Student Loan Scheme Amendment Bill (No 2)

**Date of Introduction:** 23 August 2012

**Portfolio:** Revenue

**Select Committee:** As at 20 September, 1st Reading not held.

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**Purpose**

The Bill amends the Student Loan Scheme Act 2011 (the Act) “to improve the value of the student loan scheme and ensure that repayment obligations are determined on a fair and equitable basis for all borrowers regardless of the types of income they earn”¹.

**Background**

The Bill introduces data-matching with the New Zealand Customs Service to locate borrowers in serious default when they enter or leave New Zealand. It also changes, from 1 April 2014, the definition of income for student loans to largely align with the definition of income used for Working for Families tax credits and student allowances. Other administrative amendments include:

- “all borrowers who have income extra to salary and wages will have an end-of-year square-up repayment obligation only if that extra income is $1,500 or more over the annual repayment threshold (currently $19,084). This reverses a distinction enacted in 2011 between different types of extra income, whereby some but not all borrowers are assessed on every dollar over the annual repayment threshold”;

- “the current late payment interest regime is largely retained and the changes due to come into force from 1 April 2013 are repealed”

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¹ Student Loan Scheme Amendment Bill (No 2) 2012 No 56-1 Explanatory note, General policy statement, p. 1.
The Bill makes many administrative amendments. The most notable provisions of the Bill appear to be the following.

Main Provisions

Information matching

The Bill provides for information-matching between the Customs Service and Inland Revenue to allow the Commissioner of Inland Revenue direct access to departure and arrival information in order to locate, when they enter or leave New Zealand, borrowers who are in “serious default” of their repayments when they enter or leave New Zealand. The term “serious default” means the state of having an unpaid amount due and owing, and satisfying criteria established by the Commissioner (Part 1, Clauses 44, 45 and 46, amending Sections 280H and 280I of the Customs and Excise Act 1996; Clause 47, amending Section 103(1) the Privacy Act 1993).

Definition of “Income” for student repayment purposes

A New Zealand-based borrower’s non-salary and wage income repayment obligation is based on their adjusted net income. Section 76 of the Act requires the Commissioner to assess the amount (if any) of a borrower’s pre-taxed repayment obligation for a tax year as soon as practicable after the borrower makes his or her declaration of pre-taxed income.

The Bill extends the type of income which must be included in net income for student loan repayment purposes. Students’ net income must now include:

- income from a trust and companies owned by trusts when the borrower is the settlor;
- tax-exempt salary and wages, and certain overseas pensions that are exempt from New Zealand tax;
- distributions from superannuation schemes that relate to contributions made by a person’s employer within the last two years, when the person has not retired (excluding KiwiSaver and locked-in superannuation schemes);
- distributions from a retirement savings scheme when the person has retired early;
- income kept in a closely held company;
- fringe benefits received by shareholder-employees who control the company;
- PIE income that is not “locked in”;
- 50 percent of non-taxable private pensions and annuities;
- main income equalisation scheme deposits; and
- payments from trusts, not being beneficiary income, when the borrower is not the settlor (Part 3, (headed: “Amendments to principal Act that apply for 2014-2015 and later tax years”), Clauses 63-66; inserting New Schedule 3 (clauses 1-13) into the Act).

2 Ibid., pp. 1 and 2.