



A-Z OF EMPLOYING

Student Loan Deductions

Our guide for Employers and Managers

**SUPPORTING,
FACILITATING &
REPRESENTING
BUSINESS**

Business**Central** 

Student Loan Deductions

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Contents

This is only a guide. It should not be a substitute for professional advice.

Please seek advice from our AdviceLine Team if you require specific assistance.

Use This Guide To Understand	3
What Are Student Loan Deductions?	3
What Are Your Obligations As An Employer?.....	3
What Are Your Employee's Obligations?	3
What Are The Consequences?	4
For Your Business	4

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Use This Guide To Understand

- What the current student loan repayment rate is
- How you can administer an employee's student loan deductions
- The tax requirements of employees who have a student loan and the exceptions
- What is required from you as an employer
- The consequences for you and your employees for any failure in respect of student loan deductions
- The student loan repayment rate is 12%.

What Are Student Loan Deductions?

The Student Loans Scheme Act 1992 (the Act) requires students who have taken out a student loan during the course of their education to repay their loans, once they are employed and are earning above a required sum (the repayment threshold stipulated in the Student Loan Scheme (Repayment Threshold) Regulations 2020). Employers have an obligation under the Act to deduct loan repayments from the wages and salary of such persons. Student loan repayments should also be deducted from redundancy payments and lump sum payments.

Student loan repayments are administered through the PAYE system. Employers have to deduct student loan repayments from wages (where the repayment threshold has been reached) and remit the repayments to the IRD together with PAYE deductions. If an employee repaying a student loan is also the subject of a deduction notice issued under the Child Support Act 1991, child support must be deducted from that employee's pay before student loan repayments are deducted.

The current repayment threshold is \$20,280 per annum or \$390 per week. For every dollar earned above this threshold the minimum repayment rate is 12% but employees can elect to pay more than this.

What Are Your Obligations As An Employer?

Under the Act, employers are required to tell the IRD about their employees who have student loans, to keep records of loan repayment reductions and also to record the reductions on the monthly PAYE return.

What Are Your Employee's Obligations?

Where an employee has a student loan, they must advise you to deduct student loan repayments by filling in an IR330 with a ME SL, M SL, S SL, SH SL or ST SL code. The exception to this is where the employee is studying full-time and has a repayment deduction exemption. The PAYE tables provided by the IRD have columns for these codes, so the tables can be used to determine the total deduction including the student loan repayment.

The obligations of employee borrowers under the Student Loans Scheme Act 1992 are significant; it is the employee who is primarily responsible for the information on which you rely to calculate student loan repayment deductions. It is your employee's obligation to provide the correct code. If the correct code is not provided, it is not your responsibility to deduct student loan repayments.

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What Are The Consequences?

If you aid, abet, incite or conspire with any employee borrower to

- Wilfully make a false return; or
- Wilfully gave false information; or
- Wilfully mislead or attempt to mislead the IRD in relation to any matter or thing affecting the borrower's own or any other person's repayment obligation;

Then you can be liable on conviction in the District Court to a fine up to \$15,000 on the first occasion, and a fine up to \$25,000 on every subsequent occasion, for offences against this Act.

Under the Tax Administration Act 1994, an employer who knowingly does not provide information to the IRD or knowingly provide false, incomplete or misleading information to the IRD can be liable on conviction in the District Court to a fine up to \$25,000 on the first occasion and a fine up to \$50,000 on every subsequent occasion for offences against this Act. There are different legal tests for wilfully and knowingly. Under this Act, it is also an offence to knowingly not make a student loan repayment deduction or to use student loan repayment deductions for any purpose other than payment to the IRD. Additionally, an employer who uses child deductions for any other purpose can be liable on conviction in the District Court to a fine up \$50,000 and/or imprisonment for a term up to 5 years for an offence against the Act.

The Student Loan Act 1992 stipulates that it is an offence for an employer to discriminate against an employee, or potential employee, because of the obligation to deduct student loan repayments. In addition to the remedies and penalties under the personal grievance provisions of the Employment Relations Act 2000, an employer who dismisses or prejudicially treats an employee under this Act is liable to a fine of up to \$2000 on conviction in the District Court and may be ordered to pay compensation to the employee.

Employee borrowers can be fined upon conviction under this Act for a multiple of offences, reflecting the burden of responsibility on those people. Employee borrowers can also be fined upon conviction under the Tax Administration Act 1994.

For Your Business

If you require more information about your obligations in respect of Student Loan deductions, contact the Business Central AdviceLine Team.

Student Loan Deductions

Our guide for Employers and Managers

Remember:

- ▶ Always call AdviceLine to check you have the latest guide (refer to the publication date below).
- ▶ Never hesitate to ask AdviceLine for help in interpreting and applying this guide to your fact situation.
- ▶ Use our AdviceLine employment advisors as a sounding board to test your views.
- ▶ Get one of our consultants to draft an agreement template that's tailor-made for your business.
- ▶ Visit our website www.businesscentral.org.nz regularly.
- ▶ Attend our member briefings to keep up to date with all changes.
- ▶ Send your staff to BC Learning courses and conferences designed for those who manage employees.

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