

14 April 2026

Via email: [treascom@parliament.uk](mailto:treascom@parliament.uk)

Dear Sir/Madam,

**Call for evidence: Student loans and taxation of graduates – response from the Low Incomes Tax Reform Group (LITRG)**

I am writing on behalf of LITRG in connection with the above call for evidence. Our submission primarily focuses on the interactions of repaying student loans through the tax system and therefore this response is to question 13 only.

In summary, our response:

- Highlights areas of inconsistency in student loan repayment obligations, depending on whether the repayments are collected through the Pay As You Earn (PAYE) tax system or via self assessment.
- Raises a question of fairness which arises from these elements of the collection mechanism undertaken by HM Revenue & Customs on behalf of the Student Loans Company.
- Identifies concerns relating to the calculation of repayments as well as potential interactions with universal credit and minimum wage rules.

**Question 13: How does the student loan system interact with the taxation system, including marginal rates?**

Most income-contingent student loans are collected through the tax system by HMRC.<sup>1</sup>

HMRC collects student loan repayments if earnings for National Insurance purposes are above the relevant repayment threshold per pay period (if an employee) and/or over the tax year if you complete a self assessment tax return. The repayment thresholds for the different plans are set each tax year. There are currently different repayment thresholds for the five different income-contingent loan types ranging from £21,000 to £33,795. It is worth noting that although most

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<sup>1</sup> There are two exceptions where the repayments are collected directly by the SLC – if you go abroad for more than three months or if you are in the final two years of loan repayments and set up a direct debit with the SLC.

repayment thresholds have increased over time<sup>2</sup>, the postgraduate loan (sometimes called Plan 3 loans) repayment threshold has not increased since the introduction of these loans in 2016/17 so is still set at £21,000.

The repayment rate of 9% above the repayment threshold is the same across all loan plans, with the exception of the postgraduate loan plan which is 6%. The postgraduate loan plan is also different to the other loan types as it is paid concurrently alongside other income-contingent loans, potentially resulting in a marginal rate of loan repayments of 15%.

### Minimum wage rates

The increase in the minimum wage rates means that some repayment thresholds are now lower than the earnings of a full-time employee on the national living wage.

For example:

- An employee working a 35-hour week on the national living wage would earn £23,132 per annum and would be subject to loan repayments if they had a postgraduate loan (repayment threshold £21,000).
- An employee working a 40-hour week on the national living wage would have annual earnings of £26,436, so they would be subject to student loan repayments on a Plan 5 loan (repayment threshold £25,000) and/or postgraduate loans (as explained above postgraduate loans are exceptionally collected concurrently with other income-contingent loans).

To add further context, during the 2019/20 tax year an employee working 40 hours full-time on the national living wage would have earned £17,076 per annum – lower than all student loan repayment thresholds in force at the time, and significantly less than the £21,000 threshold for postgraduate loans.

### Example

The figures below compare the income tax and student loan deductions for a borrower with both a Plan 2 and postgraduate loan earning the national living wage in 2016/17 and 2026/27. The effective rate of income tax and student loan repayments have increased from 7.12% to 11.72%.

	<b>2016/17</b>	<b>2026/27</b>
National living wage (40 hours per week)	£17,076	£26,436
Less personal allowance	-£11,000	-£12,570
Taxable income	£6,076	£13,866
<b>Income tax</b>	<b>£1,215</b>	<b>£2,773</b>
Plan 2 threshold	£21,000	£29,385
<b>Plan 2 repayment</b>	<b>0</b>	<b>0</b>

<sup>2</sup> <https://studentfinancecalculator.co.uk/resources/threshold-history>

Postgraduate loan threshold	£21,000	£21,000
<b>Postgraduate loan repayment</b>	<b>0</b>	<b>326</b>
<b>Total tax and loan repayments</b>	<b>£1,215</b>	<b>£3,099</b>
<b>Effective rate of tax and loan repayments</b>	<b>7.12%</b>	<b>11.72%</b>

### Unearned income

Another potential inconsistency in how student loan repayments are calculated is shown in the treatment of unearned income. Student loan repayments are broadly calculated on earned income such as from employment or self-employment.

However, unearned income, such as savings or rental income, is also included when calculating student loan repayments under self assessment if there is more than £2,000 unearned income in the tax year and the total income is above the relevant repayment threshold. The £2,000 amount is a 'cliff-edge' threshold, so if there is over £2,000 of unearned income then **all** of this income will be included when calculating the loan repayments.

The treatment of unearned income can result in a discrepancy in the calculation of loan repayments depending on if tax is collected through PAYE or self assessment. This happens because not all unearned income is reported through the self assessment system so for those taxed under PAYE only the unearned income (above £2,000) will not be included as part of the repayment calculation. So when comparing the treatment of similar amounts of unearned income, there will be lower student loan repayments if the tax is being collected through PAYE when compared to those within the self assessment system.

### Universal Credit

Income for universal credit purposes is calculated after deducting any payments of tax, National Insurance contributions (NIC) and pension deductions made during the monthly assessment period. The universal credit legislation doesn't appear to allow a deduction for student loan repayments from earnings. Therefore, student loan repayments should not impact on the calculation of any universal credit payments.

For an employee claiming universal credit, the general process is that certain Real Time Information (RTI) data will be shared by HMRC to provide the PAYE tax and NIC information to the Department for Work and Pensions (DWP). HMRC receives this data directly from employers. We understand that any student loan repayments, which would also form part of the RTI data, are not factored into the DWP's universal credit assessment calculation.

For universal credit claimants who complete a self assessment tax return the payment date for self assessment tax liabilities, including any student loan repayments, is usually 31 January following the end of the tax year.<sup>3</sup>

Self-employed universal credit claimants falling within the self assessment tax system will have their tax and NIC deducted from the income figure (used to calculate their universal credit entitlement) in the month of payment to HMRC. However, as mentioned above the January balancing payment made to HMRC will include any student loan repayments. This means that claimants could include student loan repayments in the figure they report to DWP (most likely in January). As a result of that incorrect deduction of their student loan repayment from their earnings, the universal credit award could be overstated because it will be based on a lower net earnings figure than it should be.

Furthermore, some self assessment taxpayers prefer to spread their tax payments (including any student loan liability) over a number of months in advance through a Budget Payment Plan, or if they are behind with their payments to HMRC, they may have set up a regular repayment through a Time To Pay plan. Again, this means there may be monthly payments to HMRC which are reported by the claimant to DWP and used when calculating universal credit that incorrectly include student loan repayments. There doesn't appear to be an obvious mechanism for DWP to identify the tax payments from the student loan repayments in this scenario. It seems likely that in declaring the payments of self assessment 'tax' for universal credit, the student loan repayment will also be included in that figure, again, leading to what would appear to be an over-stated award.

We consider that more guidance could be provided for self-employed claimants to ensure that any payments of tax used in the calculation of their UC monthly assessments, do not include student loan repayments.

### **Making Tax Digital**

The introduction of the new Making Tax Digital (MTD) reporting system for some self-employed/landlords will affect student loan repayments collected through the tax system. The student loan information will be pre-populated through MTD using information that HMRC and the SLC hold, this should help these taxpayers as long as the information pre-populated is accurate and there is a comprehensive method to challenge any incorrect data.

### **Pension salary sacrifice changes**

Recent changes to capping National Insurance relief on pension salary sacrifice arrangements highlight further complexity in the collection of student loans for employees. From the 2029/20 tax year this change will mean that salary sacrificed pension contributions over the £2,000 limit will be included within earned income used to calculate student loan repayments.

This potentially unintended consequence will mean that the one of the benefits of a pension salary sacrifice of reducing earnings liable to National Insurance which is used to calculate student loan

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<sup>3</sup> Some self assessment taxpayers will also have to pay 'payments on account' at 31 January before the tax year ends and 31 July after the tax year ends. These payments are based on the previous year's self assessment liability, excluding student loan payments.

repayments, will diminish. This will mean student loan repayments will effectively increase when compared to pre-2029/30 salary sacrifice tax rules.

We will be happy to provide any further information or answer questions on the above points.

We should be grateful if you would acknowledge receipt of this letter and include LITRG in the list of respondents to the consultation. For further information about our organisation, please see below.

Yours faithfully

*Claire Thackaberry*

Claire Thackaberry  
Technical Officer, Low Incomes Tax Reform Group

## **About Us**

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 who are least able to pay for professional advice. We also produce free information, primarily via our website [www.litrg.org.uk](http://www.litrg.org.uk), to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

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.