

**Consultation on Support for Postgraduate Study
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 The collection of postgraduate loan repayments must be available on HM Revenue & Customs' (HMRC) Basic Payroll Tools software for small businesses. Clear and detailed guidance on the collection of loan repayments must be made available for borrowers and employers.
- 1.2 We recommend that the loan repayment terms should be identical to the current student loans, as any differences in the repayment threshold and the rate of loan repayments will result in further complexity to businesses and borrowers.
- 1.3 We would prefer that the loans are not repaid concurrently. Repayments could either be split proportionally between loans or repaid on a 'first come, first repaid' basis.

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 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 the opportunity to respond to this consultation introducing new loans for postgraduates. As explained above one of LITRG's key aims is to achieve a better, more efficient, tax system for all and so we will be responding only to the consultation questions which mainly relate to the collection of loan repayments through the tax system.

4 Responses to Policy Objective questions

- 4.1 ***Question 22 – Do you agree that the loan should be paid to the borrower in instalments across the academic year?***

- 4.1.1 Loans will be payable in instalments over the period of the course upon confirmation of a postgraduate's continued attendance. Students who decide not to continue on their course must understand the terms of repayment if they leave before finishing their course and when they may have to start to repay the loan amount they received. We recommend this information should be provided in a clear format before both undergraduate student loans and postgraduate loans are undertaken.

- 4.1.2 If loans are to be paid to borrowers in instalments across the academic year then there should be agreement with all institutions that tuition fees are also paid by instalments throughout the year. Otherwise the mismatch of the timing of fees and loans may result in further financial difficulties for postgraduates.

- 4.2 ***Questions 24 and 25 – Do you think this is the right balance of repayment terms to achieve an affordable scheme for borrowers whilst also meeting the principle of individuals repaying in full? Please provide reasons/evidence to support your response. If no, which repayment terms would you recommend be made more generous, and which less generous in order to offset this? Please provide reasons/evidence to support your recommendations.***

- 4.2.1 We understand the importance of the loans being repaid in full, wherever possible, and we support the freezing for five years of the repayment threshold at £21,000 so that postgraduates have an element of certainty regarding when they will be expected to repay their loans.

- 4.2.2 We do have concerns about the repayment of postgraduate loans concurrently with undergraduate loans as this could result in repayments of 18% of gross salary above the £21,000 threshold. Under this proposed system an employee could potentially find themselves with a 54% deduction of their salary above £21,000, due to deductions of 18% for loan repayments, 20% income tax, 12% National Insurance and pension contributions of 4%. This could be a significant amount of net income for graduates at the start of their career, which is often the time they have few savings and may be repaying other debts they have accumulated during their studies. It is a fairly common situation that graduates have worked for a few years before returning to study for a postgraduate qualification; there is a higher likelihood that these postgraduate students will have dependents or significant financial commitments such as a mortgages and therefore could struggle with repaying loans concurrently. There is a further concern regarding the lack of certainty for postgraduates who pay tax through the self assessment tax system and complete their tax return close to the 31 January filing deadline and may not have budgeted for what potentially could be a high amount of loan repayments.
- 4.2.3 A change from the proposed concurrent system could result in more graduates considering postgraduate studies. For example, it may be considered fairer, simpler to understand and less likely to result in postgraduates struggling with debt problems, if the loan repayments continued at 9% of income above the repayment threshold and repayments were allocated proportionally between undergraduate and postgraduate loans. The use of an overall 9% loan repayment rate would encourage those graduates to continue their studies, who may otherwise be put off by the cumulative loan repayment rate of 18%. Alternatively, the repayment of the loans could be on a 'first come, first repaid' basis so a graduate earning above the repayment threshold would completely repay their undergraduate loan first before starting to repay their postgraduate loan. We think that having one aggregated repayment would stop the issue of overpaying on one loan (as this can be quite common in the last 12 months of repayment) and requesting a refund while starting to repay the postgraduate loan.
- 4.2.4 We anticipate additional problems if differences are made between the terms of the student loans and the postgraduate loans; for example, by having different repayment thresholds or rates of repayment. We strongly disagree with the proposal to introduce an early repayment charge as we do not think repayments should ever be discouraged especially as many graduates have a number of loans and other financial obligations.
- 4.3 ***Questions 32 and 33 – Do employers think that making changes to payroll systems to deduct postgraduate loan repayments will cost their business? If yes, then is the impact of the changes required likely to be in the following areas: payroll and HR staff time on the operating system; dealing with employees queries and preparing guidance; correcting errors resulting from increased volumes and extra complexity; upgraded software; or other things (please describe)?***
- 4.3.1 From LITRG's experience in writing and running the Tax Guide for Students website, which covers understanding payslips and the repayment of student loans, it is clear that many

students and graduates do not understand how the Pay As You Earn (PAYE) system operates and are often unsure how their deductions have been calculated. For example, a potential deduction of 18% above the repayment threshold is likely to result in questions to employers from employees who do not fully understand their payslip, especially if their pay fluctuates due to overtime or bonuses. These queries could become more complex if it is decided that different repayment thresholds and rates are to be used depending on the type of loan being repaid (for example, student loan or postgraduate loan).

- 4.3.2 Overall, for the majority of small businesses, we consider that it is unlikely there will be many employees affected by these loans, however, payroll queries can be time-consuming for employers to resolve satisfactorily and therefore it is vital that clear and detailed information regarding loan repayments is provided to both the borrower and employers. 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.
- 4.3.3 For businesses who employ a small number of workers, it is essential that the repayment of postgraduate loans is covered by HMRC's Basic Payroll Tools software. Many small businesses rely on this free software to fulfil their Real Time Information (RTI) PAYE reporting obligations and therefore any additional deductions through payroll must be included as part of this software. We seek reassurance that the Basic Payroll Tools software will be fully tested and working correctly in time for the 2018/19 tax year. We anticipate that the cost of providing other payroll software will increase as it becomes more complex to design.
- 4.3.4 As these postgraduate loans are only available in England, additional notifications about loan repayments may be required in devolved tax administrations such as Scotland and Wales, as employers located in these countries will be less familiar with this new loan system.

5 Responses to Review of Support for Postgraduate Research Students

5.1 Question 9 – How can we minimise complexity for Higher Education Institutions and for employers?

- 5.1.1 In order to minimise complexity for employers it is essential that deductions for loan repayments are included as part of the HMRC's Basic Payroll Tools software and that clearly written guidance is provided to employers which they can use if necessary to assist in answering payroll queries. These points are discussed in further detail at point 4.3 above.