



CHAPTER THREE

RECENT CHANGES TO THE STUDENT SUPPORT SYSTEM

3.0 Introduction

Government monitors the student support system to ensure it continues to enhance access to tertiary education, and that it remains true to the principles introduced in the *Student Support in New Zealand* discussion document (see section 1.2).

To achieve this, government has made some changes to the student support system:

- On 21 December 2005, government passed the Student Loan Scheme Amendment Act 2005, enabling Inland Revenue to:
 - remove interest on student loans for most borrowers
 - offer an amnesty on student loan penalties for certain borrowers who live overseas¹⁵.
- During Budget 2006, government announced a number of student support initiatives.

These changes are intended to cut the costs of tertiary study for many people, and to provide incentives for graduates to remain in or return more quickly to New Zealand and so contribute their skills and talents to the future growth of the economy.

3.1 Interest-free loans

Interest-free student loans came into effect on 1 April 2006. Student loan borrowers eligible for interest-free loans (they must be living in New Zealand for 183 or more consecutive days) will have their interest written off automatically after the end of the tax year. They do not have to register for interest-free student loans. The first interest write-off will be in April 2007.

Borrowers who do not satisfy the 'living in New Zealand' criterion may qualify for an exemption to make their loan interest free. Exemptions apply to circumstances such as overseas postgraduate study and volunteer work.

As part of the interest-free initiative, Inland Revenue is also working on matching data with the New Zealand Customs Service to identify borrowers who don't qualify for interest write-offs. This work will involve historical, transitional and ongoing data matches between the two agencies.

3.2 Student loan amnesty

An amnesty for borrowers living overseas came into effect on 1 April 2006 and will finish on 31 March 2007. It aims to:

- remove one of the barriers to borrowers wanting to return to New Zealand
- encourage borrowers into making regular student loan repayments

- help borrowers with overdue repayments to manage their student loans better.

Borrowers who qualify for the amnesty can apply to have their student loan 'late payment penalties' written off up to the date of their application. The amnesty applies to borrowers living overseas who:

- had arrears and/or penalties at the start of the amnesty period, or
- have not previously advised Inland Revenue of their absence but will be subject to arrears and penalties once they do so.

Borrowers must apply within the amnesty period to get the benefits of the amnesty. The amnesty is conditional on the borrower meeting their repayment obligations for two years from the date their application is received. Statistics on the uptake of the amnesty will be available after 1 April 2007.

Administrative implications

Implementing the interest-free student loans policy and the amnesty requires significant changes to Inland Revenue's information technology systems.

As the current system is based on interest being applied to all loans and then credited under certain circumstances, this restricts the direct application of the interest-free policies.

Work is underway to scope the changes so that the system can administer the changes to the loan scheme. In the meantime, Inland Revenue has an interim solution in place, which writes off all interest at the end of the tax year for most borrowers.

3.3 Student support initiatives

The following initiatives, announced in Budget 2006, increase access to the Student Allowances Scheme and increase the availability of government fee scholarships. More than 10,000 students will benefit from the changes – they will receive extra financial assistance and are expected to borrow less under the loan scheme.

Increasing the number of Bonded Merit Scholarships

The Bonded Merit Scholarships introduced this year will increase from 500 to 1,000 from 1 January 2007. These scholarships, for New Zealand's most academically capable students, will help reduce borrowing while providing recipients with an additional incentive to remain in New Zealand after study.

¹⁵ More information about these policies is available on the Inland Revenue website at www.ird.govt.nz/studentloans (August 2006).

Giving doctorate students access to additional student allowances

Doctor of Philosophy degrees (PhDs) and professional doctorates will be recognised as Long Programmes under Regulation 21 of the Student Allowances Regulations 1998. This policy change will provide eligible students with student allowances for an additional 156 weeks (three years) above the standard 200-week entitlement.

This initiative aims to encourage more people, particularly those from lower socioeconomic backgrounds to complete higher qualifications in New Zealand.

Increasing the student allowances parental income threshold by 10 percent

From 1 January 2007, eligible students whose parents earn \$39,270 or less will be entitled to a full student allowance. If the parents' income is between \$39,270 and approximately \$69,413 (for those living away from home) or approximately \$63,383 (for those living at home) the student is entitled to an abated or partial allowance.

This policy change means more students from low to middle income families will be eligible for full or partial allowances, and some students will be entitled to higher allowances.

Removing eligibility for qualifications without student component funding

Students who undertake qualifications that do not receive student component funding will no longer be able to get student loans and allowances. This policy ensures the qualifications that government funds are relevant to the job market and are of good quality. It reinforces the government's commitment towards establishing a tertiary education system that is better focused on producing the graduates our economy needs.

Courses funded through other government streams such as Ministry of Health medical training are not affected by this policy change.