

Submission

By



to the

Inland Revenue Department

on

**Making it Easier for Borrowers to Repay
their Student Loans**

17 July 2009

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MAKING IT EASIER FOR BORROWERS TO REPAY THEIR STUDENT LOANS
SUBMISSION BY BUSINESS NEW ZEALAND¹
17 JULY 2009

1. INTRODUCTION

- 1.1 Business New Zealand welcomes the opportunity to comment on the *Making it Easier for Borrowers to repay their Student Loans* discussion document (referred to as 'the Document'). Overall, Business New Zealand welcomes the proposed changes, but we believe this is only the start of work that needs to take place with the current student loan system in New Zealand.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Business New Zealand makes the following **recommendations** with regard to the Document, namely that:

- (a) The broad changes outlined in the discussion document proceed (p.2);

Notwithstanding our view above that the broad changes proceed, Business New Zealand makes the following recommendations:

- (b) IRD aim towards a lower, rather than higher threshold, for what is considered to be a major overpayment that borrowers can request to be refunded (p.3);
- (c) The threshold of \$1,500 for borrowers receiving interest and/or dividend income be adopted (p.3);
- (d) Changes relating to self-employed borrowers or those with other income proceed (p.3);
- (e) Online service tools and supporting material involving additional or increased repayments off a student loan be one of the main features of the new online services. Also, that information in this regard be displayed in both table and graph format (p.4);
- (f) IRD remain proactive in looking to establish other electronic communication channels (p.4); and
- (g) Consideration is given to options that would improve the efficiency, effectiveness and fairness of the Government's expenditure on student loans (p.5).

3. OVERALL VIEW

- 3.1 Overall, Business New Zealand supports the changes outlined in the document, including the way borrowers are to pay back student loans and how the student loan scheme will be administered by IRD. We view these changes

¹ Background information on Business New Zealand is attached in the appendix.

as the start of an ongoing process by which IRD looks to fundamentally shift how they deal with taxpayers via improved technology. It will also be the way in which communications can be streamlined to ensure IRD resources are used more effectively in other areas of tax administration. Given broad and continuing issues relating to tax policy and business, we particularly welcome the movement of IRD resources towards areas that could be significantly improved for the business community.

Recommendation: That the broad changes outlined in the discussion document proceed.

- 3.2 As an aside, paragraph 2.6 of the document points out that “there will be some increase in compliance costs for non-compliant employers. For example, an employer will be contacted by Inland Revenue if he or she continues to make incorrect repayment deductions”. Apart from the somewhat ironic nature of the first sentence, we would assume that those employers who do comply by way of ensuring correct repayment deductions should therefore expect few, if any additional compliance costs to be placed upon them.
- 3.3 Notwithstanding our overall support as outlined above, we believe the policy changes proposed in the document could be enhanced by taking into account the issues set out below.

4. BORROWERS WHO ARE EMPLOYEES

Fluctuating Incomes and the Requirement to Pay More

- 4.1 An implication of the proposed changes is that those with fluctuating incomes will possibly pay more than is required under the current rules. The document is upfront about this issue, and includes an example of this on page five.
- 4.2 Business New Zealand acknowledges that there will be cases where some pay more, but exact numbers and additional amounts to be paid off under the new rules from a macro viewpoint are simply not within our scope to estimate.
- 4.3 We accept this as one of the tradeoffs with the proposed changes, and compared with the overall benefits consider it to be acceptable. The issue of earnings, savings and borrowings needs to be examined from a whole-of-life aspect. Increased levels of payments off a student loan balance when still studying mean the student will enter the workforce with less debt. While one could argue that the additional repayments could have gone towards saving or other purchases, a lower level of debt generally makes it easier to apply for other major purchases such as a house or car.

Overpayments

- 4.4 Paragraph 3.6 of the document notes that a major overpayment, as a result of an employer error, would be refunded if requested by the borrower. Also, a major underpayment would be collected from the borrower over following pay periods through a higher rate of deduction. Regarding what would be considered a major overpayment, we recommend that IRD be more lenient in terms of aiming to have a lower, rather than higher threshold. We take this

view so as to minimise the potential conflict between an employer and an employee where the employer has made an incorrect calculation, and the employee has to go through the process of requesting that the money be refunded.

Recommendation: That IRD aim towards a lower, rather than higher threshold, when considering the monetary level for a major overpayment that borrowers can request to be refunded due to an employer error.

Interest and Dividend Income

- 4.5 Paragraph 3.8 of the document outlines the policy change whereby a combined threshold of \$1,500 would apply to the receipt of interest and/or dividend income and would be the amount ignored when calculating repayments (currently any amount of income is counted).
- 4.6 The amount proposed would suggest a fairly sizable principal invested by the student loan borrower, which on balance, would not normally be the case with those who have come out of tertiary education and are starting their working careers. We do not have any strong views on what the amount should be, but we are comfortable with an amount of \$1,500, and would expect some significant reasons to be outlined by other submitters before it was substantially revised upwards.

Recommendation: That the threshold of \$1,500 for borrowers receiving interest and/or dividend income be adopted.

5. SELF-EMPLOYED BORROWERS OR THOSE WITH OTHER INCOME

- 5.1 Overall, Business New Zealand supports the proposals outlined for self-employed borrowers or those with other income. Given that loans are using taxpayers dollars to a combined total of nearly \$9.6 billion in June 2008, there needs to be better certainty of payback by borrowers in terms of cash-flow back to taxpayers via the Government's accounts.
- 5.2 The scheme places greater emphasis on regularity of payment over three instalments during the year, rather than waiting until the final due date when a lump sum payment is made. No doubt there will be instances where those who are self-employed or receive their income from other sources than that relating to wages/salaries are unable to make a repayment on time. While the proposed changes may mean some end up paying more in terms of interest, the document points out that this is not considerably more given the removal of the late payment penalty, which is at a higher rate.
- 5.3 Also, we note that if at year-end a borrower has underpaid their liability, the underpayment will be collected over the next three interim instalments. Business New Zealand supports this proposal, as it means those who are self-employed etc are not confronted with a potentially large loan bill that may create immediate cash flow problems for their business.

Recommendation: That changes relating to self-employed borrowers or those with other income proceed.

6. NEW ONLINE SERVICES

- 6.1 In addition to the freeing up of IRD resources to other tax policy areas that require adjustment, Business New Zealand believes another major benefit of the proposed changes will be the enhanced use of technology for information and communication with taxpayers, particularly student loan borrowers. Improvements in these areas will certainly benefit borrowers who are living overseas, as mentioned in paragraph 5.8 of chapter five.
- 6.2 Paragraph 6.4 of the document outlines some of the online services for taxpayers that will be made available, which we believe will provide a better base of knowledge for taxpayers to understand the current and future position of their student loans. In particular, we support online tools that show the effect of increasing student loan deductions, making one-off payments and allow borrowers to view the impact of this change to their loan balance. In the same way that online tools show the benefits of more regular or increased mortgage payments in terms of reducing overall debt over the lifetime of the loan, so too will online tools which calculate the additional payments needed to pay back a student loan. We would also hope that IRD make an important feature of both this tool and of supporting material on the webpage (i.e. 'did you know' bubbles, examples, graphs etc) a main feature, and ensure it is versatile enough to provide a range of possibilities for the taxpayer to consider. Business New Zealand would certainly welcome the opportunity to comment on any further developments in this regard.

Recommendation: That online service tools and supporting material involving additional or increased repayments for a student loan be one of the main features of the new online services. Also, that information in this regard be displayed in both table and graph format.

- 6.3 Business New Zealand also fully supports other mediums for communicating with taxpayers, including electronic channels such as text messages. Given communication via electronic technology is continually evolving, we would expect IRD to keep pace with such changes. By implication, this would also help taxpayers with options other than paper based records that could be stopped on request.

Recommendation: That IRD remain proactive in looking to establish other electronic communication channels.

7. FURTHER STUDENT LOAN POLICY ISSUES

- 7.1 While paragraph 1.5 of the Document states that the work is not intended to be a wider review of student loan scheme policy, nevertheless we believe that the '1000-pound gorilla' should not be ignored.
- 7.2 Business New Zealand believes that interest free student loans divert scarce resources from other priorities (such as improving the quality of tertiary

education, and expanding access to workplace literacy and numeracy skills and to industry training) while at the same time creating no educational benefits. Moreover, interest free student loans substantially increase the cost to the taxpayer of the Student Loan Scheme and the resources consumed could be better used elsewhere.

- 7.3 Interest should be charged on all student loans with interest subsidies targeted towards those on low incomes. From our perspective, such an approach provides good incentives for borrowers, minimized opportunities for abuse and assistance targeted towards those in need.
- 7.4 Learners, particularly those considering taking out a student loan, should be informed of the expected rate of economic return on their investment in a particular education or training programme.
- 7.5 Should Government want to take a more fundamental look at the way in which student assistance is provided, we would be more than happy to provide some further thoughts and options.

Recommendation: That consideration is given to options that would improve the efficiency, effectiveness and fairness of the Government's expenditure on student loans.

APPENDIX

8. About Business New Zealand

- 8.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 8.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 8.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.