Call for evidence: Student loans and taxation of graduates

Personal tax

20 May 2026

LITRG responded to the recent Treasury Committee's call for evidence on the student loan regime.

The call for evidence questions were wide-ranging, looking at many aspects of the current income-contingent student loan system. LITRG's response focused on how the student loan system interacts with the taxation system.

Most income-contingent student loans are collected through the tax system by HMRC on behalf of the Student Loans Company. HMRC collects student loan repayments if earnings for National Insurance purposes are above the relevant repayment threshold per pay period (if an employee) and/or over the tax year if a self-assessment tax return is completed.

The repayment thresholds vary across the five different plan types and currently range from £21,000 to £33,795. The repayment rate of 9% above the repayment threshold is the same across all loan plans, except for the postgraduate loan plan, where the rate is 6%. The postgraduate loan plan also differs from the other loan types because it is paid concurrently alongside other income-contingent loans, potentially resulting in a marginal rate of loan repayments of 15%.

LITRG's response raises the question of fairness arising from elements of the collection mechanism operated by HMRC and identifies concerns relating to the calculation of loan repayments, as well as potential interactions with universal credit and minimum wage rules. For example, the increase in minimum wage rates means that some repayment thresholds are now lower than the earnings of a full-time employee on the national living wage. This is due not only to increases in the national minimum wage but also because some repayment thresholds have not risen at the same rate, such as the postgraduate loan threshold, which has remained unchanged at £21,000 since its introduction in 2016/17.

The submission also highlights areas of inconsistency in student loan repayment obligations, depending on whether the repayments are collected through the PAYE tax system or via self-assessment. An example of this relates to unearned income such as savings or rental income. Usually, student loan repayments are calculated on earned income such as employment or self-employment income. However, unearned income is also included when calculating student loan repayments under self-assessment if there is more than £2,000 of unearned income in the tax year and the total income is above the relevant repayment threshold.

The £2,000 amount is a 'cliff-edge' threshold, so if there is over £2,000 of unearned income, all of this income will be included when calculating the loan repayments. The treatment of unearned income can result in a discrepancy in the calculation of loan repayments depending on whether tax is collected through PAYE or self-assessment. This happens because not all unearned income is reported through the self-assessment system, so for those taxed only under PAYE, unearned income above £2,000 will not be included as part of the repayment calculation. As a result, when comparing the treatment of similar amounts of unearned income, there will be lower student loan repayments if the tax is collected through PAYE than where the individual is within the self-assessment system.

The full LITRG submission is available to view here: www.litrg.org.uk/11206.

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