Postgraduate doctoral loans: consultation on new student loans

Employment Tax **General Features**

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LITRG commented on the consultation about a new postgraduate doctoral loan scheme, highlighting that clarity is needed relating to repayments due via the tax system.

LITRG have responded to the Department for Education's (DfE) consultation document on postgraduate doctoral loans. These new loans will be available from the 2018/19 academic year to postgraduate students who are ordinarily resident in England. Eligible students will be able to borrow up to £25,000 to assist with their costs of studying over a period of up to six years.

LITRG has submitted comments to the DfE on the repayment mechanism of the proposed loans through the tax system, making recommendations which would help both loan borrowers and their employers.

LITRG considers it important that employers are provided with guidance regarding the repayment of postgraduate doctoral loans through the PAYE tax system. We are concerned that unless clear information is provided, employers may make unintentional errors especially as some graduates are unclear about what type(s) of loan(s) they have taken out. This issue could become more cumbersome in devolved areas that are unfamiliar with the new types of loan being introduced.

The collection of postgraduate loan repayments must be available within HMRC's Basic Payroll Tools software for small businesses used to fulfil their Real Time Information PAYE requirements. Full testing of the Basic Payroll Tools software must be completed before the repayment of the first postgraduate loans commence.

We recommend that clear guidance is also provided to postgraduate students both when taking out their loan and when completing their studies so that they

understand how and when their loan will be repaid, including examples of how much they may be required to repay. From LITRG's experience in writing and operating the Tax Guide for Students website, we have seen many examples of graduates not understanding essential points such as payroll deductions and how student loan repayments are calculated. We anticipate that most graduates or postgraduates who do not understand how loans are repaid through the PAYE system will ask their employers for help, especially where monthly pay can differ due to overtime or bonus payments, resulting in fluctuating loan repayments. It is therefore crucial that employers have detailed information to help their staff in a timely manner.

Graduates can become easily confused about what type of loan they have (for example Plan 1 or Plan 2 income contingent student loans), and if they provide incorrect information to their employer then this can cause incorrect loan repayments to be deducted. To avoid further errors being made with the introduction of these loans, we strongly recommend that the Student Loan Company (SLC) considers additional ways to communicate with postgraduates regarding the types of loans they have.

The full response, together with a link to the consultation document, can be found on the LITRG website.