



Student Loan Scheme (Repayment Threshold) Regulations 2020

Date:	16 November 2020	Priority:	High
Security level:	In Confidence	Report number:	IR2020/459

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations in this report	By 20 November 2020

Contact for telephone discussion (if required)

Name	Position	Telephone
Gary White	Policy Advisor	s 9(2)(a)
Philip Marshall	Policy Advisor	

16 November 2020

Minister of Revenue

Student Loan Scheme (Repayment Threshold) Regulations 2020

Executive summary

1. This report outlines the process for increasing the student loan repayment threshold for New Zealand-based borrowers from 1 April 2021 and recommends you take a paper to Cabinet on this matter.
2. The current policy is to adjust the loan repayment threshold for movement in the Consumer Price Index - all groups excluding cigarettes and other tobacco products (CPI-ex tobacco) every year.
3. The current repayment threshold is \$20,020 per year. Under the current policy the new threshold would be \$20,280 and would apply from 1 April 2021. This would allow New Zealand-based student loan borrowers to earn an additional \$260 of income per year (or \$5 per week) before they must begin to make loan repayments.
4. The impacts 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.
5. It is preferable for the regulations to be passed by 9 December to allow payroll providers time to make the necessary changes to payroll software in time for the 2021/22 income year.

Recommended action

We recommend that you:

- a) **Note** officials support the continuation of the current policy to adjust the student loan repayment threshold for inflation annually.

Noted

- b) **Agree** that the Parliamentary Counsel Office be instructed to draft the necessary regulations to increase the student loan repayment threshold to \$20,280 and that the threshold apply from 1 April 2021.

Agreed/Not agreed

- c) **Agree** to take the attached Cabinet paper to the Cabinet Business Committee on 2 December, which asks for authority to submit the Student Loan Scheme (Repayment Threshold) Regulations 2020 to the Executive Council.

Agreed/Not agreed

- d) **Agree** to proactively 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

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

Referred

Maraina Hak
Policy Lead
Policy and Strategy

Hon David Parker
Minister of Revenue
/ / 2020

Background

6. 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 as a consequence of their student loan repayment obligations.
7. The student loan repayment threshold is prescribed by regulation through an Order in Council.
8. The Student Loan Scheme (Repayment Threshold) Regulations 2019 set the annual repayment threshold for the 2020/21 tax year at \$20,020. This was an increase from \$19,760 for the 2019/20 tax year.

Process for calculating the threshold adjustment

9. Since 2016, Government policy has been that the student loan repayment threshold is adjusted annually in line with the CPI-ex tobacco (September quarter) [CAB-16-MIN-0655 refers]. 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.
10. Officials consider that the policy of annual adjustments to the repayment threshold should continue. This is consistent with inflation adjustments made to other forms of social assistance.

The threshold for 2021/22 tax year

11. The CPI-ex tobacco for the quarter ending 30 September 2020 was up 1.2% on the September 2019 quarter. Applying the CPI-ex tobacco value to the formula set out in the Appendix to this report produces a new annual threshold of \$20,280. This would mean that New Zealand-based student loan borrowers could earn an additional \$260 per year (or \$5 per week) before being required to make loan repayments.

Regulations to be made by Order in Council

12. To increase the student loan repayment threshold to \$20,280 per year from 1 April 2021, we recommend that the Parliamentary Counsel Office be instructed to draft regulations under s 215(a) of the Student Loan Scheme Act 2011.
13. Ideally, the Order in Council should be made before 9 December 2020 to provide sufficient time for payroll providers to build the new threshold amount into payroll specifications in time for the 1 April 2021 application date.

Financial implications

14. The impacts of adjusting the threshold from 1 April 2021 using the current methodology are already accounted for in forecasts [CAB-16-MIN-0655 refers].

Administrative and system implications

15. Threshold adjustments need to be built into payroll specifications for the relevant tax year. Inland Revenue issues 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 published in December to apply for the following tax year.

Proactive release considerations

16. 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

17. We recommend the attached Cabinet paper be lodged with the Cabinet Office by 26 November for the Cabinet Business Committee meeting on 2 December 2020.

Appendix

Method	Application from 1 April 2021
<p>The formula to calculate the student loan repayment threshold for the 2021/22 tax year is:</p> $T_{\text{new}} = Ru (19084 \times CPI_{\text{excl}2} / 986.6778)$ <p>Where:</p> <p>T_{new} is the new threshold to be effective from 1 April 2021 to 31 March 2022</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 986.6778¹ is the All groups less cigarettes and tobacco subgroup (series SE9NS14800) for September 2015.</p>	<p>$CPI_{\text{excl}2} = 1047$ (index for September 2020)</p> <p>$T_{\text{new}} =$</p> $Ru (19084 \times CPI_{\text{excl}2} / 986.6778)$ $Ru (19084 \times 1047 / 986.6778)$ $Ru (19084 \times 1.06114)$ $Ru (\$20,250.80)$ <p>The next multiple of 52 above 20250.80 is 20280 (52 x 390). 20250.80 is therefore rounded up to 20280.</p> <p>T_{new} = \$20,280</p> <p>Proposed threshold from 1 April 2021 is \$20,280.</p>

¹ In 2017, Statistics New Zealand rebased their inflation index series. Prior to this rebasing, the September 2015 index value used for the purposes of this formula was 1185.