

To David Willetts
From REDACTED TEXT
Date 14 February 2011

Subject: Uprating of the £15,000 threshold

Issue

1. On 8 December 2010, the Minister announced that the £15,000 repayment threshold would increase in line with inflation in April 2012, 2013, 2014 and 2015. Amendments to the Education (Student Loans) (Repayment) Regulations 2009 are required to enable that to happen.

Timing

2. Urgent. A decision as soon as possible will enable us to meet the timetable for the proposed Repayment Amendment Regulations for the 2011/12 tax year.

Recommendations

3. That the proposed Repayment Amendment Regulations for the 2011/12 tax year are amended to enable the threshold to increase each April in line with the March RPI rate which falls 13 months earlier.

4. That the amendment also applies to the overseas thresholds.

5. This means that in April 2012 the thresholds will increase by the rate of RPI for March 2011 – which will be announced in mid-April 2011. This will enable all the necessary administrative changes at HMRC and SLC to take place in good time.

Background

5. Existing students are currently subject to the £15,000 threshold which has been in place since 2005. Ministers undertook to increase this threshold in line with inflation annually with effect from April 2012 and until April 2015 inclusive.

6. We will also need to increase the equivalent thresholds which are in place overseas. These are a series of bands running between £3,000 and £21,000 at £3,000 intervals. Overseas threshold bands were introduced so that borrowers who move to countries with lower wages and a low cost of living would still contribute to the cost of their UK Higher Education. For example, if we had a threshold of £15,000 in Bulgaria, many borrowers who moved there after graduation would be unlikely to ever earn more than £15,000. The equivalent threshold in Bulgaria is £6,000.

7. The Regulations prescribe that the interest rate on existing loans is set by reference to the RPI rate for the March prior to the start of the next academic year. For example March 2011 RPI sets the rate for 1 Sep 2011 – 31 Aug 2012. We recommend that for consistency we use the same month's RPI to set the rate for the threshold increase within that academic year

8. In April 2011 we will know the RPI for March 2011. We recommend that this rate sets the rate of interest from 1 Sep 2011 – 31 August 2011, and also the percentage increase to the £15,000 from April 2012 – April 2013.

9. Officials have reached agreement with the Devolved Administrations on this particular month and method of calculation. This is important because HMRC can operate only one threshold at present, so all DAs must be content with the method and early decisions are helpful to them for their publicity and legislation purposes too.

Argument / Analysis

10. We must advise HMRC and the SLC of the new threshold as soon as possible in order that all publicity, guidance and IT changes can be put in place. HMRC require the information by Autumn this year to ensure all the software required by employers to make the correct deduction are completed in good time.

11. We believe that choosing the same RPI for both interest and threshold shows consistency, and so the Government cannot be accused of picking an RPI rate to suit itself for different purposes. If, for example, we chose another month and the March RPI was higher than the month of choice for the threshold increase, the Government may be accused of setting a high rate of interest, but choosing a low threshold RPI increase to maximise income to Government.

12. We recommend that the threshold is calculated to the nearest £5. Again this will be set in Regulations so that it is clear what the threshold will be. The latest RPI – for Dec 2010 – is 4.8%, which would mean the threshold will increase to £15,720.

Resource / Financial / Value for Money (VFM) implications

13. The inflation increase in the repayment forecast has already been factored into the RAB forecast, so there is no financial impact.

Legal

14. The proposed Repayment Amendment Regulations for the 2011/12 tax year need to come into force on 6 April 2011 (the first day of the tax year) because they will contain amendments required by HMRC. These will include some changes with regard to new penalties and interest charges for Self Assessment customers. We propose to use these Regulations to implement the changes required to increase the £15,000 threshold.

15. We will not know the March 2011 RPI by the time we make the proposed Regulations and as a result, we will clearly set out in Regulations the method for calculating the threshold for the years commencing April 2012, 2013, 2014 and 2015.

16. This means that although the actual 2012/13 rate will not be cited in the proposed Repayment Amendment Regulations, we will have a clear statement of intention for student, borrowers, SLC and HMRC. They will be able to calculate the threshold as soon as the March 2011 RPI rate is announced. At that time, we will also update DirectGov and SLC websites to ensure clarity.

Press and Stakeholder Handling

17. It is important that we can justify the chosen relevant month so we can explain the % increase clearly. We believe that using the same RPI as interest rate is a clear and consistent policy. We do not expect any media interest.

Special Advisers' (SpAds) advice

18. The increase in the threshold has been announced. SpAds have not seen the submission in advance, but comments and questions are welcome.

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