

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

Loans taken out before September 2012

From 7 April 2020 until further notice, the interest rate on these loans will be 1.1%.

Loans taken out from 1 September 2012

From 1 September 2019 until 31 August 2020, interest on these loans will be applied at

- RPI + 3% while studying (3% + 3% = 5.6%)
- From 6 April after leaving the course:
 - while earning up to £27,295, the RPI of 2.6%
 - rising on a sliding scale up to RPI plus 3% where earnings are above £49,130

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.

If you took out a student loan while on a university or college course that began in September 1998 or after you will have an Income Contingent Loan. There are two types of repayment plan

for Income Contingent Loans; the one that applies to you depends on where and when you first began your studies:

- Plan 1 where the first year of the course started before 1 September 2012
- Plan 2 where the first year of the course started 1 September 2012 or later

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). For Plan 1 repayments, the threshold is governed by movements in the RPI. For example, the threshold for 2021/22 was increased to £19,895 annual salary. For Plan 2 repayments, the threshold is set at £27,295 annual salary.

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.

Employers should start making Student Loan deductions only when:

- they receive a Start Notice (Form SL1)
- a new employee gives them a form P45 with a 'Y' in the 'Continue Student Loan Deduction' box
- they prepare a Starter Checklist with the Student Loan ticked 'yes'

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.

Under the Real Time Information (RTI) rules, employers have to report details of student loan repayments at or before the time of the relevant salary payments. HMRC will collate this information and pass 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.

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.