4A Printing House Yard, London E2 7PR T: 0207 613 2586 E: mail@armco.co.uk

Repayment of Student Loans

Student loans are part of the Government's financial support package for students in higher education in the UK. They are available to help students meet their expenses while they are studying.

The Student Loans Company (SLC) was set up to undertake the administration and processing involved in the payment of loans and grants to students, and the payment of tuition fees to higher and further education services.

The majority of students will have a loan to cover the full cost of tuition fees plus a maintenance loan to cover the cost of living expenses. Everyone on an eligible course qualifies for 72% of the maximum loan, regardless of income, and the rest is income-assessed. These loans are subject to interest at the rate of inflation, on the basis that the amount eventually repaid will have the same "real value" as the amount borrowed.

Interest rates

SLC is applying a 1.5% interest rate from 1 September 2010 across the UK. Between 1 September 2010 and 31 August 2011, the interest rate may change because it is linked to the rates charged by high street banks. The rate will be the lower of the Retail Price Index (RPI) in March 2010, or 1% above the highest base rate of a nominated group of banks. On this basis the maximum possible rate of interest for the period is 4.4% (the RPI in March 2010).

Repayment

SLC undertakes account maintenance and communication with borrowers. For borrowers within the UK tax system, collection is undertaken by HM Revenue & Customs (HMRC) through the PAYE or Self Assessment (SA) processes. Loans are collected directly by SLC for borrowers outside the UK tax system.

Repayment of student loans begins from the April after borrowers finish or leave their higher education course, but only when their income exceeds a certain level (threshold). The annual threshold has been set at £15,000 since 6 April 2005. The corresponding monthly threshold is £1,250 and the weekly threshold is £288.

Repayment is collected at 9% of earnings that are above the relevant income threshold. This system of collection is known as Income-Contingent Repayment (ICR), because it tapers the repayment obligation according to the gross income of the account holder. The 9% repayments are unaffected by the rate of interest.

PAYE collection

SLC sends details of borrowers who are due to repay their loans to HMRC to identify them as taxpayers with current employment.

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Employers should start making Student Loan deductions only when:

- they receive a Start Notice (From SL1)
- a new employee gives them a form P45 with a 'Y' in the 'Continue Student Loan Deduction' box (box 5)
- a new employee gives them a form P46 with a tick in box D (Student Loans)

Repayments deducted by the employer are worked out on individual pay periods and not on the total income for a whole year. The deductions are paid over together with PAYE tax and NICs deducted during the same period.

When employees leave, the employer must identify on their P45 that they are liable to make Student Loan repayments.

After the end of each tax year, employers must notify HMRC of the student loan deductions they have collected. HMRC then collates this information and passes it to SLC, who update their borrowers' loan accounts, including calculation of interest charges to match when the payments were made.

Employees who have queries about their loans or their liability to have repayments deducted should be advised to contact SLC direct on 0870 240 6298.

Self Assessment collection

Borrowers who are not employees, but who fall under the SA system, have to send HMRC a tax return each year. Their student loan repayments will be collected through SA, along with their tax.

Employees who also receive a SA tax return may have to make some loan repayments when they make their annual balancing payment, as well as having deductions made under PAYE.

Borrowers can also make voluntary repayments direct to SLC at any time.