

**Department for Education
Consultation on Postgraduate Doctoral Loans
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 As we only wish to submit answers to questions 24 and 25 of this consultation (the other areas of consultation being outside our remit), we are not submitting this via the online system. Nonetheless, we wish to make some important points on the repayment mechanism of the proposed loans.
- 1.2 Employers must be provided with guidance regarding the repayment of postgraduate doctoral loans through the Pay As You Earn (PAYE) tax system. Employers must have access to common 'questions and answers' regarding these loans as often employees will initially turn to their payroll department or management if they do not understand their payslip.
- 1.3 Clear guidance must also be provided to postgraduate students both when taking out their loan and when completing their studies so that they understand how and when their loan will be repaid, including examples of how much they may be required to repay. The consultation does not clarify when repayments are expected to start; for example, are repayments due the April after the completion of postgraduate studies if the borrower is earning above the repayment threshold, or could repayments start before completion if the borrower is earning over the threshold?
- 1.4 Graduates can become easily confused about what type of loan they have (for example Plan 1 or Plan 2 income contingent student loans), and if they provide incorrect information to their employer then this can cause incorrect loan repayments to be deducted. To avoid further errors being made with the introduction of these loans, we strongly recommend that

the Student Loan Company (SLC) considers additional ways to communicate with postgraduates regarding the types of loans they have, for example using different colour stationery for different loan types or individual references which state clearly the types of loans held, for example Plan 2 and postgraduate.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

- 3.1 We welcome this opportunity to respond to the Department for Education's (DfE) consultation. As explained above one of the LITRG's key aims is to achieve a better, more efficient, tax system for all. We will be responding only to the consultation questions which relate to the collection of loan repayments through the tax system, questions 24 and 25.
- 3.2 We are concerned that the format of responding to the consultation is a prescribed online form, unless due to exceptional circumstances you are unable to use the online form. We were unable to use the online form because it was mandatory to answer 'yes' or 'no' to some of the questions which were outside our remit and therefore to which we did not wish to give an answer at all. In future, it would be better for there to be a 'no comment' or 'not applicable' option to allow for organisations such as ourselves to offer comment but only on those areas within our field of expertise.

4 Question 24: If administrated through payroll, what difficulties, if any, do employers think this new loan scheme would present them? Please present your answer and give evidence where possible.

- 4.1 It is planned to introduce a number of different loans for students and graduates over the next few years, adding to the existing confusing array of mortgage-style, plan 1 and plan 2 loans. We are concerned that unless clear guidance is provided, employers may make unintentional errors especially as some graduates are unclear about what type(s) of loan(s) they have undertaken. While many small businesses will be unaffected by the introduction of postgraduate doctoral loans, dealing with payroll problems and answering staff queries on payroll deductions can be time-consuming for employers to deal with. For some small businesses, this could be another administrative time cost for those also facing other significant changes such as quarterly digital reporting for HMRC.
- 4.2 This issue could become more cumbersome in devolved areas that are unfamiliar with the new types of loan being introduced; for example, a Scottish employer may not be aware of postgraduate doctoral loans as they are only available for students who are ordinarily resident in England.
- 4.3 From LITRG's experience in writing and operating the Tax Guide for Students website,¹ we have seen many examples of graduates not understanding essential areas of tax such as payroll deductions and how student loan repayments are calculated. We anticipate that most graduates or postgraduates who do not understand how loans are repaid through the PAYE system will ask their employers for help, especially where monthly pay can differ due to overtime or bonus payments, resulting in fluctuating loan repayments. It is therefore crucial that employers have detailed information to help their staff in a time-efficient manner.

5 Question 25: How might the Government mitigate these challenges? Please explain your answer and give evidence where possible.

- 5.1 The SLC should continue to work with stakeholders including organisations which represent students and employers to ensure that confusion regarding how loans are repaid and the type(s) of loan(s) a borrower may have are mitigated. Working with stakeholder groups could result in new suggestions about how loan types could be identified, for example using colour coding for different loan types; or referencing of loans by their types, for example, using a prefix for postgraduate loans to make them easily identifiable to both borrower and employer. It would be helpful if this information was also made available on the borrower's Personal Tax Account.

¹ www.taxguideforstudents.org.uk

- 5.2 There is a huge concern that the information contained on GOV.UK is not as detailed as it could be. While we understand the aim of GOV.UK to explain things as simply as possible, in the case of student loans there is a need for clear and detailed information on all loan repayments to be provided to borrowers and employers. This information should contain examples illustrating how repayments work and what actions are required where a borrower has different types of loans. Guidance should be kept up-to-date and be available in a variety of formats to assist businesses who may not have regular access to the internet.
- 5.3 The collection of postgraduate loan repayments must be available within HMRC's Basic Payroll Tools software for small businesses used to fulfil their Real Time Information PAYE requirements. Full testing of the Basic Payroll Tools software must be completed before the repayment of the first postgraduate loans commence.

LITRG
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