including \$66,000 of interest and \$14,500 of penalties. Since then, she has made payments of **\$77,000**. She is still living overseas so interest has kept applying to her loan. Her current balance at September 2025 is **\$90,000** (over double her original loan balance).

If she keeps up her current repayments and remains overseas, it will take her over **20 years** to repay her loan in full, which will eventually be close to **six times** her original loan balance. This is because the required repayment of \$5,000 is only slightly greater than the interest being charged each year.

16. There are approximately 50,000 borrowers that have been overseas for more than 10 years that have significant debts. For a significant portion of this group, the average value of their loans is around 14% (that is, we expect to collect on average only 14% of the value of the loans from this group).⁸
17. While some OBBs do accept responsibility for the situation they are in, many are requesting greater flexibility to negotiate settlement of their loan, specifically whether relief from interest can be provided. Inland Revenue can currently only provide relief from late payment interest on student loans (interest that applies when a borrower does not make a payment on time). This means there may be some situations when Inland Revenue has limited tools to negotiate with borrowers to settle their loan balances. While the existing discretion does incentivise some borrowers to engage with Inland Revenue, in many cases, it is not sufficient to enable full settlement.

What objectives are sought in relation to the policy problem?

18. The primary objective is to collect the highest amount possible from student loan borrowers, while aiming to improve the Crown's financial position. To do this, we need to re-engage non-compliant borrowers to repay their loans.
19. Secondary objectives would be to provide relief to individual borrowers whose balances have become significant due to the accumulation of penalties and interest. This accumulation is causing stress and anxiety for some borrowers and can contribute to an unwillingness to engage with Inland Revenue because they perceive the debt is

⁷ This example is based on borrower experience. Note this has been anonymised and figures have been rounded to the nearest \$1,000.

⁸ The gender split is roughly 50/50 with an average age of around 40 years.

insurmountable. This may also contribute to a fear of returning to New Zealand in case they face arrest at the border.

20. In some situations, there will be a tension between these objectives. Providing relief to some borrowers may improve the value of the Scheme if it enables Inland Revenue to recover amounts from borrowers that otherwise would not be collected. However, there may be instances when the recovery amount is less than what would have been collected over time.

What consultation has been undertaken?

21. The Treasury and the Ministry of Social Development were consulted throughout the development of this proposal. The Ministry of Social Development had no comment. The Treasury expressed some reservations about whether the preferred option would achieve the desired objectives. Specifically, Treasury is concerned that this policy could have an adverse impact on repayment behaviour by overseas-based borrowers and therefore a negative impact on fiscal indicators.
22. No external consultation on this specific proposal has been undertaken due to time constraints. However, regular engagement with OBBs and their representatives indicate that this proposal will be well received by many of these borrowers. Greater ability to negotiate with Inland Revenue as to the repayment of OBB loans has been the most requested change.
23. Inland Revenue has undertaken research with borrowers to understand barriers to loan repayment, and how it might improve compliance and reduce debt. This included a survey of 1,200 borrowers and in-depth interviews with 32 borrowers. This was followed by an investigation into real-world comparisons of like interventions to overcome barriers and encourage payment, tested with a sample of 25 borrowers to reveal their reactions and preferences. This work has informed the development of the options.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

24. The following criteria were used to assess the options:
 - **Impact on current and future borrower compliance:** The proposal should have minimal impacts on borrower compliance.
 - **Impact on the Crown's financial position:** The proposal should have a positive impact on the Crown's financial position.
 - **Fairness and equity:** The proposal should ensure that it applies fairly between compliant and non-compliant borrowers.
 - **Administrative and compliance costs:** The proposal should minimise administrative and compliance costs to maximise uptake.
 - **Coherence:** The proposal should make sense in the context of the student loan and tax administration scheme.

What scope will options be considered within?

25. The scope of the options presented was determined by original commissioning from Ministers. Officials provided advice to Ministers on a broad range of options to increase OBB compliance. These options were presented in the context of three pathways:
 - a. Pathway one: Optimise current practices
 - b. Pathway two: Extend overseas collection capabilities
 - c. Pathway three: Review strategic student loan policy settings.
26. While these pathways are still being considered as part of longer-term work on improving compliance, more immediate solutions were the focus. As a result, Ministers requested advice specifically on a discretion to provide relief from student loan interest. Flexibility to negotiate repayment of student loans is also commonly requested by OBBs. Given this direction and the available time, officials focused on ways to design a discretion to provide interest relief.
27. Officials researched the approaches of other countries (such as Australia, the United Kingdom and Canada) when formulating advice. The approaches of these countries seem to be orientated around collecting a reasonable amount of the loan. The United Kingdom and Canada have a clear temporal element to their systems and can write off remaining balances after a period if a borrower has been making repayments. Australia does not have a general write-off ability, but on 1 June 2025 the Australian Government applied a one-time 20% write-off to the whole borrower population. This reduced the loan balances of all borrowers, recognising the impact of growing levels of debt because of the annual adjustment of loans to reflect inflation.
28. All the parameters of overseas schemes should be considered together and within wider tertiary funding and student support systems. This is because countries make different trade-offs to balance the costs of tertiary study for students and the Government.⁹ Furthermore, these approaches would have significant fiscal costs and misalignment with the core objective of the work, that is to collect the highest amount possible from student loan borrowers, while aiming to improve the Crown's financial position. Therefore, this document focuses on the two options below.
29. Inland Revenue continues to use existing powers to improve OBB compliance, as well as non-regulatory measures such as education via marketing, direct communications, nudges and prompting. While interest, late payment interest, and arrests at the border may motivate some borrowers to comply, Inland Revenue considers more tools are required to improve compliance.

⁹ For example, under the UK scheme's settings, it is expected that around half of undergraduate loan borrowers in the 2023/24 academic year will repay their loan in full within 31 years. This compares to over 90% fully repaying in the New Zealand scheme within this timeframe. England does not have tuition subsidies (tuition is paid entirely through fees) with subsidies largely provided indirectly through the Student Loan Scheme. In New Zealand, wider targeted supports also have an impact on reducing student loan balances and repayment times such as tuition subsidies paid directly to tertiary providers, the Student Allowances Scheme for those from low-income backgrounds in their initial years of study and the final-year Fees Free policy, which rewards those who have successfully completed their qualification.

What options are being considered?

30. Two options were considered, retaining the status quo and a discretion to provide relief from student loan interest.

Option 1: Status Quo

31. Inland Revenue can currently only provide relief from late payment interest on student loans (that is, interest that applies when a borrower does not make a payment on time).
32. This legislative power is broad in nature and can be exercised when the Commissioner considers that relief is equitable. The term equitable is a broad decision-making consideration that generally means people in similar situations would be treated consistently.

Option 2: Discretion to provide relief from student loan interest

33. This would provide the Commissioner with the discretion to provide relief from student loan interest (that is, interest that applies when a borrower is overseas-based) when the Commissioner considers it equitable to do so.
34. This discretion is modelled on the late payment interest discretion. This would be a general legislative discretion with operational limits on the use of the power.
35. When advising ministers, there were several options given on the legislative design of the discretion to determine how broad the discretion would be. When layered, the elements could provide more certainty and limitations on how the discretion could be applied:
- Option A:** Discretion limited by purpose only (to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position).
- Option B:** Discretion limited by decision-making criteria, using either:
- (i) broad criteria (**consistent with current penalty relief provision and the option Ministers agreed to**), or
 - (ii) specific criteria (such as the borrower's ability to pay and how long they have been overseas).
- Option C:** Discretion limited by how it can be applied (such as for full and final settlements only).
36. Additionally, we provided Ministers with implementation options of how long to grant the discretion for. This would either be ongoing or a trial basis for three years (for example, by introducing a sunset clause in the legislation where the power could be extended or ended early by Order in Council).

How does the option compare to the status quo?

	Option 1: Status quo	Option 2: Discretion to provide relief from student loan interest	
		<i>Inland Revenue view</i>	<i>Ministry of Education view</i>
Impact on current and future borrower compliance	0	+ (non-compliant borrowers) 0 (uncertain impact on future borrower compliance)	- (uncertain impact on future borrower compliance)
Impact on the Crown's financial position	0	+ (One-off gain to the Crown of around \$1.5 million, however impact on future borrower compliance is uncertain and was not included in the costing)	- (uncertain impact on future borrower compliance)
Fairness and equity	0	+ (perceptions within non-compliant OBB group) - (perceptions between compliant and non-compliant OBBs)	
Administrative and compliance costs	0	0	
Coherence	0	- (Student support system policy) + (Tax administration policy)	
Overall assessment	0	+	-

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

Impact on current and future borrower compliance

37. A key issue to consider is what impact Option 2 would have on compliance as compared to the status quo. We consider there are two key impacts:
- Option 2 may improve compliance for some borrowers that have been overseas for a long period of time and have significant debt. This discretion would provide an incentive for this group to re-engage with Inland Revenue to negotiate full settlement or restart repayments.
 - There is a risk that Option 2 will have a negative impact on compliance particularly for those borrowers who have been overseas for a short period of time. It could weaken the incentive to remain compliant in the expectation that they will receive interest relief at some point and end up better off.¹⁰ The Student Loan Scheme valuation is very sensitive to OBB repayment behaviour. Even small changes can significantly reduce the value of the Scheme. The \$1.5 million estimated gain would be outweighed by a 0.02% reduction in the probability of OBB repayment.
38. It is unclear how significant the risk is to compliance. What we do know about behaviour shifts is that:
- OBB behaviour has shifted to a limited extent in the past in response to Inland Revenue's enforcement activities and messaging. These compliance interventions demonstrate that individual borrowers can improve their repayment behaviour when directly prompted, however this varies based on factors like previous compliance, time overseas, and size of loan.
 - Inland Revenue has not observed a link between current powers to provide relief from interest and penalties on tax debt and negative impacts on compliance, in fact 94% of tax due is paid on time despite broad powers to offer relief. Inland Revenue research, including taxpayer surveys and interviews, consistently show that taxpayers in general want to do the right thing and comply with their tax and social policy obligations, however, factors like ease of compliance, ability to pay, perceived risk of consequences (eg, audit), and "tax morale" (eg, perceptions of trust and fairness in the tax system) are key factors that influence compliance.¹¹
39. Inland Revenue's preference was to limit the discretion by broad decision-making factors only (Option 2B(i)). Inland Revenue did not recommend any other form of limitation, other than restricting the discretion to full and final settlements. Legislating specific eligibility criteria or other restrictions on how the rule is applied risks causing behavioural changes and gaming to qualify for relief. As a general rule, less certainty of relief would result in less behavioural change.
40. Given the uncertain impact on behaviour, agencies recommended the discretion could be granted on a trial basis (for three years), instead of being enduring. This would give time for Inland Revenue to evaluate the benefits and any negative consequences. However, the disadvantage of a trial would be that three years may not be long enough to

¹⁰ This is referred to as "moral hazard" – the change in behaviour of someone when there is a perceived lack of consequence.

¹¹ Various sources, including Inland Revenue, Customer experience & perceptions survey and Alm, J. (2019). What motivates tax compliance? *Journal of economic surveys*, 33(2), 353–388.

observe behavioural change. Ministers agreed to an enduring discretion but would monitor compliance impacts and recommend its repeal if need be.

Impact on the Crown's financial position

41. Changes to Student Loan Scheme settings can have an impact on repayments. These changes can have a flow on impact to the valuation of the student loan debt book.
42. The impact on the debt book and the value of the student loans will depend largely on the impact on compliance:
 - Targeted use of Option 2 may help maximise recovery of old student loan debt. Since old debt with no recent repayments is heavily impaired, this discretion may enable Inland Revenue to recover greater amounts than the loan's book value.
 - If student loan compliance decreases, the value of OBB student loans may decline and debt may increase. Equally, the value of student loans may decline if interest is written off that would have eventually been repaid by the borrower. If the value of the Scheme decreases, there will be a parallel increase in the cost of ongoing lending.
43. Officials from the Ministry of Education estimate the most likely outcome of a tightly targeted discretion is a modest one-off gain of around \$1.5 million. This is the difference between the forecast cash receipts from this policy of \$8.290 million and the value of these loans in the Scheme (\$6.790 million) before they are exchanged. There is considerable uncertainty in the costing due to challenges predicting borrowers' behaviour and which loans would be settled under this policy. Other costing scenarios lead to a net one-off loss rather than a gain. This assessment assumes no negative repayment behaviour shift among other borrowers as this is impossible to quantify. The \$1.5 million estimated gain would be outweighed by a 0.02% reduction in the probability of OBB repayment (based on the PwC valuation model).

Fairness and equity

44. Option 2 may improve perceptions of unfairness over the status quo. Many borrowers feel that the student loan system is unfair when interest (and penalties) can exceed the original loan balance. It may also reduce the stress and anxiety that some borrowers feel and remove barriers to returning to New Zealand.
45. In contrast, some compliant OBBs and domestic borrowers may feel the discretion is unfair. Compliant OBBs may have kept their loan at manageable levels by making regular payments. It also may be perceived as unfair by New Zealand-based borrowers who benefit from the interest-free policy because they have remained in New Zealand to contribute to the economy and society. These borrowers (and the general public) may feel the Government is rewarding non-compliant borrowers.

Administrative and compliance costs

46. Option 2 has minor administrative impacts that can be managed within Inland Revenue's baselines. System changes are required to facilitate implementing this discretion and Inland Revenue anticipates higher borrower engagement, which will need to be managed. These costs are expected to be offset by administrative savings. Inland Revenue will no longer have to direct resources to follow up on payments and take enforcement actions on those borrowers that settle their loan as a result of this discretion.

47. The compliance costs on borrowers are also expected to be low (note, to an extent these costs already exist to seek relief from penalties). OBBs will need to engage with Inland Revenue to assess their eligibility for relief. Engagement can be via phone or myIR messages. Decisions on relief can be made relatively quickly but applicants may be asked to provide information so Inland Revenue can assess their eligibility for relief.

Coherence

48. Option 2 should ideally make sense in the context of the Student Loan Scheme and tax administration rules. The discretion is aligned with the existing discretion to provide relief from late payment interest and the Commissioner's existing powers available to provide relief from tax debt in certain circumstances.¹² These are viewed as an important tool used to engage non-compliant borrowers and taxpayers.
49. The discretion could be seen as contrary to the interest-free student loan policy granted to domestic borrowers. This could weaken a key lever the Government has to encourage graduate retention and reward those who contribute to the New Zealand labour market.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

50. The option presented in the Cabinet paper (Option 2) is Inland Revenue's preferred option. However, the Ministry of Education's preference is Option 1 (the status quo).

Inland Revenue view

51. Inland Revenue considers that older debt has become so significant that it requires separate consideration. This is because strategies to increase compliance in general will not be effective at recovering older debt.
52. Inland Revenue considers Option 2 to be better than the status quo and that it would have the most significant impact in the short term. This discretion is frequently requested by borrowers and other stakeholders.
53. From Inland Revenue's research, it is unclear whether Option 2 would have a negative impact on broader compliance. Literature on "moral hazard" does not provide conclusive answers as to the level of risk, but it does suggest that the risks can be overstated.
54. Many factors influence borrowers' behaviour. For example, the risk of being arrested at the border for student loan debt may have a greater impact on immediate compliance compared to the anticipation of interest relief sometime in the future. Whether borrowers change their behaviour will depend on the certainty that they will receive relief in the future and how much relief they will receive. This means the impact of interest relief on borrower behaviour could be influenced by policy design.

¹² The Commissioner has a range of powers to provide relief from tax debt under the Tax Administration Act 1994, outlined in standard practice statement SPS 18/04: <https://www.taxtechnical.ird.govt.nz/-/media/project/ir/tt/pdfs/standard-practice-statements/returns-and-debt-collection/sps18-04.pdf?modified=20200316221608>

55. Providing a broad discretion to Inland Revenue (Option 2B(i)), as opposed to legislating or publishing specific criteria to qualify for relief, may reduce the perceived certainty of relief because this would be provided on a case-by-case basis. ^{s 18(c)(i)}

This is similar to how discretion is exercised in relation to student loan penalty interest.

Ministry of Education view

56. The Ministry of Education prefers the status quo. This is because it considers that the risks of introducing a discretion (that is, a reduction in current OBB compliance behaviour) is outweighed by the likely very small gain for the Crown in terms of revenue.
57. It is well communicated to, and understood by, borrowers that interest will be charged on their loans when they go overseas. Option 2 would weaken a key lever for encouraging graduate retention and rewarding those who contribute to the New Zealand labour market. If borrowers overseas see that some OBBs are having their interest cancelled, they will naturally wonder if they can achieve the same outcome. The Student Loan Scheme valuation is very sensitive to overseas-based borrower repayment behaviour. Even small changes can significantly reduce the value of the Scheme. For example, if the probability of making a repayment in a year while overseas falls by 2.5% then the value of the Scheme in the Crown's account would decrease by \$202 million (PwC, 2025 Student Loan Valuation Report).
58. Any reduction in the value of the Scheme would have a negative fiscal impact on the Government (via a non-cash expense on the operating balance). If the value of the Scheme decreases, there will be a parallel increase in the cost of ongoing lending. Any increase in the cost of new lending impacts on the operating costs of current and future tertiary education delivery.
59. The Ministry considers that Inland Revenue's existing powers of loan relief (ie, writing off late payment interest) give it considerable power to settle loans already.
60. The Ministry also does not consider that debt is in and of itself a problem. It has always been known that the debt overseas was going to grow, and its increasing size does not result in any new impairment of the loan book. This is because not everyone overseas will meet all their obligations, and their debt will inevitably accumulate over time. As new lending occurs it is written down to fair value. This write-down incorporates current borrower behaviour including current OBB levels of non-compliance. Therefore, while current rates of non-compliance will result in growing debt it does not lead to a new impairment of the book (it is effectively pre-paid).

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

61. The option presented in the Cabinet paper (Option 2) is Inland Revenue's preferred option. However, the Ministry of Education's preference is Option 1 (the status quo).

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
OBBs	OBB will need to engage with Inland Revenue to apply for relief.	Low – contact via phone or MyIR message service. OBB may be asked to provide evidence to assess their eligibility.	High – based on administration of existing penalty relief discretion.
Government	One-off gain to the Crown of around \$1.5 million. However, there is significant uncertainty in the fiscal implications because the impact of the proposal on OBB repayment behaviour is not known.	N/A	Low – behaviour change in repayments is uncertain.
Regulators (Inland Revenue)	Some cost to administer the discretion.	Low – within baselines.	High – based on administration of existing penalty relief discretion.
New Zealand-based borrowers	No change	N/A	N/A
Non-monetised costs		Low	Medium
Additional benefits of the preferred option compared to taking no action			
OBBs in default	Positive benefits – both monetary benefit and reduce stress/anxiety including fears of being arrested at border.	Case-by-case depending on borrowers' circumstances.	High – based on administration of existing penalty relief discretion.
Government	One-off gain to the Crown of around \$1.5 million. However, there is significant uncertainty in the fiscal implications because the impact of the proposal on OBB repayment behaviour is not known.	TBC	Low – behavioural change in repayments is uncertain.
Regulators (Inland Revenue)	Possible to re-engage non-compliant OBBs and collect amounts	Low	High – based on administration of

	that have been challenging to collect. Reduce costs associated with repeated attempts at engaging OBB and taking legal action.		existing penalty relief discretion.
New Zealand-based borrowers	No change	N/A	N/A
Non-monetised benefits		Medium	Medium

Section 3: Delivering an option

How will the proposal be implemented? [information contained in this section is revenue information¹³]

62. The Commissioner of Inland Revenue would administer the discretion on a case-by-case basis. There would be clear operational policy on how the Commissioner applies the discretion, s 18(c)(i) Relief would only be granted on a case-by-case basis considering the purpose of the discretion and the circumstances of the borrower. This would operate in a similar way to the late payment interest process.

63. s 18(c)(i)

64. s 18(c)(i)

65. Inland Revenue will implement a continuous improvement model to adapt operational practices in real time to things they are seeing. This would ensure the original objectives are being achieved and Inland Revenue is delivering the highest value to the Crown.

How will the proposal be monitored, evaluated, and reviewed?

66. Given the uncertain impact on compliance, Inland Revenue will monitor the uses and impact of this discretion. This will include:

¹³ Revenue information in this context means information relating to how Inland Revenue would administer a proposed discretion. This information should not be disclosed to the public.

- a. Reporting to the Minister of Revenue and Minister for Universities every six months on the use of the discretion or at any time if impacts on wider compliance are observed. Information provided will include the number of borrowers, value of relief provided and any observable impacts on compliance.
 - b. Reporting information about relief provided as part of current reporting to Stats NZ (to the Integrated Dataset Infrastructure), which is used in the annual valuation process, to understand the value of loans repaid that received relief from interest and this value could then be compared to the lump sums received.
67. It is also proposed that the Minister for Universities and Minister of Revenue report to Cabinet once the amount of interest relief exceeds \$30 million with a further assessment of whether the policy is achieving its policy purpose. However, if at any time concerning impacts on broader compliance are observed, the Minister for Universities and Minister of Revenue will report to Cabinet to discuss whether the discretion be continued.