



Inland Revenue
Te Tari Taake

Student Loan Scheme (Repayment Threshold) Regulations 2019

Date:	24 October 2019	Priority:	High
Security level:	In Confidence	Report number:	IR2019/577

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations so officials can instruct PCO to begin drafting the regulations Authorise the lodgement of the attached Cabinet paper	14 November 2019 Lodge by 10am, 28 November 2019

Contact for telephone discussion (if required)

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

24 October 2019

Minister of Revenue

Student Loan Scheme (Repayment Threshold) Regulations 2019

Executive summary

1. This paper and the attached draft Cabinet paper seek approval to adjust the student loan repayment threshold for New Zealand-based borrowers to apply for the 2020/21 tax year.
2. The annual repayment threshold adjustment has been calculated since 2016 with regards to the consumer price index-all groups excluding cigarettes and other tobacco products subgroup (CPI-ex tobacco) and rounded to the nearest \$52 to provide a whole-dollar weekly amount.
3. The current repayment threshold is \$19,760 (\$380 per week) and the proposed new threshold for the 2020/21 tax year is \$20,020 (\$385 per week).
4. This proposed adjustment would allow New Zealand-based student loan borrowers to retain an additional \$5 per week (\$260 a year) of income before they must begin to make repayments.
5. There will be no funding implications associated with the change if you agree to the proposed new threshold as funding was agreed for 2018/19 and out years on 5 December 2016.
6. A draft Cabinet paper and associated speaking notes have been attached for you to take to the Cabinet Legislation Committee meeting on 3 December. If you agree with the proposed change, the Parliamentary Counsel Office will be instructed to draft the necessary regulations and officials will provide these to you before consideration by Cabinet.

Recommended action

We recommend that you:

- a) **Agree** to an increase in the student loan repayment threshold to \$20,020 (\$385 per week) for the 2020/21 tax year.

Agreed/Not agreed

- b) **Authorise** the lodgement of the Order in Council and draft Cabinet paper to the Cabinet Legislation Committee for its meeting on 3 December.

Noted

- c) **Agree** that the Parliamentary Counsel Office be instructed to draft the necessary regulations to bring into effect the decision in recommendation (a), for consideration by Cabinet.

Agreed/Not agreed

- d) **Note** that if you agree to issuing drafting instructions to the Parliamentary Counsel Office, we will provide you with the Order in Council prior to the Cabinet Legislation Committee meeting on 3 December.

Noted

- e) **Note** that speaking notes have been prepared and are attached for you to take to the Cabinet Legislation Committee meeting on 3 December

Noted

- f) **Agree** to proactively release the 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

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

Referred

Maraina Hak

Policy Lead
Policy and Strategy

Hon Stuart Nash

Minister of Revenue
24/10/2019

Background

7. The student loan repayment threshold determines the level of income at which a New Zealand-based borrower is required to begin making repayments towards their outstanding student loan balance. The threshold is a mechanism to limit the chance that a low-income borrower is in financial hardship as a consequence of their student loan repayment obligations.
8. New Zealand-based borrowers are required to repay 12 cents on each dollar earned above the prescribed repayment threshold and are not required to make repayments if their income is under the threshold.
9. The repayment threshold is prescribed by regulation through Order in Council and is currently adjusted annually to ensure that price increases do not diminish the real value of income someone can earn before they are required to begin repaying their loan balance.
10. The Student Loan Scheme (Repayment Threshold) Regulations 2018 prescribed the annual repayment threshold for the 2019/20 tax year at \$19,760 (\$380 per week). This was an increase from \$19,448 and reflected a 1.59% movement in the CPI-ex tobacco index for the year ended September 2018.

Process for calculating the threshold adjustment

11. In 2016 it was agreed that the student loan repayment threshold for 2018/19 and subsequent years be calculated with regards to the consumer price index-all groups excluding cigarettes and other tobacco products in the year to 30 September and rounded up to the next multiple of \$52.00 [CAB-16-MIN-0655 refers].
12. Adjustments in line with the rate of CPI-ex tobacco ensure that increases to prices do not change the real value of the threshold. Without these adjustments, inflation over time could result in the repayment threshold maintaining the same dollar amount but being worth less in real terms, requiring borrowers to make repayments from a relatively lower amount of income.
13. Officials recommend that annual adjustments continue to be made with reference to the CPI-ex tobacco index, consistent with inflation adjustments made to other forms of social assistance.
14. Rounding the threshold amount to the nearest multiple of \$52 makes it easier for employers and borrowers to work out the amount of weekly income at which compulsory repayments commence.

Proposed threshold for 2020/21 tax year

15. The value of CPI-ex tobacco for 30 September 2019 is 1035. Applying this value to the method of calculation (outlined in Annex 1) produces a new annual threshold of \$20,020 or \$385 per week.
16. We therefore propose that you set the annual repayment threshold for the 2019/20 tax to \$20,020 (\$385 per week).
17. As a result of this adjustment, New Zealanders will be able to retain an additional \$5 of income per week (\$260 per year) before borrowers are required to make repayments.

Regulations to be made by Order in Council

18. If you agree to the proposed adjustment to the threshold from 1 April 2020, we propose that you authorise the issue of drafting instructions to the Parliamentary Counsel Office for making regulations under section 215(a) of the Student Loan Scheme Act 2011 to set the student loan repayment threshold for the 2020/21 tax year at \$20,020.
19. The Order in Council should ideally be made prior to the end of the 2019 calendar year to provide sufficient time for payroll providers to build the new threshold amount into payroll specifications in time for the 1 April 2020 application date.

Indicative financial implications

20. There are no funding implications associated with adjusting the repayment threshold for 2020/21 using the current methodology as funding changes were agreed to by the previous government for 2018/19 and out-years on 5 December 2016 [CAB-16-MIN-0655 refers].

Administrative and system implications

21. Threshold adjustments need to be built into payroll specifications for the relevant tax year. Inland Revenue issue 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 finalised in November before being published in December to apply for the following tax year.

Proactive release considerations

22. Officials recommend that this Cabinet paper, associated minutes, and key advice papers should be proactively released without redaction within 30 working days of Cabinet making final decisions.

Next steps

23. If you agree to officials' recommended adjustment to the student loan repayment threshold for the 2020/21 tax year, the Parliamentary Counsel Office will be instructed to draft the necessary regulations and officials will provide these to you prior to the Cabinet Legislation Committee meeting on 3 December.
24. A draft Cabinet paper has been attached for your approval for submission to the Cabinet Legislation Committee meeting on 3 December.
25. Speaking notes have been prepared and are attached for you to take to the Cabinet Legislation Committee meeting on 3 December.

Appendix

Appendix 1

Method	Application for 1 April 2020
<p>The formula to calculate the student loan repayment threshold for the 2020/21 tax year is:</p> $T_{new} = Ru (19084 \times CPI_{excl2} / 986.6778)$ <p>Where:</p> <p>T_{new} is the new threshold to be effective from 1 April 2020 to 31 March 2021</p> <p>Ru() is a function which rounds its argument up to the next multiple of 52.</p> <p>CPI_{excl2} is the value of the Consumer Price Index excluding cigarettes and tobacco products for 30 September Y-1.</p> <p>19084 is the unrounded repayment threshold for the year ended 31 March 2017.</p> <p>And 986.6778 is the All groups less cigarettes and tobacco subgroup (series SE9NS14800) for September 2015.</p>	<p>CPI_{excl2} = 1035 (index for September 2019)</p> <p>T_{new} =</p> $Ru (19084 \times CPI_{excl2} / 986.6778)$ $Ru (19084 \times 1035 / 986.6778)$ $Ru (19084 \times 1.04897)$ $Ru (\$20,018.63)$ <p>T_{new} = \$20,020 (\$385 per week)</p> <p>Proposed new threshold for the 2019/20 tax year is \$20,020 (\$385 per week).</p>