

Hon David Parker, Minister of Revenue

Information Release

Student Loan Scheme (Repayment Threshold) Regulations 2020

December 2022

Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2022/2022-ir-cbc-20-sub-0086>

Documents in this information release

#	Reference	Type	Title	Date
1	IR2020/459	Tax policy report	Student Loan Scheme (Repayment Threshold) Regulations 2020	16 November 2020
2	CBC-20-SUB-0086	Cabinet paper	Student Loan Scheme (Repayment Threshold) Regulations 2020	2 December 2020
3	CBC-20-MIN-0086	Minute	Student Loan Scheme (Repayment Threshold) Regulations 2020	2 December 2020

Additional information

The Cabinet paper was considered by the Cabinet Business Committee on 2 December 2020 and confirmed by Cabinet on 7 December 2020.

One attachment to the Cabinet paper is not included in this information release as it is publicly available:

- Student Loan Scheme (Repayment Threshold) Regulations 2020¹

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

- 9(2)(a) to protect the privacy of natural persons, including deceased people

Accessibility

Inland Revenue can provide an alternate HTML 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

¹ Available at <https://www.legislation.govt.nz/regulation/public/2020/0299/latest/whole.html>

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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.

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Business Committee

STUDENT LOAN SCHEME (REPAYMENT THRESHOLD) REGULATIONS 2020

Proposal

1. I propose that the Cabinet Business Committee authorise the submission to the Executive Council of the attached Student Loan Scheme (Repayment Threshold) Regulations 2020 (the Regulations). The Regulations increase the income threshold at which New Zealand-based student loan borrowers must begin to repay their student loan, from \$20,020 to \$20,280, for the tax year beginning 1 April 2021.

Policy

2. The policy is to adjust the student loan repayment threshold for inflation yearly. The inflation adjustment is based upon the September quarter Consumer Price Index – all groups excluding cigarettes and other tobacco products (CPI-ex tobacco). This approach was agreed to in 2016 [CAB-16-MIN-0655 refers].
3. In line with the policy the student loan repayment threshold increases from \$20,020 a year to \$20,280 for the tax year beginning 1 April 2021.
4. The repayment threshold limits the likelihood that a low-income borrower would be placed in financial hardship as a consequence of having to meet student loan repayment obligations. This year's adjustment would mean New Zealand-based borrowers could earn an additional \$5 per week (\$260 per year) before being required to make repayments on their outstanding student loan balance.

Financial implications

5. The impacts of adjusting the student loan repayment threshold, using the current methodology, are already accounted for in the forecast [CAB-16-MIN-0655 refers].

Administrative implications

6. Threshold adjustments need to be built into payroll specifications for the relevant tax year. Inland Revenue issues specifications to allow payroll users to gauge the impacts of payroll changes on their software well in advance of their application. These specifications are normally published in December to apply for the next tax year.

Impact analysis

7. The Regulatory Quality Team at the Treasury has determined that the regulatory proposals in this paper are exempt from the requirement to provide a Regulatory Impact Statement on the basis that they have no or minor impacts on businesses, individuals or not for profit entities.

Consultation

8. Inland Revenue has consulted with the Ministry of Education on the proposal to increase the repayment threshold for the 2021/22 tax year.

Timing and 28-day rule

9. A waiver of the 28-day rule is not required as the Regulations are not proposed to come into force until 1 April 2021 and will apply for the 2021/22 tax year.

Publicity

10. Inland Revenue will publish information about the new threshold and its impact in the student loan section of its website.
11. Inland Revenue will publish an article about this change in its *Tax Information Bulletin*.

Certification by Parliamentary Counsel

12. The Regulations have been certified by the Parliamentary Counsel Office (PCO) as being in order for submission to Cabinet.

Regulations Review Committee

13. Officials consider that as the adjustment is of a minor and routine nature, it is unnecessary to refer the Student Loan Scheme (Repayment Threshold) Regulations 2020 to the House of Representatives under Standing Order 319.

Compliance

14. The regulations comply with:
 - 14.1 The principles of the Treaty of Waitangi;
 - 14.2 The rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993;
 - 14.3 The principles and guidelines set out in the Privacy Act 1993; and
 - 14.4 Relevant international standards and obligations.

Proactive release

15. 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 Legislation Committee:

1. **note** that the policy is for the student loan repayment threshold to be adjusted for inflation every year.
2. **note** that an Order in Council is required under section 215(a) of the Student Loan Scheme Act 2011 to adjust the repayment threshold.
3. **note** that the Student Loan Scheme (Repayment Threshold) Regulations 2020 increase the student loan repayment threshold to \$20,280 for the 2021/22 tax year and come into force on 1 April 2021.
4. **authorise** the submission to the Executive Council of the Student Loan Scheme (Repayment Threshold) Regulations 2020.

Authorised for lodgement

Hon David Parker
Minister of Revenue



Cabinet Business Committee

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) Regulations 2020

Portfolio

Revenue

On 2 December 2020, the Cabinet Business Committee:

- 1 **noted** that the policy is for the student loan repayment threshold to be adjusted for inflation every year;
- 2 **noted** that an Order in Council is required under section 215(a) of the Student Loan Scheme Act 2011 to adjust the repayment threshold;
- 3 **noted** that the Student Loan Scheme (Repayment Threshold) Regulations 2020 will increase the student loan repayment threshold to \$20,280 for the 2021/22 tax year, and will come into force on 1 April 2021;
- 4 **authorised** the submission to the Executive Council of the Student Loan Scheme (Repayment Threshold) Regulations 2020 [PCO 23320/2.0].

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Kelvin Davis
Hon Dr Megan Woods
Hon Chris Hipkins
Hon Carmel Sepuloni
Hon Andrew Little
Hon David Parker
Hon Nanaia Mahuta
Hon Poto Williams
Hon Damien O'Connor

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet