

**Consultation on freezing the student loan repayment threshold
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 We are concerned that students do not understand the student loan system and recent proposed changes will result in further confusion in how student loans work and when they are repaid. We recommend that if these changes are made that the government provides additional funding to help educate school-leavers and students on the financial implications of taking on student loans.
- 1.2 We also recommend that any changes to the repayment threshold of Plan 2 loans must be communicated to current borrowers as soon as possible. Clear and detailed guidance on the collection of loan repayments must be made available for new borrowers and employers.

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 the opportunity to respond to this consultation on freezing the student loan repayment threshold. 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.
- 3.2 We look forward to the publication of the repayment strategy later this year. We consider it important that this strategy is revisited in the light of the number of recent proposed changes to student finances, such as postgraduate loans, additional loans to replace maintenance grants and an increase in tuition fees.

4 Question 2: What impact do you think that holding the threshold at the same level for five years would have on a) Current students/borrowers? b) Prospective students/new borrowers? c) Employers of borrowers with loans? d) The Student Loan Company (SLC) and HMRC? e) Learning providers? f) The tax-payer?

4.1 a) Current students/borrowers

LITRG is not expressing a view on which option should be chosen, however we have concerns that current undergraduates who have Plan 2 student loans will be having their loan repayment terms changed. We are concerned that this change to the broad understanding of the loan agreement they undertook could be deemed as unfair and if the change imposes an additional financial burden which students had not originally budgeted for, it may result in some students not being able to complete their studies. Also this may result in undermining confidence in the student loan system and potentially HMRC as collectors of loan repayments. If this option is chosen then it is vital that all current students who have a Plan 2 loan must be contacted to ensure that they understand the changes to what they had originally agreed to. This should be done as soon as possible.

4.2 c) Employers of borrowers with loans

- 4.2.1 From LITRG's experience in writing and running the Tax Guide for Students website (commissioned and funded by HMRC), 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. Any changes to student loan repayments are 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. Payroll queries can be time-consuming for employers to resolve satisfactorily and therefore it is vital that clear and detailed information regarding Plan 2 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.

- 4.2.2 As this proposed change will only affect Plan 2 loans 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, but may nevertheless employ affected employees.
- 4.2.3 The consultation discusses that the Government is keen to not 'unduly increase the administrative burden for employers' and 'We must avoid implementing an over-complicated system that is not readily understood by customers and their employers'.¹ We suggest that these comments support our recommendations on the postgraduate loans consultation response² that postgraduate loans should not be repaid concurrently with Plan 1 or Plan 2 loans as this results in a more complex loan repayment system.

5 Other comments

- 5.1 During testing of the Tax Guide for Students website we heard anecdotal evidence that students do not fully comprehend how student loans work: this includes understanding how and when they are required to repay and the amount of interest charged. As there are a number of current proposals affecting student loans, postgraduate loans and replacing maintenance grants with additional loans, we recommend funding is provided by the Government to ensure that more financial education is available to all students who undertake loans. This would help students to fully understand their financial position regarding their debts, and how and when they need to repay their loans.
- 5.2 We think that the tables at paragraph 42 could have been more meaningful if they also included the effect of the other proposed changes to student finance such as the potential increase of tuition fees at certain universities and the replacement of the maintenance grant with a larger maintenance loan. It would have been useful to have published a single

¹ Paragraphs 51 and 54 Consultation document:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/447565/BIS-15-445-student-loan-repayment-threshold-consultation.pdf

² See the LITRG response on the Consultation on Support for Postgraduate study:

http://www.litr.org.uk/Resources/LITRG/Documents/2015/05/150527_LITRG%20Response%20support%20for%20post%20graduate%20study%20FINAL.pdf

consultation showing all the individual proposals and how this could cumulatively affect students, employers and the taxpayer. The current assumptions detailed at paragraph 43 are too simplified and fail to show the full impact of the loan repayment position for graduates, for example, the assumption that there will be no periods of unemployment seem unrealistic for current graduates and the loan amounts do not take into account the potential position for students from low-income households.

LITRG
14 October 2015