

Summary of the student loan scheme changes

New rules for borrowers overseas from 1 April 2007

- A new repayment “holiday” of three years for borrowers going overseas is being introduced. Borrowers will not have to make repayments during the holiday, although their loans will still attract interest.
- For overseas borrowers who are not taking a repayment holiday, there will be progressive repayment obligations, based on the size of their loan balances. For many borrowers overseas, that will mean annual repayment requirements that are lower than they are under previous law.
- Interest-free loans for people studying overseas will be extended to undergraduates studying full-time at bachelor’s degree level. The change will apply to loans taken out before leaving New Zealand.
- The amnesty on penalties declared last year for non-resident borrowers who are in arrears with their payments will be extended by one year – to 31 March 2008. This will allow borrowers who are identified by data matching between Inland Revenue and the Customs Service to come within the amnesty.
- For overseas borrowers to qualify for an interest-free loan on the basis that they are working overseas as volunteers, or for token payment as an employee of a charitable organisation, they must establish that they are engaged in one or more specified purposes that include the relief of poverty, or the effects of war or disaster, and the raising of economic or educational standards of a developing country.
- The law on which repayment rules borrowers are subject to will be simplified by basing the decision on whether they are eligible for an interest-free loan rather than on their tax residence.
- Interest write-offs for borrowers living overseas that were in place before the introduction of interest-free loans are being abolished.
- Borrowers who repaid their loans by 13 November 2006 and had an interest write-off to which they were not entitled will not have the write-off reversed.

Changes applying to all borrowers

- The late payment penalty for borrowers living overseas and in New Zealand will reduce from 2.0% a month to 1.5% a month.
- Inland Revenue’s powers to grant hardship relief will be made more flexible by allowing it to suspend payments during the year for borrowers who apply for it.

Administering the student loan scheme rules

- Inland Revenue and the New Zealand Customs Service will match information to help determine whether a borrower is eligible for an interest-free loan, is based in New Zealand or overseas, and is resident or non-resident. Border-crossing information will be matched with information supplied for student loan purposes.
- The care and management provisions in the Tax Administration Act have been amended to ensure that they apply to the Student Loan Scheme Act in relation to interest. The amendment will ensure that there is adequate basis for correcting any balances that may be in error as a result of a miscalculation and is important to Inland Revenue’s ability to protect the integrity of the tax system.