

eJournal of Tax Research

Volume 13, Number 1

March 2015

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Does the Australian Higher Education Loan Program (HELP) undermine personal income tax integrity?

Richard Highfield and Neil Warren¹

Abstract

While considerable attention has been given to the interaction between government personal income taxes and transfers, little has been given to how government non-tax revenue collection interacts with other tax and expenditure programs. This paper examines the overlooked issue of the impact on personal income tax collections of the repayment of government loans to fund student contributions to their tertiary education.

In 1989, the Australian government introduced a student contribution for undergraduate study funded through an income contingent loan, expanding the scheme in 2002 to postgraduate students and in 2010 to vocational education programs. For individuals, this Higher Education Loan Program (HELP) allows them to either contribute through the upfront payment of fees to tertiary institutions (sometimes at a discount and therefore avoiding a HELP debt), make voluntary repayments of their loan debt (also at a possible discount) and to make repayments which are contingent on their income as defined for HELP purposes.

Reasonable estimates now put the gross HELP debt in Australia at \$70.4 billion in 2017–18, impacting 26 per cent of citizens aged 18–54 years. With low rates of HELP repayment and indications of weakness in the regime for HELP repayment collection, there is real concern that HELP design may be encouraging (and rewarding) undesirable taxpayer behaviour. This paper examines tax-related aspects of HELP to establish whether there are any indications that its design and administration encourage greater personal income tax planning (legal) and evasion (illegal) designed to minimize HELP repayments with consequent effects on the collection of HELP debts and personal income tax system integrity.

Evidence is found for bunching of HELP debtors around HELP repayment thresholds and that recent HELP policy design reforms have provided greater incentive to avoid HELP debt repayment. Attention is given to how current, proposed, and alternative reforms to the personal income tax treatment of deductions could improve both HELP repayments and related personal income tax system integrity. However, the findings in the paper will also have implications for the HELP policy framework as reforms to personal income tax are likely to be a necessary complement to actions designed to address observed personal tax and HELP integrity issues.

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An earlier draft of this paper was presented at the 11th International Conference on Tax Administration, 14-15 April 2014, Sydney, Australia. The reference date for this revised paper is November 2014.

1. INTRODUCTION

Often the action of government to address one area of market failure compromises the achievement of government policy objectives in another resulting in unintended trade-offs. One area where such conflicts are acknowledged concerns the interaction between the tax and transfer system where the resulting high effective marginal tax rates impact on an individual's movement from transfer dependency to paid employment. However, an area where this conflict is little acknowledged is the interaction between the personal income tax system and the income-based arrangements designed to repay income contingent loans used to fund student access to tertiary education.

While the economics underlying the use by government of income contingent loans schemes to fund access to previously general-revenue funded public services is well accepted and largely uncontroversial (Chapman 2007)², far less well understood is how the repayment of any resulting loan based on the debtor's income, might adversely impact on other government policies such as personal income tax integrity. If any adverse interaction affected only a few individuals or occurred for a relatively short period of time, this might not be important enough for a considered policy response.

However, with budget-constrained governments considering income-contingent loans as an approach to funding a broad range of public services and therefore potentially impacting more individuals, there is a real need to better understand debtors' responses to loan repayment obligations. This paper examines the case of Australia's Higher Education Loans Program (HELP)³ which, while introduced in 1989 with modest objectives, has since been rapidly expanded. If evidence can be found of an adverse interaction between HELP debt repayment and personal income tax liabilities, then this will have major implications for the integrity of both HELP and the tax system and require a policy response.

Section 2 begins by developing a conceptual framework capable of providing insight into the funding options for tertiary education including what design parameters are determined by government and what decisions individuals must make when deciding how to fund their part of the total spent on tertiary education. Section 3 applies this framework to understanding the evolution of HELP design in Australia since 1989 and how the changes made have contributed to the rapid escalation in both HELP debtors and their debt levels. The evidence will show that this escalation is the result of

² At its most basic, since capital markets fail to work efficiently and provide those undertaking tertiary education with loans to fund their education, the government addresses this market failure by acting as a lender to those undertaking education which enhances their human capital and therefore their labour related income stream.

³ Annex 1 outlines in detail the history of the Australian Higher Education Loans Program since its inception in 1989.

government policies designed to increase tertiary education participation rates and fees⁴ without the political cost of requiring greater up-front contributions.

Section 4 examines how HELP design and associated debt could result in tax planning and evasion by those taxpayers with HELP liabilities and whether there is evidence of such effects in Australia. After finding evidence that at even relatively modest levels of HELP debt there is a behavioural response, Section 5 focuses on what HELP design and administrative reforms could be adopted to reduce the impact that any rapid rise in HELP debt might have on the integrity of both HELP and personal income taxation.

Section 6 questions whether personal income tax design and administration might itself contribute to HELP debtors avoiding or evading their compulsory HELP repayments and thereby challenging not only the integrity of the personal income tax but also the viability of rapidly expanding access to HELP. Section 7 concludes that only with a sound understanding of how HELP and the personal income tax interact can we ensure integrity and sustainability in both systems in the long term.

2. FUNDING HIGHER EDUCATION IN PRINCIPLE

While education enhances the human capital stock of an individual, the beneficiaries of that enhancement are more than just the individual and include employers and society more generally. As a result, funding education has three possible sources: the student (/employee), employers and the government (and hence all taxpaying individuals) as shown in Figure 1. In the case of the employer and government, their contribution is inevitably upfront and funded from recurrent sources. In the case of the individual, if capital markets worked perfectly they could fund their fees through loans which were serviced and repaid through the stream of earnings from their education-induced human capital enhancement. Since capital markets fail to provide such loans⁵ and making student fund fees upfront would lead to an under demand for higher education, it has become a common practice for governments⁶ that are intent on encouraging increased participation in higher education to provide income-contingent loans to students to fund their contribution to the cost of education.

In theory, any repayment of these loans should be based on the potential return to the enhanced human capital stock. In practice, actual income and that from more than just human capital forms the base of any repayments and those on lower incomes are exempt from being required to repay their debt. Figure 1 details the parameters which are set by government and determine the operation of government-provided income contingent higher education loan arrangements. For government, this begins with determining available funding and what this means for available education places (F in

⁴ This was evident from the uncapping of government funded undergraduate Commonwealth supported places (except medicine) in 2012 and the ability to fund postgraduate course fees on HELP (formerly Postgraduate Education Loans Scheme (PELS) in 2002).

⁵ While information asymmetry is an important reason why private capital markets for student debt funding of education have not developed, also important is the high level of uncertainty attached to education investments which results in education being a high risk for lenders.

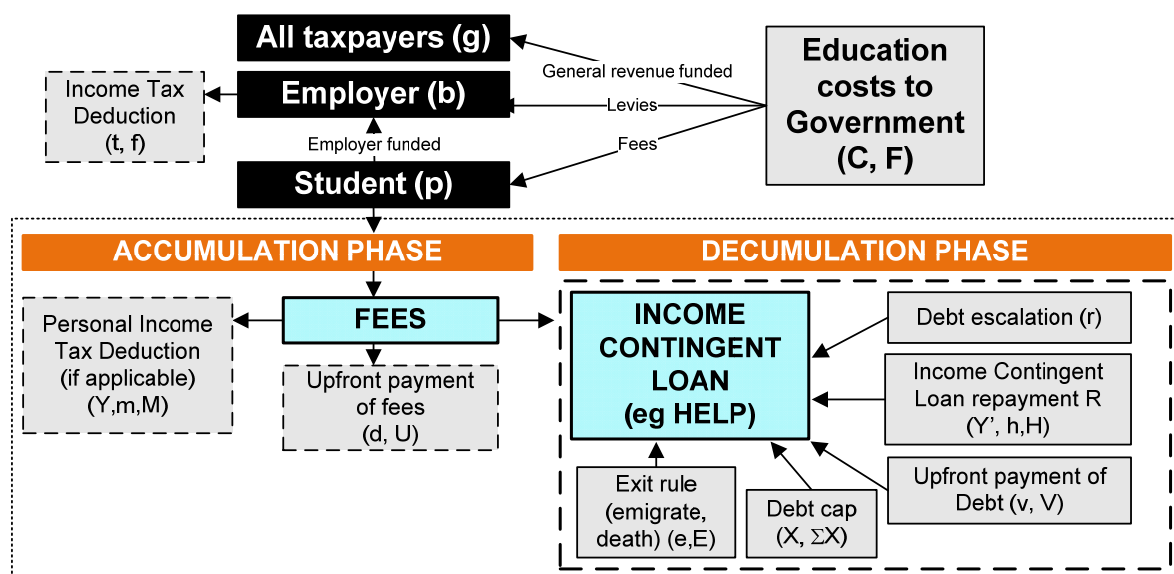
⁶ While Australia and the UK were leaders in the adoption of income-contingent students loan schemes, they have now found applications in an increasing number of countries including South Africa, Thailand, and New Zealand. See discussion in Chapman (2007), Demange, Fenge and Uebelmesser (2008) and Chapman and Hunter (2009).

Figure 1) and the proportion of the cost (C) to be funded through government general revenue (g), employer levies (b) and by students (p). For government, this is however not the end of their liability for the provision of education. If student fees are deductible against personal income tax liability then depending on the individual's income in the year in which the fees were incurred and their marginal tax rate (which determines m and M), some of this cost can be transferred to government through reduced income tax collections. Similarly, a proportion of any cost borne by the employer through levies (b) or by students shifting some of their share directly to their employers can be transferred back to government if such costs are tax deductible (t). If these shifted student costs are not tax deductible to individuals when paid by employers, they could be subject to fringe benefits tax (f) prior to being deductible by employers.

If the students have available to them the option of discounts on upfront payment of fees (d), then some part of their fees could be shifted back to government, regardless of whether the remaining expense is deductible or not. For that part of the higher education fees payable by students which is added to their income contingent loan, several factors may also ultimately shift the burden of providing higher education back onto government. Discounts on upfront repayments of debt (v) will shift some of this debt back to government as will the lack of any debtor exit rules (E) related to death or emigration that lead to ultimate write off of unpaid debts. The adoption of a debt escalation rule (r) which is less than an economically efficient escalation rate can also act to erode the real value of debt and therefore transfer some of this burden onto government.

A less obvious but equally important approach to shifting some of the cost of education expected to be borne by individuals back to government is that which results from changes in their behaviour that are designed to minimise the income measure (Y') used to calculate the income contingent loan repayments (R) based on the repayment schedule (h, H). Since income is a net concept, this can arise from changes to how income is received (or not reported) or what income deductions are incurred (or claimed, even if not incurred). Since personal income tax liability is based on an income concept (Y) not too dissimilar from that (Y') used to estimate income contingent loan repayments, any avoidance or evasion activity impacting on loan repayments has the potential to also directly impact personal income tax liability. While in the case of the income contingent loan repayment this may only act to delay the inevitable, in the case of personal income tax any loss due to evasion and avoidance resulting from minimising loan repayments is lost permanently.

What the analysis below (and Figure 1) highlights is just how complex and broad ranging are the interdependencies between government income-contingent tertiary education loan schemes and the tax system. However, while considerable attention has been given to how to expand access to tertiary education, little attention has been given to how repayment of any loan might impact on any debt repayment arrangements or the design and administration of other taxes. This paper attempts to redress this situation by examining the behavioural response of HELP debtors to their repayment obligations and whether Australia could learn from recent reforms to the loan decumulation arrangements in comparable schemes in the United Kingdom (UK) and New Zealand (NZ).

Figure 1 Funding higher education based around income contingent loans

PARAMETERS

GOVERNMENT SET PARAMETERS

Fees (Accumulation Phase)

- C Unit cost to government of education
- d Discount for upfront payment of fees
- f Business FBT rate on employee fringe benefits
- t Business tax rate
- g Government share (funded from general revenue) (Residual after aggregate of (b+p) specified)
- m Personal income tax marginal rate(s)
- M Personal income tax threshold(s)
- Y Taxable income definition for personal income tax (ie after all deductions)

Debt (Decumulation phase)

- e Exit rule (on death or emigration)
- F Number of education places (funded and unfunded)
- h Repayment rate(s)
- H Repayment threshold(s)
- r Debt escalation rate
- v Discount for upfront debt repayment of debt
- X Annual limit to debt
- ΣX Cumulative limit to debt
- Y' Income definition for repayment of debt

BEHAVIOURAL VARIABLES

Persons

- Fees (Accumulation Phase)
- b Employer's share of unit cost
- p Person's share of unit cost
- U Upfront fee repayment
- Y Income taxable under personal income tax

Debt (Decumulation phase)

- E Exit decision (non-resident and on-death liability)
- V Upfront debt repayment
- Y' Income for repayment of income contingent loan

Employers

- b Employee share of education unit costs (possibly negotiated by employees with business)

Tax administration

Agency Problem: Debt owned by education department with tax authority as debt collector. As a result, the:

1. Tax authority does not own debt and therefore does not have a priority to ensure compliance by those with an income contingent loan (or debt).
2. Tax authority might not see debt as a risk to taxes for which it is responsible.
3. Enforcement of Y' could be inadequate due to poor information and poor employer compliance.
4. Evasion and avoidance of Y' impacts R which directly impacts Y and therefore personal income tax)

3. AUSTRALIA'S HELP DEBT AND ITS REPAYMENT

3.1 HELP parameters

The historical evolution of the parameters underpinning Australia's HELP scheme are detailed in Annex 1 and show how the requirement to repay HELP debt only occurs once a borrower's income in a year exceeds a prescribed threshold termed the 'HELP repayment income' (HRI) level. This determination is made as part of the annual income tax return assessment process provided HELP debtors have submitted returns as required under the income tax law. Over the years, the definition of the HRI level has been adjusted to take better account of a borrower's perceived capacity to make repayments. Initially, the level was set at an amount equivalent to the borrower's 'taxable income' but over subsequent years redefined to now be 'taxable income plus any total net investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income'. When a borrower's HRI exceeds the minimum HRI threshold level, a graduated rate scale is applied to determine the amount of debt to be repaid as part of the income tax assessment process, as shown in Table 1 and Chart 1.

Where borrowers are employees, they are also required to inform their employers of their HELP debt status in order to determine whether additional tax withholdings should be made by them in anticipation of a HELP debt annual assessment liability. In practice, the effectiveness of this requirement is contingent on borrowers properly reporting to their employers that they have a HELP debt. A disincentive for them to do so is that HELP repayments are calculated on the total amount of a taxpayer's HRI once it exceeds a prescribed threshold, not the excess over the threshold. As a result, as shown in Chart 1 for 2013–14, taxpayers who are HELP debtors with just one additional \$1 of HRI over a repayment threshold can be exposed to significant HELP repayments.

The interaction of HELP with the personal income tax is not just an issue for HELP repayment. Since student contributions (with the exception of HECS) are a deductible income tax expense when work-related, some of this student contribution can be shifted by taxpayers to government through the personal income tax system. Non-recovery of HELP debt therefore limits recovery of this tax cost to government.

Clearly, the effectiveness of the HELP loan repayment arrangements is contingent on timely and accurate compliance by borrowers with their pay-as-you-go (PAYG)⁷ withholding and/or income tax return assessment obligations. Taxpayers who do not properly comply with employee withholding obligations and/or who do not file tax returns can escape repayment of their full HELP debts while those who participate in tax planning and evasion practices in response to their HELP debt, can not only reduce their HELP debt repayment (at least in the short term), but immediately reduce their tax liabilities and if this behaviour is learnt and perpetuated, the income tax loss could reoccur each year indefinitely.

In the case of outstanding HELP debts (such as, loan balances), these are indexed annually in line with movements in the CPI, meaning that they are made effectively

⁷ For a description of the PAYG system, see <https://www.ato.gov.au/Business/Employers/Preparing-to-engage-workers/Pay-as-you-go-%28PAYG%29-withholding/>

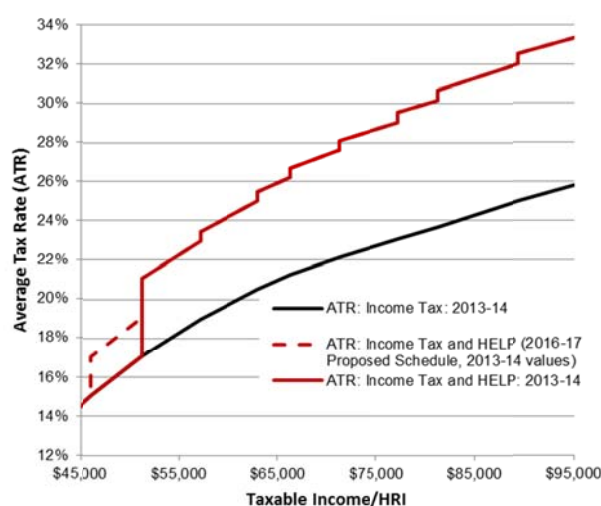
‘interest-free’. The indexation adjustment is made by the Australian Tax Office (ATO) on 1 June each year and applied to the portion of debt that has been unpaid for 11 months or more. The fact that HELP debts are indexed to the CPI also diminishes their cost relative to the return on the human capital investment through time (Table A3) by how HELP changes as a proportion of average weekly ordinary time earnings (AWOTE) over time. In the 2014–15 Budget, the Commonwealth announced its intention (from 1 June 2016)⁸ to apply annual indexation to HELP debts based not on the Consumer Price Index but at a rate equivalent to the yield on 10 year bonds issued by the Australian Government (capped at 6.0 per cent per annum).

Table 1 HELP repayment liability: 2013–14 and 2016–17

2013-14						2016-17 Schedule; 2013-14 Values		
HELP repayment income (HRI) ranges (\$)	Repayment rate as % of HRI	Additional repayment on first \$1 over lower HRI bound	Income tax payable at lower HRI bound (incl. Medicare Levy) for Single Person	Total HELP repayment at lower HRI bound	Total HELP repayment as % of Income tax (incl. Medicare Levy) for Single Person	HELP repayment income (HRI) ranges (\$)	Repayment rate as % of HRI	Total HELP repayment at lower HRI bound
Below \$51,309	Nil	0	0	0		Below \$46,178	Nil	0
\$51,309 - \$57,153	4.0%	2,052	8,992	2,052	22.8%	\$41,788 - \$51,308	2.0%	924
\$57,154 - \$62,997	4.5%	286	10,979	2,572	23.4%	\$51,309 - \$57,153	4.0%	2,052
\$62,998 - \$66,308	5.0%	315	12,966	3,150	24.3%	\$57,154 - \$62,997	4.5%	2,572
\$66,309 - \$71,277	5.5%	332	14,092	3,647	25.9%	\$62,998 - \$66,308	5.0%	3,150
\$71,278 - \$77,194	6.0%	356	15,782	4,277	27.1%	\$66,309 - \$71,277	5.5%	3,647
\$77,195 - \$81,256	6.5%	386	17,793	5,018	28.2%	\$71,278 - \$77,194	6.0%	4,277
\$81,257 - \$89,421	7.0%	406	19,231	5,688	29.6%	\$77,195 - \$81,256	6.5%	5,018
\$89,422 - \$95,287	7.5%	447	22,374	6,707	30.0%	\$81,257 - \$89,421	7.0%	5,688
\$95,288 and above	8.0%	477	24,633	7,623	30.9%	\$89,422 - \$95,287	7.5%	6,707
						\$95,288 and above	8.0%	7,623

Source: ATO Website <https://www.ato.gov.au/Rates/HELP-repayment-thresholds-and-rates/>
 Australian Government, 2014-15 Budget Paper No 2, pp77-78 <http://www.budget.gov.au/2014-15/content/bp2/html/index.htm>

Chart 1 Impact of HELP on Taxable Income



Source: Own calculations using data in Annex 1 and 2014 Budget Paper No 2, p77

⁸ See Annex 1 and Australia, Budget 2014-15, Budget Measures, Budget Paper No 2, p78

HELP debtors who move overseas do not have to report their income to the ATO and so are not required to make repayments of their debt, regardless of the level of the income they earn as non-residents. This is because Australia applies no exit rule (E in Figure 1) to HELP debtors who leave the country temporarily or permanently or who die. However, HELP debtors cannot escape debt repayment through bankruptcy as under the *Bankruptcy Act 1966* accumulated HELP debts are not provable. This means they must be paid, regardless of whether a person is declared bankrupt. In the case of death, all HELP debts are written off for the borrower.

3.2 HELP debt trends

Any such adverse reaction to HELP liabilities which directly impacts income tax integrity might not be an issue if it applies only to a small number of taxpayers. However, as indicated in Charts 2 and 3 (and Tables A5 and A6), there are now over two million HELP debtors and by 2017–18, HELP debt will have grown to in excess of \$70 billion. This is particularly striking when viewed in the light of the decline in the number of HELP assessments as a proportion of HELP debtors from 31.6 per cent in 2001–02 to 24.4 per cent in 2010–11, a fall of 23 per cent over a period when the value of HELP debt relative to personal income tax collections increased by 69 per cent. These trends are occurring at a time when the number of HELP debtors grew by 43 per cent and their average HELP debt increased by 82 per cent, resulting in a total debt increase over the period of 160 per cent (as detailed in Annex 1). Combining this trend with the expected threefold growth in HELP debt between 2010–11 and 2017–18 (Tables A5 and A6) and assuming the repayment trends in Chart 2 persist, not only will there be considerably more HELP debtors but they will be debtors for much longer with greater potential to adversely impact on personal income tax system integrity.

Chart 2 HECS-HELP: Number of HELP debtors and compulsory assessments

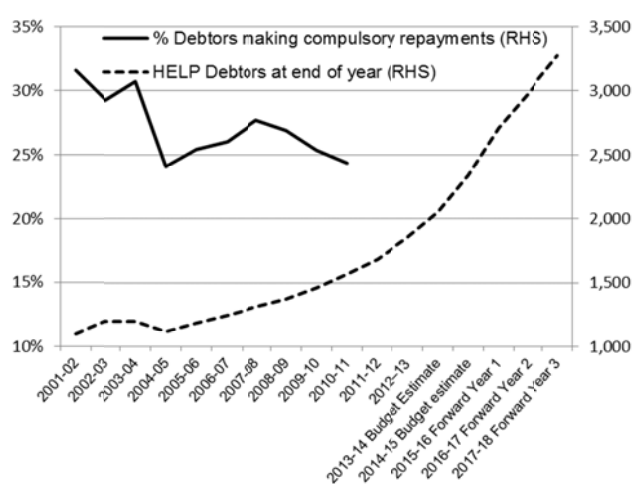
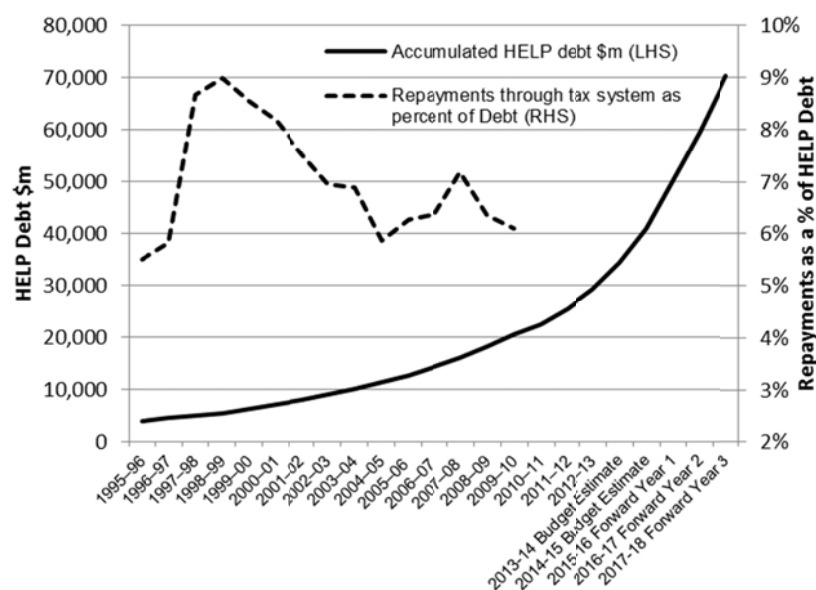


Chart 3 HECS-HELP: Value of year-end debt and year by year assessments

A review of the parameter changes over this period (in Tables A1, A2 and A3) provides some insight into the basis of this trend. A significant contributing factor was increasing the lowest HELP repayment threshold by nearly 30 per cent (as a proportion of AWOTE) in 2004–05 despite the rates of repayment being increased once above the threshold. However, more important has been the expansion in the scope of HELP (Tables A1 and A2) and the reduction in incentives to make fee and debt repayments upfront. With the scope of HELP further expanded in the forward years to 2017–18 (Table A2), accumulated HELP debt is expected to grow at rates not previously seen under the scheme and an increasing proportion of new HELP debt is not expected to be repaid (Tables A5 and A6). Table A6 shows that by 2017–18 almost a quarter of all HELP debt is not expected to be repaid, up from 17 per cent in 2013–14. If HELP debt is assumed largely restricted to 18–54 year olds⁹, then over the period 2003–04 to 2017–18, the ratio of those with a HELP liability will rise from 13.5 per cent to 25.7 per cent, up from 11.4 per cent in 2003–04¹⁰.

Of concern also is the trend evident in Table A4 over the period 2007 to 2011 which showed that there was a gradual increase in the average time to make the first compulsory repayment (from 4.9 to 5.1 years), the average time to make first voluntary repayment (6.8 to 7.1 years) and the average time to repay debt (for those who have repaid, from 7.5 to 8.1 years). With the proportion of taxpayers confronted with a HELP debt more than doubling between 2003–04 and 2017–18 and them taking longer to repay their debt, how HELP debt is incurred and repaid inevitably must have

⁹ This calculation is based on the assumption that all HELP debtors are between 18 and 54 years old. This is not unreasonable since the scheme had its beginning in 1989 and was only available to fund undergraduate degrees (HECS) until 2002 when PELS was introduced.

¹⁰ The ATO reported that as at 30 June 2011, some 1.567m individuals had a HELP liability. Drawing on the ATO 1% sample taxpayer file, it can be shown that only 1.18m individuals had lodged a 2011 tax return by 31 October 2013, implying that some 25% of HELP debtors had not lodged income tax returns for 2011.

important implications for personal income tax compliance and for how the tax and HELP repayment regimes are administered.

Important here is how HELP debt is administered. While in the Australian case it is the Department of Education that reports the debt as an asset, the collection of the actual HELP debt is a responsibility assumed by the ATO through an inter-agency agreement between it and the Department of Education. An important part of understanding the revenue risk from HELP debt is to understand the different reporting of this debt by these two government agencies. Table A6 details the HELP debt and its repayment reported by the Department of Education (including forward estimates). These estimates include recognition of the debt not expected to be repaid (DNER) and the fair (actuarial) value of the accumulated debt. However, in administering HELP debt, the ATO manages actual accumulated debt without adjustment until (as upon death) this is necessary. As a consequence, the HELP debt reported by the ATO in its *Taxation Statistics* (shown in Table A6) is actual aggregate nominal HELP debt of all individuals as reported to the ATO by the Department of Education, less the aggregate value of repayments made.

What is clear is the significant gap between the Department of Education and ATO reporting of HELP debt. Table A6 uses this disparity to project forward from the Department of Education Budget estimates for the forward years to 2015–16 and 2017–18 of what could be expected of the accumulated HELP debt as managed by the ATO. In 2017–18, this yields an accumulated HELP debt estimate of \$70.4 billion, rising from \$34.5 billion in 2013–14. The rate of increase is, as noted previously, largely the result of a significant expansion of the HELP scheme but it does have the effect of drawing much greater attention to the management of this substantial asset and the administration of its realisation by government. In a tight fiscal environment, any delay to HELP repayments or lost personal income tax due to the impact of HELP debt on taxpayer compliance should be of major concern to government.

In the following section, attention is given to examining data on personal income tax payers with and without a HELP liability to learn more about how HELP might impact personal income tax integrity. In subsequent sections, the findings are used to assess what implications they might have for income tax or HELP design and administration.

4. DOES HELP DESIGN IMPACT PERSONAL INCOME TAX INTEGRITY?

For HELP debtors, there are two distinct stages to their interaction with HELP which have the potential to elicit very different behavioural responses. As shown in Figure 1, the first is the HELP debt accumulation (build up) phase and the second, the decumulation (or pay down) phase. Both phases see HELP interact differently with the personal income tax and with this, related risks to both HELP and income tax.

During the accumulation phase, the student contribution (whether funded through HELP or not), is deductible against taxable income if work-related (with the exception of HECS). The effect is to have government share some of the contribution. However, where the contribution is not related to current work but possibly to future employment, it is not deductible and therefore cannot be deducted from current income. The tax effectiveness of any deduction is also impacted by how education is undertaken. Studying full-time where employment income is reduced is potentially

less tax effective when a deductible expense (and therefore work-related) is incurred because of diminished income (and lower marginal tax rates). If the self-education expense could be offset against income as it is earned, this effect would be diminished.

What is not adequately recognised in the Australian case is how the deductibility of work-related self-education expenses sits with HELP, especially in the case of non-HECS fees. In a 2013 Treasury discussion paper on reform to deductions for self-education expenses¹¹, no mention was made of this important issue in the debate about the deductibility of such expenses. While this paper will not contribute to this debate or to the design of HELP during the accumulation phase, these are nonetheless issues which require further consideration in the debate about the design of HELP.

In the remainder of this paper, the focus will be on the HELP during the decumulation phase (Figure 1) and its interaction with personal income tax. With HELP loan repayments collected through the personal income tax assessment process, an obvious risk that arises in practice concerns the extent to which borrowers are encouraged not to comply with their income tax obligations in order to reduce, defer, or avoid their loan repayments. Such non-compliance can take various forms, including the non-disclosure of assessable income, the over-claiming of tax deductions, and the failure to lodge tax returns (on time and at all).

With taxable income being a net concept which reflects the difference between income and related (income or tax) reliefs (Warren 2014a, 2014b), the question for this study is whether there is a distinct behavioural difference between comparable taxpayers with and without HELP liability. If a discernible difference can be observed which cannot be readily explained, then it has implications for both HELP and personal income tax design.

4.1 Bunching below the HELP repayment thresholds – and minimising HELP repayments

The Australian government has long been concerned about the distortionary effects of high effective marginal tax rates (EMTR) on decisions to work arising from the interaction between income taxes and the social welfare system (AFTS 2009). Of particular concern has been the bunching of individuals below the threshold where higher effective marginal tax rates impact, such as when means tests for transfer payments come into effect. However, far less attention has been given to those EMTRs which arise from the interaction between the income tax and the repayment of HELP debt. As shown in Table 1, the nominal impact on HELP debtors as they pass through various thresholds is high and with it, extreme EMTRs occur on the point of transition (Chart 4).

With around 26 per cent of 18–54 year olds in 2017–18 estimated (in Table A6) to have an average HELP debt of \$21,500, up from 11.4 per cent in 2003–04, the risk from such high HELP EMTRs is that taxpayers with HELP debt may be encouraged (and rewarded) for undertaking behaviour which minimizes (legally or not) their HRI and therefore HELP repayments. Not only is this outcome economically inefficient and compromises HELP integrity, by minimizing HRI taxable income is also reduced and with it the personal income tax liability which might have otherwise have been paid without such a behavioural response. Worse, while HELP debtor actions might

¹¹ See *Reform to deductions for education expenses* at <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2013/self-education-expense>

simply act to delay HELP repayments, any resulting loss in personal income tax is lost permanently.

Chapman and Leigh (2009) explored this issue using anonymised tax return data records supplied by the ATO for 2003–04. For the purpose of their research, they used a sample of tax return data in respect of HELP debtors and compared the distribution of debtors around the minimum HELP repayment threshold with those taxpayers not affected by the ‘kink’ point (such as those without a HELP debt). From their analysis, they “observe a small but significant degree of bunching at the repayment threshold, but the budgetary cost and the lost pre-tax earnings from this substantial discontinuity in the taxation schedule appear to be relatively small” (p 277).

While the findings by Chapman and Leigh are important, so too is whether the substantial increase in the threshold and repayment rate that has occurred since 2003–04 has also been accompanied by evidence of bunching around the now-increased threshold. If this is the case then taxpayers who were previously well above the lower HELP repayment threshold are now responding to the higher threshold which impacts on them by taking actions to bring them below the now-increased threshold.

As shown in Table A1, the HELP repayment threshold in 2003–04 was increased from 52 per cent of AWOTE to 68 per cent in 2004–05 and the initial repayment rate from three per cent to four per cent. The effect was to substantially increase the minimum ‘kink-point’ on the HELP repayment schedule from \$760 in 2003–04 to \$1,400 in 2004–05. In 2013–14, the amount of HELP repayment at the minimum threshold is \$2,052 on debtors whose HRI increases by one dollar above \$51,309 (Table 1). Using data from the 2010–11 ATO one per cent sample file of taxpayers¹², Chart 4 reports in detail on the grouping of HELP and non-HELP taxpayers around the minimum HRI kink-point. This chart yields a similar pattern of results to those by Chapman and Leigh (2009, p281) when the 2003–04 minimum threshold was 52 per cent of AWOTE rather than 67 per cent as in 2010–11 (Table A1). Importantly, moving the minimum threshold does not appear to remove bunching—it simply moves to the new kink-point. What is of particular concern is that any behaviour designed to minimize HRI also directly impacts taxable income and therefore personal income tax collections. Moreover, it is reasonable to assume that any behaviour once learnt will be maintained even if the HELP threshold is increased or the HELP debt is repaid. In this case, such learnt behaviour results in those taxpayers acting to minimise their personal income tax each year thereby undermining the integrity of the personal income tax.

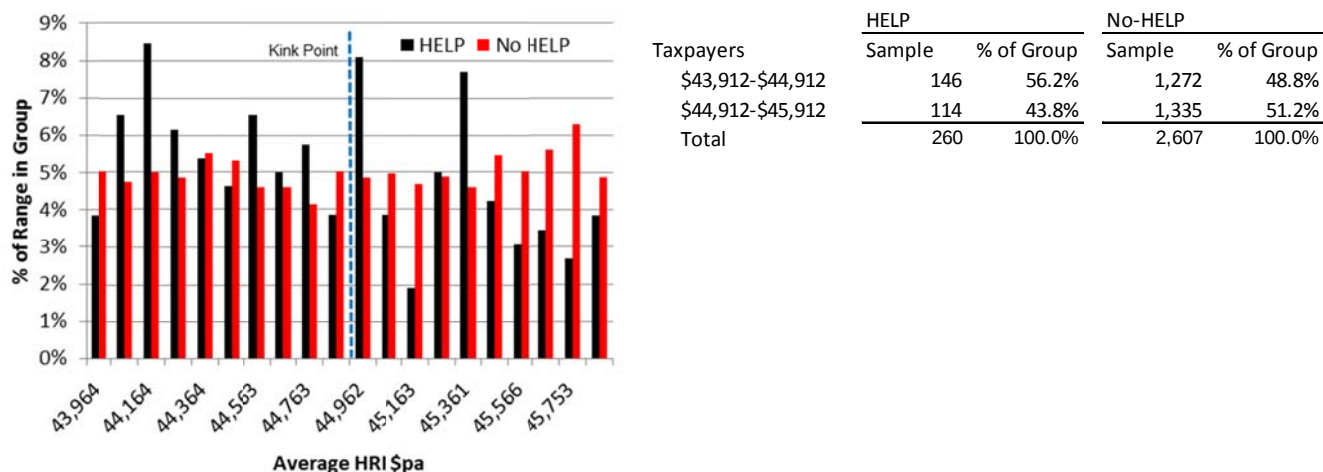
Chapman and Leigh’s observation that the “lost pre-tax earnings from this substantial discontinuity in the taxation schedule appear to be relatively small” (p 277) also needs further review. If, as noted above, the ratio of HELP debtors rises to 25.7 per cent (Table A6) in 2017–8 from 13.5 per cent in 2010–11, what might have been

¹² The ATO makes available each year a statistical file of anonymised personal tax return records—the Individual Sample File—for external research purposes. The file approximates to 1% of personal tax returns filed for each income year in the 16 month period after the end of the relevant income year. Individual record data made available include selected items of information from the processing of tax returns, for example, demographic data on age, sex, occupation code, resident/ non-resident status, existence of HELP debt, method for filing return, self-preparers/ tax agents.; the types and value of income reported such as wages, pensions, interest, dividends, business income, and income from foreign sources, and; data on types and value of deductions claimed including work-related deductions (by type), gifts, rental, and others.

unimportant in 2003–04 when the ratio was 11.4 per cent could be much more important when it applies to twice as many. Furthermore, since the HELP repayment rate adds directly to both the marginal and average tax rate of taxpayers (Table 1 and Chart 1), the incentive for taxpayers to reduce their HRI is significant when the HELP repayment rate is between four per cent and eight per cent across *all* HRI income ranges, not just on increases to HRI. If the trend decline in the proportion of HELP debtors making a repayment through the tax system shown in Chart 3 continues and arises from non-compliance, this has major ramifications for both HELP and income tax integrity.

The important question then is what is the source of this bunching? Since taxable income and HRI are net income concepts, in practice it can be impacted by two discretions available to taxpayers: firstly, their non-disclosure of assessable income; and secondly, their over-claiming of tax deductions. The remainder of this section will focus on those options which result in bunching.

Chart 4 Distribution of Taxpayers with \$1,000 of Minimum Threshold (Kink Point): 2010-11



Source: 1% ATO taxpayer sample file 2010 – 11

4.2 Evidence on claiming excess deductions

Similar to the tax systems of countries such as Canada and the United States, Australia requires the vast majority of adult citizens to prepare and lodge an annual tax return in which they must report all assessable income and claim deductions and credits to which they are entitled. The most commonly-claimed deductions are in respect of work-related expenses, gifts to approve benevolent institutions, deductions against rental income, and a miscellaneous ‘other deductions’ category. Like some overseas personal tax systems, Australia’s tax system requires a fair degree of itemisation of deduction claims, presenting opportunities for non-compliance through deliberate, careless and ignorant behaviour resulting in over-claimed deductions, and associated understatements of taxable income and revenue leakage. As HELP debt repayment is based on reported taxable income and other tax return items (in HRI) it is not immune from the impacts of such non-compliance.

In analysing the taxpayer record data on deductions, some initial explanatory variables for taxpayer behaviour were able to be quickly dismissed because of the lack of any clear differences in patterns, this being the case with HELP and non-HELP taxpayers grouped by gender, employment status and occupation. What did prove significant was the age profile of taxpayers and whether they had deductions for work-related expenses or gifts. Since losses on rental investments cannot be offset against HRI income and HELP debtors are more often than not earlier in their career, it was decided that rental income and related expenses were unlikely to be a significant factor in reducing HRI.

4.2.1 Work-related expenses

Deductions for work-related expenses are the most commonly-claimed deduction item in personal tax returns. For the 2010–11 income year, total claims numbered just over 8.3 million (from a return population of around 12.6 million) and amounted to around \$18.3 billion.¹³ Across employee taxpayers earning in excess of \$30,000 and who are entitled to claim deductions for work-related expenses the incidence of claims exceeds well over 90 per cent. As such deductions are not subject to any form of systematic verification (such as a system of third party reporting as occurs for categories of income such as wages, pensions and interest income) the ATO can only validate the claims made in returns by individual audit inquiries. Given the vast number of taxpayers making deductions, the level of audit attention is extremely low (under 1%).

Over-claimed deductions are generally considered a compliance risk area and the ATO has regularly reported concerns for the incidence of over-claimed work-related deductions in tax returns in its annual compliance program statement.¹⁴ In 2008, Highfield¹⁵ in a submission to the review of Australia's Future Tax System (the so-called 'Henry Review') argued that the overall incidence of claims was likely to be in the region of 15 per cent. This claim was made on the basis of long experience with the administration of Australia's tax system and on observations of the experiences of revenue bodies such as Canada that had demonstrated such non-compliance levels from random audit programs. The AFTS (2009) review accepted these claims and its final report made two explicit recommendations advocating a tightening of the rules for work-related expense deductibility and the introduction of a standard deduction (comprising a nominal base amount for those with labour and/or capital income and a proportion of labour-related income up to a capped amount).¹⁶ As of 2014, neither the recommendations nor any other related reform measures had been implemented.

In the context of this study concerning the collection of HELP debts, the issue of over-claimed work-related deductions is relevant in two respects:

¹³ These data, obtained from *Taxation Statistics 2010-11*, relate to returns processed in the 16 month period after 30 June 2011. They will increase marginally (by around 7-8%) as further returns (i.e. late lodgements) are processed by the ATO after 31 October 2012.

¹⁴ For example, see *ATO Compliance Program 2007-08*, (page 12), *ATO Compliance Program 2008-09*, (page 17); and *ATO Compliance Program 2009-10* (page 8)

¹⁵ See http://taxreview.treasury.gov.au/content/submissions/post_14_november_2008/Highfield_Richard_20090425.rtf

¹⁶ *Australia's Future Tax System*, Chapter A1, page 35, Recommendations 11 and 12.

1. Does the design of the HELP debt collection element in the income tax system induce an even higher level of over-claimed deductions than might otherwise be the case?
2. Putting aside (1), what might be the impact of over-claimed deductions in general on the rate of HELP debt collection via the income tax system?

Deductions for work-related expenses were examined for both HELP and non-HELP debtors by both age groups and income levels. From a population of 125,349 taxpayer records—11,762 with HELP debts and 113,567 without—some 82,717 records with deductions for work-related expenses (WRE) were analysed. While this analysis for some categories was handicapped by relatively small sample sizes there are some discernible patterns suggesting the possibility of an increased tendency by taxpayers in some age groupings of HELP debtors to over-claim deductions to minimise HELP repayments. Based on the patterns evident in Chart 5 (and Annex 2) in relation to the incidence of claims and average claim value combined with a detailed review of the related data, the following findings can be made:

Age group: 20-29

- HELP debtors in this age grouping exhibit a marginally lower incidence of claims to non-HELP debtors (75.2%/76.7%) and a lower average deduction claim (\$1,705/\$2,093).
- Deductions claimed by HELP debtors rise marginally above those of non-HELP debtors immediately before the minimum threshold but their growth rate is not sustained vis-à-vis non-HELP debtors; an abnormal growth rate of HELP deduction claims was observed around the highest repayment rate threshold where the eight per cent repayment threshold rate commences.

Age group: 30-39

- HELP debtors in this age grouping exhibit a similar incidence of claims to non-HELP debtors (75%) and a marginally lower average deduction claim (\$2,401/\$2,549).
- Deduction claims of non-HELP debtors rise consistently while those of HELP debtors rise sharply immediately before the minimum repayment threshold and quickly fall away only to rise sharply again; a similar pattern was observed around the highest threshold where the eight per cent repayment rate commences.

Age group: 40-49

- HELP debtors in this age grouping exhibit a significantly lower incidence of claims to non-HELP debtors (68.3%/75.0%) but a marginally higher average deduction claim (\$2,395/\$2,346).
- Deduction claims of non-HELP debtors rise consistently while those of HELP debtors rise sharply immediately before the minimum threshold and quickly fall away only to rise sharply again; consistently above non-HELP debtors at all levels.

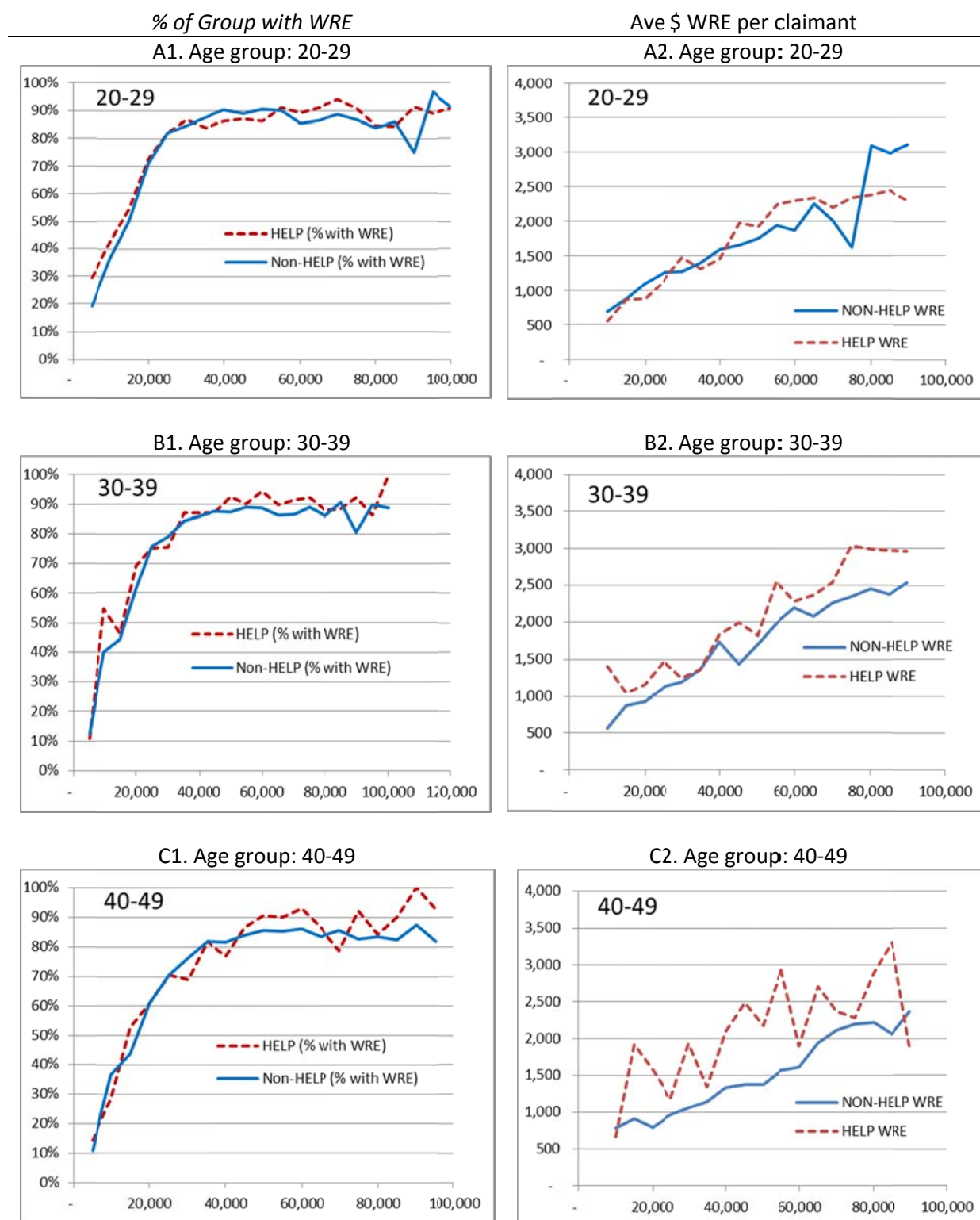
Age group: <20, 50+

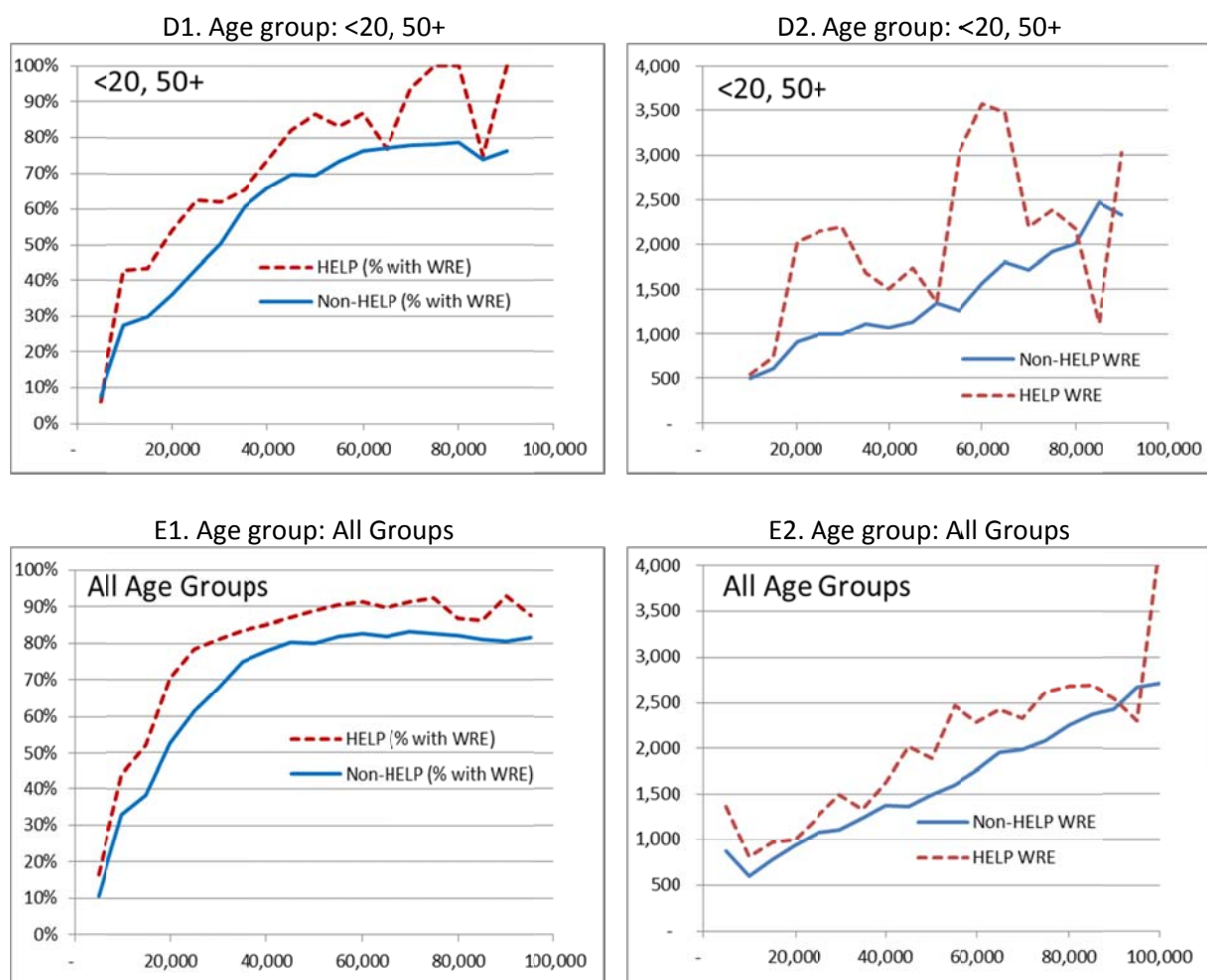
- HELP debtors in this age grouping exhibit a significantly higher incidence of claims to non-HELP debtors (62.2%/52.0%) but a lower average deduction claim (\$1,599/\$1,865).
- The HELP population is quite small and may not be reliable. However, the same sharp rise and fall of deduction claims by HELP debtors is evident around the minimum repayment threshold.

Overall

- Across all age groups and income levels, HELP debtors exhibit a significantly higher incidence of claims than non-HELP debtors (73.7%/65.2%) but a marginally lower average claim value (\$1,988 /\$2,183).
- Deduction claims of non-HELP debtors rise consistently while those of HELP debtors rise fairly sharply just before the minimum threshold and subsequent rate thresholds only to fall away and then rise marginally again.
- Across each and all age groups in aggregate HELP debtors exhibit a significantly higher incidence of deductions for self-education expenses (which are comprised in WRE aggregates). A higher incidence of deductions for self-education expenses among HELP debtors vis-à-vis non-HELP debtors is not surprising given that the former is likely to include a larger proportion of taxpayers in professions and who require ongoing training for career progression purposes. However, a Government discussion paper in 2013 proposing a \$2,000 cap on deductions for self-education expenses drew attention to the tendency for higher income earners to claim large deductions for such expenses that, while having some connection with their employment, provided a significant private benefit paid for by taxpayers at large).

Chart 5 Work related expenses by age group for HELP and non-HELP debtors: 2010-11





Source: ATO 1% Taxpayer Sample File and Annex 2

The second aspect examined ((2) above) concerns the extent to which the collection of HELP debts via the income tax system might be avoided or deferred by the incidence of over-claimed deductions, assuming a normal pattern of non-compliance of 15 per cent on average and a higher level of 20 per cent. Table 2 provides an estimate using data from the ATO one per cent sample file of the increased revenue from HELP debt repayments if 15 per cent or 20 per cent of work-related expenses were over-claimed and through improved compliance, addressed.

While the revenue raised through additional HELP repayments is relatively modest in both cases, the savings in personal income tax across HELP debtors would be three times higher. If WRE compliance was improved across all taxpayers then, as shown in Table 2, the additional revenue raised from personal income tax would be over 30 times greater than the change in HELP payments since in 2010–11 HELP debtors comprised 9.4 per cent of the one per cent ATO taxpayer sample file. This is a pattern of results common with the case where 20 per cent of deductions are over-claimed.

If the HELP schedule is in fact encouraging increased over-claiming of WRE, as evident through bunching around the minimum HELP repayment threshold, the

concern should clearly not just be with its impact on HELP debt repayments but on personal income tax collections where any learnt behaviour by HELP debtors will impact their compliance into the future, with consequential implications for revenue collection each year.

Table 2 Revenue impact from over-claimed WRE deductions (\$m): 2010–11

	% of WRE overclaimed			
	15%		20%	
	\$m	% income Tax	\$m	% income Tax
Personal Income Tax:				
All Taxpayers	815	0.6%	1,088	0.8%
HELP Taxpayers	70	0.1%	94	0.1%
	% HELP		% HELP	
	\$m	Repayments	\$m	Repayments
HELP Debt repayments	25	1.9%	33	2.5%

Source: Own calculations using 1% ATO Sample file

4.2.2 Gift deductions

Australia's tax laws provide deductions for gifts in excess of \$2 to approved benevolent institutions. For the 2010–11 income year, total deduction claims were around 4.8 million (from a return population of around 12.6 million) and amounted to \$2.2 billion.¹⁷ In aggregate, the value of deductions is concentrated among a relatively small share of the taxpayer population, with less than eight per cent of deduction claims representing around two thirds of the overall value of deductions. In other words, the vast majority of claims (over 92%) are for relatively small amounts (that is, less than \$1,000). Deductions are not subject to any form of systematic verification (such as via a system of third party reporting as occurs for categories of income such as wages, pensions and interest income) and, accordingly, the ATO can only validate the claims made in returns by individual audit inquiries. In practice, the level of gift deductions subject to audit inquiry is likely to be extremely low.

Domestic or foreign insights as to the likely incidence of over-claimed gift deductions could not be located other than a general observation that in the absence of third party reporting regimes the incidence of compliance by individuals the incidence of compliance by individuals is unlikely to exceed 85-90 per cent.¹⁸

As for work-related deductions, gift deduction claims were examined for both HELP and non-HELP debtors by both age groups and income levels. From a population of 125,349 taxpayer records—11,762 HELP debtors and 113,567 non-HELP debtors—some 47,583 records with gift deductions were analysed. While this analysis for some categories was handicapped by relatively small sample sizes there are some discernible patterns as shown in Chart 6 (and Annex 2), suggesting an increased

¹⁷ These data relate to returns processed in the 16 month period after 30 June 2011. They will increase marginally (by around 7-8%) as further returns (i.e. late lodgements) are processed by the ATO after 31 October 2012.

¹⁸ This observation is based on the published compliance research findings of both the Canada Revenue Agency and the United States Internal Revenue Service.

tendency for some age groupings of HELP debtors to over-claim deductions to minimise HELP repayments. The detailed findings are as follows:

Age group: 20-29

- HELP debtors in this age grouping exhibit a fairly higher incidence of claims than non-HELP debtors (33.9%/ 28.6%) and marginally higher average deduction claim (\$196/\$174).
- The incidence of claims, and their average value, by HELP debtors is significantly greater than non-HELP debtors at just about all income levels approaching and extending beyond the HELP debt repayment threshold (from \$40,000-85,000), as indicated in Chart 6.

Age group: 30-39

- HELP debtors in this age grouping exhibit a marginally higher incidence of claims than non-HELP debtors (40.0%/ 37.7%) and higher average deduction claim (\$301/\$266).
- The incidence of claims and their average value by HELP debtors increases fairly significantly for many income levels approaching and extending beyond the HELP debt repayment threshold (from \$40,000-85,000), as indicated in Chart 6, but not to the same degree observed for the 20-29 age group.

Age group: 40-49

- Sample populations for HELP debtors in this age group (1,254) are generally too small for drawing conclusions by income level; that said, across all income levels HELP debtors exhibit a significantly lower incidence of claims than non-HELP debtors (36.3%/ 42.4%) and a substantially lower average claim value (\$264/\$335).

Age group: <20, 50+

- Sample populations for HELP debtors in this age group (617) were too small for drawing any reliable conclusions.

Overall

- Across all age groups and income levels, HELP debtors exhibit a marginally lower incidence of claims than non-HELP debtors (36.0%/ 38.2%) and, not surprisingly, a substantially lower average claim value (\$247/\$350).

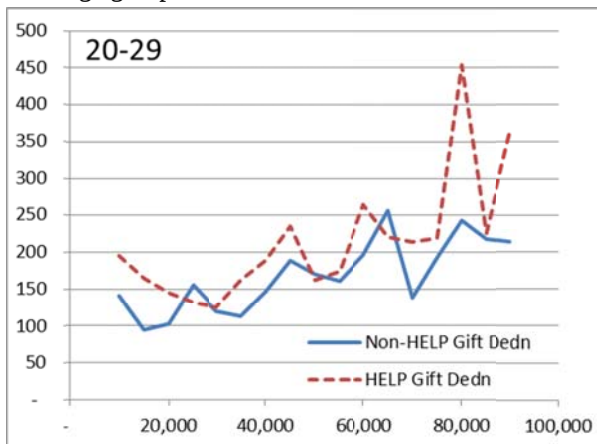
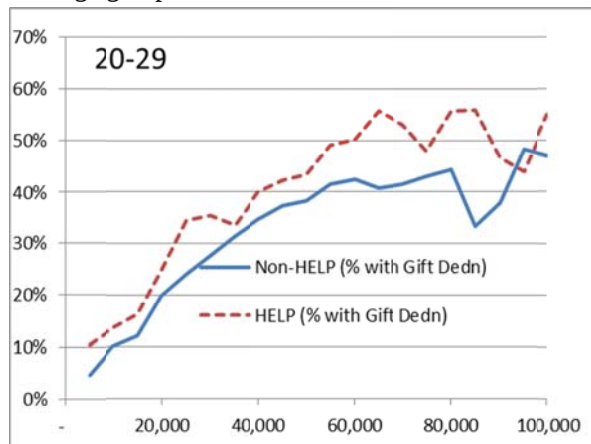
Chart 6 Gifts by age group for HELP and non-HELP debtors: 2010-11

% of Group with Gifts

Ave \$ Gift per claimant

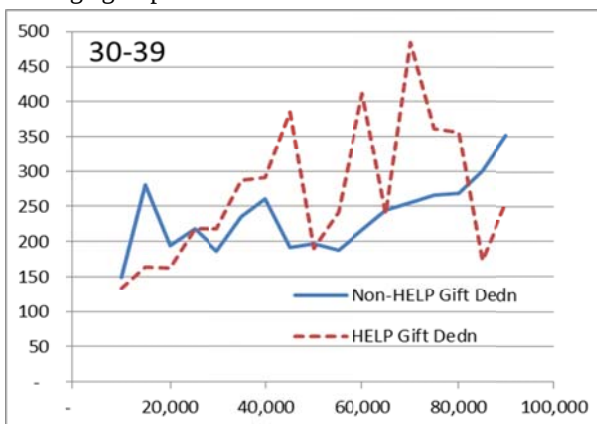
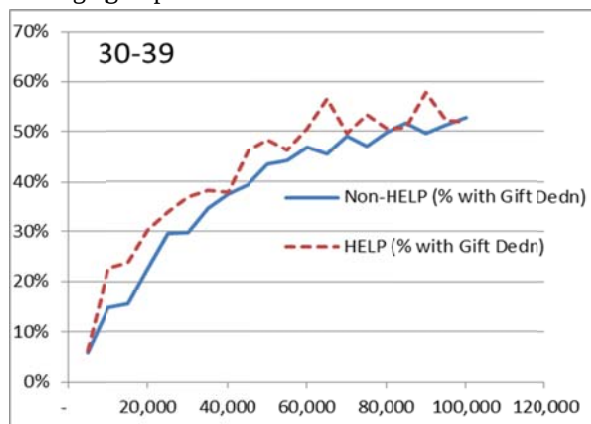
A1. Age group: 20-29

A2. Age group: 20-29

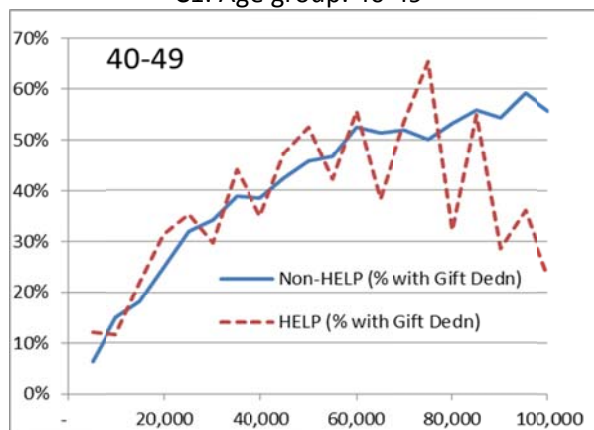


B1. Age group: 30-39

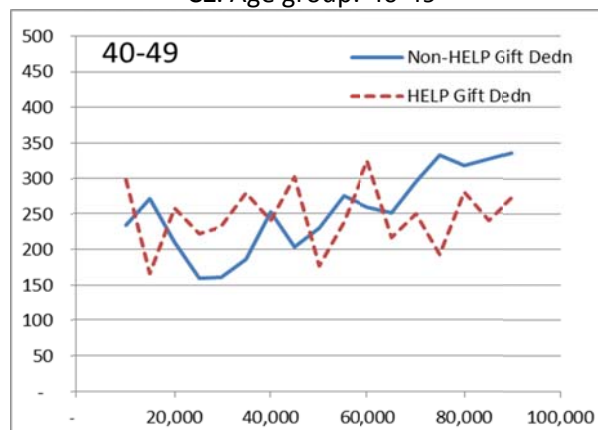
B2. Age group: 30-39



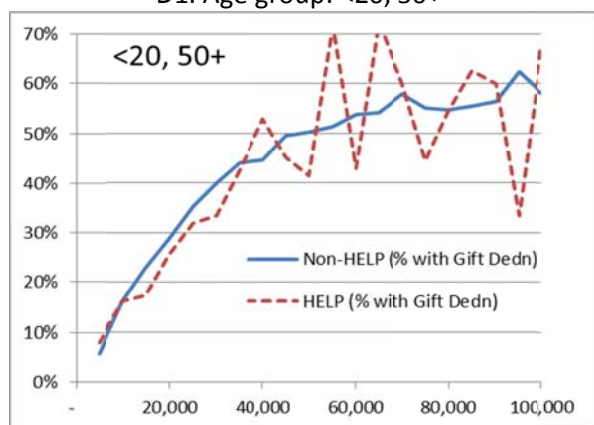
C1. Age group: 40-49



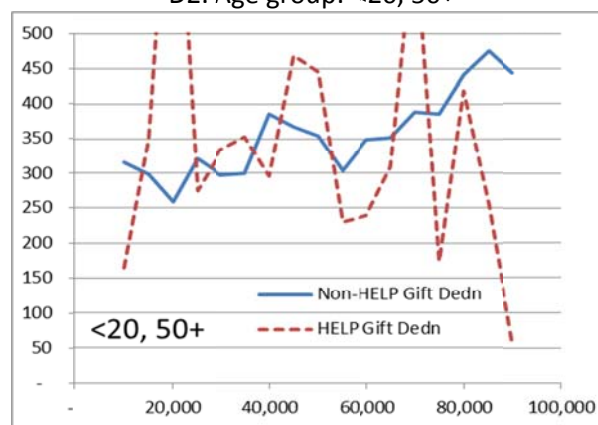
C2. Age group: 40-49



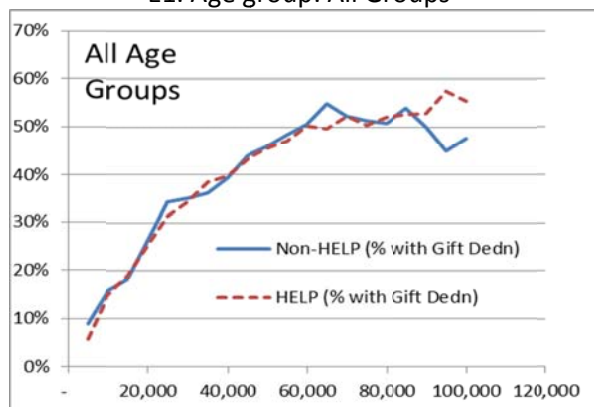
D1. Age group: <20, 50+



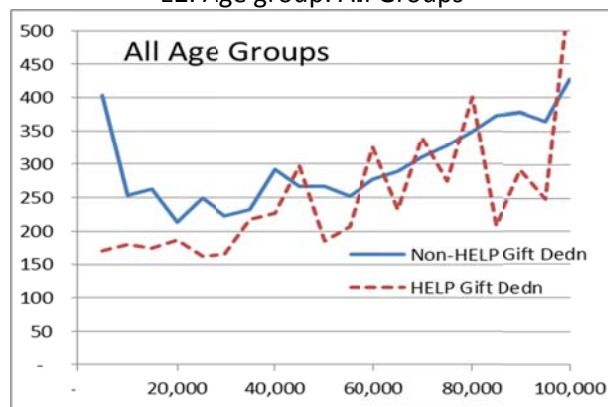
D2. Age group: <20, 50+



E1. Age group: All Groups



E2. Age group: All Groups



4.3 General non-compliance with the tax system

In addition to the over-claiming of deductions, taxpayers have a variety of other means to delay or avoid the repayment of HELP debt, including a failure to declare all assessable income in their returns or to lodge tax returns late or not at all. While there has been only limited qualitative research on this aspect the findings point to the

likelihood that some HELP debtors will be inclined to take steps to limit their exposure to HELP debt repayment.

Ahmed (2005) records the findings of a study undertaken to explore the question of whether schemes such as HELP pose extra challenges for the efficient functioning of the tax system because of the additional incentives they bring for non-compliance behaviour by those impacted and, if so, what strategies are needed to mitigate this situation. Ahmed's study relies on a number of qualitative surveys undertaken of a sample of students (at two universities in the Australian Capital Territory) and households to examine the relationship between carrying a HECS-HELP debt and cheating on tax. In the case of both sample surveys, they find that carrying a HECS-HELP debt was positively and significantly related to tax evasion, implying debt poses a compliance problem for tax authorities.

For this study, it was decided to focus on return non-lodgement as a means of avoiding or deferring the repayment of HELP debt.

4.3.1 *Avoiding or delaying HELP debt repayment through the non-lodgement/ late lodgement of tax returns*

As noted earlier, some HELP debtors may avoid or delay the repayment of their HELP debts by failing to lodge a tax return on time (or at all) where they have an obligation to do so and their income is above the minimum HRI threshold. However, such action risks detection by ATO enforcement programs that are undertaken to pursue outstanding personal tax returns.

The ATO does not publish regular and detailed information on aspects of its programs to detect and enforce the lodgement of tax returns (such as selection criteria, numbers pursued, and numbers filing after initial contact.). However, some details of the methods adopted and the overall incidence of non-lodgement/ late lodgement can be found in a report by the Inspector-General of Taxation (IGT, 2009) of a study into the incidence of return non-lodgement by personal taxpayers in Australia. According to the IGT's report, the study was prompted by information received indicating that many millions of non-lodged returns had accumulated which potentially involved large amounts of revenue.¹⁹ The ATO assisted with completion of this work by conducting a detailed study of its taxpayer database and third party reporting information sources, filtered using a variety of means to identify those records where a tax return was unlikely to be required, to arrive at an estimate of the proportion of the taxpayer population that should have lodged a return but had failed to do so. The IGT's study was also assisted by an independent community survey into the level of non-lodgement of tax returns as well as community attitudes to the situation.

The study concluded²⁰ that the number of non-lodged individual tax returns in any year can conservatively be estimated at between 1.2-1.5 million (around 9-10% of the total estimated population liable to lodge a tax return). However, the study made no reference to the incidence of non-lodgement by HELP debtors and, in fact, made no

¹⁹ *Review into the non-lodgement of individual income tax returns*, Inspector General of Taxation, June 2009
http://www.igt.gov.au/content/reports/non_lodgement_tax/non_lodgement_of_income_tax_returns_review.pdf

²⁰ *ibid* especially pp 7-8.

reference whatsoever to the existence of HELP debt as a risk criterion for lodgement enforcement purposes.

Taken at first glance, the relatively high incidence of return non-lodgement indicated in the IGT report would seem to imply significant non-compliance with tax laws (that would include some HELP debtors), albeit of perceived relatively low overall risk to revenue. However, there are some additional factors to be borne in mind, particularly in the context of HELP debt collection.

The IGT study, and the associated ATO study, were largely carried out in 2008 and took into account returns for the 2005–06 fiscal year that were lodged roughly in the following 18-24 month period. However, it is a characteristic of Australia's tax system that a fair number of personal tax returns are lodged relatively late, for some taxpayers many years after the relevant year of income. To illustrate this particular point, Table 3 sets out data on the numbers of personal tax returns lodged, both as reported in the IGT's report and more recently by the ATO in its annual statistical reports.

Table 3 Personal income tax returns lodged for the 2005–06 fiscal year

Point in time	Actual number of returns lodged (millions)	Estimated number of returns outstanding (millions)	Proportion of returns due but unlikely to be lodged (%)
At the time of the IGT/ ATO study (circa mid-2008)	11.51	1.5	11.5
As of October 2012	12.21 (1)	0.80 (1)	6.1

Source: ATO Taxation Statistics 2010-11;

(1) Numbers assume ATO's 2008 estimate of potential lodgement population have remained constant.

Drawing on the data in Table 3, it can be seen that the proportion of citizens required to lodge a return for the 2005–06 fiscal year but who never did, is likely to have settled at around six per cent of the estimated potential population, well below the 9-10 per cent level implied by the conclusions in the original IGT report. Of course, none of this should ignore the fact that the numbers of taxpayers lodging returns late and well after the relevant due date is large in absolute terms, which inevitably must have implications for both tax and HELP debt collection.

While the IGT study did not throw any light on the incidence of return non-lodgement by persons with HELP debts, it seems reasonable to conclude that it would have encompassed a representative proportion of HELP debtors. For the 2005–06 fiscal year that would represent a population of HELP debtors who should have lodged but have never done so of the order of 70,000, taking account of the ratio of HELP debtors to the total population of taxpayers for that fiscal year²¹. However, the numbers of such non-lodgers with income over the HELP repayment threshold cannot be estimated with any precision without further detailed analysis that can only be done within the ATO.

²¹ HELP debtors as at end 2005–06 numbered 1.185 million, or around 9% of the estimated taxpayer population for that year of 13 million (as per the IGT's report). With an estimated 0.8 million returns not lodged as at October 2012, the representative share of HELP debtors in this population could conceivably be around 70,000 (9%).

An additional consideration in the context of return non-lodgement (and also, tax debt collection) concerns the operation of the PAYG withholding arrangements that form part of the personal income tax system.

Many taxpayers who do not lodge returns are known to be employees whose income generally has been subject to withholdings of tax at source. Such withholdings, where properly made, reduce the risk to revenue resulting from return non-lodgement and this explains the generally low priority afforded by the ATO to lodgement enforcement in respect of taxpayers who are recorded as employees but who do not lodge returns as generally required under the law. Under the withholding provisions and related administrative procedures employees with HELP debts are required to inform their employers so that the appropriate level of withholdings can be made from their remuneration. However, from inquiries made with the ATO it appears that while employees' withholding declarations are computer processed there is no cross-checking made with the HELP debtors database to ensure that the taxpayers' status as a HELP debtor has been reported. For the future, as the population of HELP debtors grows to significant levels, there is merit in at least testing the potential value of systematic cross-checking with the HELP debtor database to minimize the incidence of insufficient withholdings.

4.3.2 *Trends in late lodgement of returns by HELP and non-HELP debtors*

For the purposes of this study research has been confined to examining recent ATO publications and other documents concerning lodgement enforcement activities, in particular any information concerning HELP debtors, and identifying the trend in the rate of return non-lodgement by both HELP debtors and non-HELP debtors over time.

A review of ATO publications (including annual compliance program statements, annual reports, and statistical publications) provided no explicit information concerning compliance activities involving HELP debtors. In line with this observation, discussions with ATO officials revealed that for fiscal years up to 2011–12 the existence of HELP debt had not been used as a specific risk criterion in lodgement enforcement processes, with HELP debtors being targeted indirectly through general lodgement campaigns and actions. More recently, it had been decided to vary this approach and in 2013–14 actions are being taken to give greater recognition to both the existence of HELP debtors and identified income sources indicating that the taxpayers concerned have income in excess of the HELP repayment threshold. As a result, there will be more targeted efforts undertaken to enforce the lodgement of outstanding tax returns from HELP debtors with income over the HELP repayment threshold.

Table 4 sets out data on the numbers of recorded HELP debtors at 30 June for the years indicated and a projection (based on the ATO sample file) of the number of them lodging and not lodging tax returns within 16 months after the end of the relevant fiscal year. Also included is identical information for the estimated population of non-HELP debtors at the same points in time. Of course, not all HELP and non-HELP debtors have an obligation to lodge a tax return each year but on the assumption that the proportion of either population remains roughly constant over time their respective trends and/or differences in the rates of non-lodgement could serve as indicators of likely movements in lodgement non-compliance.

Table 4 Indicators of tax return late lodgement by HELP debtors

Income year	HELP debtors				All taxpayers (excluding HELP debtors)			
	No. at end of income year (millions) (1)	No. lodging returns within 16 months (millions) (2)	No. not lodging returns within 16 months (millions)	Estimated non-lodgement rate (%)	No. estimated at end-fiscal year (millions) (5)	No. lodging returns within 16 months (millions) (6)	No. not lodging returns within 16 months (millions)	Estimated non-lodgement rate (%)
2011-12	1.681	1.259	0.422	25.1	13.562	11.055	2.507	18.48
2010-11	1.567	1.178	0.389	24.8	13.381	11.070	2.311	17.27
2009-10	1.462	1.108	0.354	24.2	13.172	10.918	2.254	17.11
2008-09	1.371	(3)	(3)	(3)	12.940	(3)	(3)	(3)
2007-08 (7)	1.313	1.036	0.277	21.1 (4)	12.695	11.327	1.368	10.78
2006-07	1.247	0.938	0.309	24.8	12.363	10.553	1.810	14.64
2005-06	1.185	0.854	0.331	27.9	12.099	10.325	1.774	14.66
2004-05	1.120	0.804	0.316	28.1	11.748	10.110	1.638	13.94
2003-04	1.200	0.838	0.362	30.3		9.778		

Notes:

- (1) Based on reporting in *Taxation Statistics* for the income years identified.
- (2) This number has been determined as follows: Number of HELP debtors lodging returns as per ATO sample file for the income year x 100).
- (3) Extract of the sample file for this year indicated that it may not have reflected a true representation of HELP debtors. This issue has been brought to the attention of the ATO. Accordingly, neither the number of HELP debtors lodging returns nor rate of non-lodgement could be estimated.
- (4) This abnormally lower rate can be attributed to the significant 'bring forward' of return lodgement in 2008–09 (of 2007–08 returns) with the then Government's tax bonus measure to offset the impacts of the global financial crisis.
- (5) Derived using the estimated potential taxpayer population identified for 2005–06 (i.e. 13.22 million) in the IGT's study on non-lodgement, adjusted to exclude HELP debtors and to take account of annual growth in the official labour force.
- (6) Based on reporting in *Taxation Statistics* for years identified, adjusted for number of HELP debtors lodging returns.
- (7) The abnormal 'once off' shift in lodgement patterns that occurred in respect of returns for the 2007-08 financial year were the result of the Government's once off cash bonus whose receipt was conditional on lodging a tax return. The trend estimated rate of non-lodgement has therefore continued its rising trend.

Drawing on the data provided, it will be seen that there is a statistically significantly higher rate of non-lodgement among HELP debtors vis-à-vis non-HELP debtors pointing to a possible increased tendency by HELP debtors to not lodge returns when required. A more intensive examination of individual tax records, which only the ATO could carry out, would be required to quantify the significance of this difference with any precision and an acceptable degree of confidence.

With aggregate HELP debt and the numbers of HELP debtors projected to grow significantly in the years beyond 2010–11 (Table A6), the larger proportion of taxpayers exposed to HELP debt repayment in the future can be expected to result in a larger number of taxpayers being tempted not to lodge returns on time and possibly not at all. This suggests the need for increased vigilance by the ATO not only in relation to return non-lodgement but also to ensuring that the PAYG withholding provisions are applied as intended for employees who are HELP debtors and are deriving income likely to exceed the annual threshold for repayment.

4.4 Exit strategies to escape HELP repayment

A person has two ways of exiting (and escaping) their HELP debt repayment. Firstly, at the point of death, any HELP liability is extinguished by the ATO. Secondly, if a debtor leaves Australia to live overseas, their overseas or non-Australian-sourced income is not taken into account for assessing HELP debt repayments. Only when their Australia-sourced income exceeds the minimum HRI threshold are they obligated to make a loan repayment and then only base on their Australia-sourced income. If they do not return to Australia, both their loan balance and its on-going interest cost are borne by the Government or more precisely, by all taxpayers. This ‘gap’ in the loan repayment mechanism has been criticised on the grounds of its fiscal cost and the inequity vis-à-vis debtors in similar circumstances in Australia who are obliged to make loan repayments.

Using a variety of data sources and assumptions under differing scenarios Chapman and Higgins (2013) derive an estimate, conservative in their view, that the foregone revenue from this perceived shortcoming in the repayment regime was around \$400 million for the period 1989 to 2011. However, they note that under other plausible assumptions, the foregone revenue could be close to double this amount. Foregone revenue of \$400 million over this period would approximate to the loans outstanding of around 25,000 borrowers.

After noting that a number of other countries (including New Zealand, United Kingdom and United States) attach some importance to enforcing the payment of such loans by non-resident borrowers, Chapman and Higgins (2013) conclude by stating “the fact that the Australian Government has not enacted any policy step to address the costs of unpaid HELP debts from those going overseas is both a curiosity and a policy indictment. Possible solutions to the issue are worth considering, given that the costs reported in this article illustrate that the problem is both non-trivial and becoming increasingly significant” (p295).

For the purposes of this study, the findings and conclusions of Chapman and Higgins are accepted. Furthermore, it is noted that a number of other countries have not been deterred by the challenge of seeking loan repayments from debtors living outside of their respective countries and have implemented a variety of policy and administrative measures to this end.

New Zealand is a particularly useful example to acknowledge, especially as its ‘Overseas-based Borrower Compliance Initiative’ extends to New Zealanders living and working in Australia and the United Kingdom. This is achieved through a suite of administrative requirements designed to encourage overseas-based debtors to meet their obligations when they satisfy the income criteria for repayment. These requirements include obligations on debtors to 1) notify tax authorities when leaving the country; 2) provide a contact address while overseas; 3) report details of income received; and 4) make repayments where income exceeds the repayment threshold. Furthermore, while student debt is not indexed for domestic residents, it is indexed for those living overseas. The New Zealand approach has helped reduce the incidence of the amounts owed by overseas-based borrowers and improved their compliance behaviour. However, this population continues to represent an increasingly disproportionate share of overdue debt—in 2013, they represented 15 per cent of all

borrowers, 62 per cent of borrowers with overdue debt, and 84 per cent of the total amount overdue²².

Contributing to this outcome is the fact that overdue debts of overseas-based debtors attract interest while those of residents do not. Furthermore, a voluntary repayment bonus that operated from April 2009 and whose terms favoured resident loan debtors, achieved considerable success in encouraging payments from resident loan debtors but much less so from those based overseas. With the benefits of the voluntary repayment bonus no longer applicable and toughened administrative procedures in place, overseas-based debtors have a strong incentive to remain overseas and, in the views of some commentators, are being prevented unfairly from returning to New Zealand.²³ Unlike Australia however, New Zealand has an active and open discussion about strategies capable of encouraging student loan repayment as evident from a recent annual report on the Student Loan Scheme.²⁴

Given the current level of Australia's HELP debt inventory and future projections of its growth, not to mention broader Government budgetary considerations, it is hard to conceive a defensible rationale for Australia ignoring any longer such an obvious weakness in the HELP debt collection framework. Recommendation 4 of the recently completed Senate Education and Employment Committee *Report into the Higher Education and Research Reform Amendment Bill 2014* recommended that the government explore avenues to recover HELP debts of Australians residing overseas.²⁵ Norton (2014, p38) in a report for the Grattan Institute recently argued that not only should those with a HELP debt and overseas be required to make HELP repayments, but so too should the estates of those deceased who still have a HELP debt, an issue pursued further in Section 5.5.

4.5 Performance of the tax administration

With the vast majority of HELP loan repayments made directly through the income tax system—both through the PAYG withholding system and the tax return self-assessment process—the ATO has important responsibilities for ensuring that the HELP repayment mechanism operates effectively. To understand how the ATO carries out its responsibilities and to gain some insights as to its overall performance, available published materials were reviewed, including ATO annual performance reports and statistical tabulations, annual compliance program statements, and other available reports dealing directly or indirectly with aspects of HELP administration.

Generally speaking, a reasonable level of statistical reporting was found on the overall level of HELP debt and assessments raised through the income tax system and

²² See discussion on New Zealand Inland Revenue's overseas-based borrowers' initiative in *NZ Inland Revenue Annual Report 2012* p25 <http://www.ird.govt.nz/aboutir/reports/annual-report/>

²³ Source: Blog http://www.students.org.nz/continuing_changes_to_student_loan_now_include_prison_time

²⁴ See discussion on the Overseas-based Borrower Compliance Initiative in *Student Loan Scheme Annual Report 2013*, Education Counts, New Zealand Government, p36 <http://www.educationcounts.govt.nz/publications/80898/2555>

²⁵ See Australian Parliament, Senate Education and Employment Committee, *Report into the Higher Education and Research Reform Amendment Bill*, October 2014, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/Higher_Education/Report

features of the HELP debtor population (including the size of debts and average time to repay debts). Such information has been used in various parts of this study to determine, for example, the magnitude of recorded HELP liabilities, rates of collection, and their trend over time. However, no publicly-available information on compliance-related aspects of the personal tax system concerning HELP debt collection could be identified, resulting in the need for some informal inquiries to tax officials for any further information that might be made available on these matters. From these inquiries it would appear that until very recently the operation of the HELP debt collection mechanism of the income tax system (including the PAYG withholding provisions) has largely been considered as an incidental element of a much larger income tax system and given limited explicit recognition in a tax compliance context. In our view, while such a position may have been justified in the past when the HELP debtor population and debt were much smaller this is no longer the case. Furthermore, the findings described in Section 4 of this report provide indications that HELP debt is influencing the income tax compliance behaviour of many taxpayers in a variety of ways, with negative revenue consequences, both in relation to the collection of HELP debts and personal income tax.

There are some concerns for the future, particularly when expected growth patterns in overall HELP debt and debtor populations are taken into consideration. With the ATO's recent decision to no longer publish its long-standing *Taxation Statistics* series, information on the ATO-administered aspects of the HELP scheme could, in the absence of alternate reporting measures, become less transparent and more complex to readily assemble. A more significant concern, and this also pertains to the reporting responsibilities of the Department of Education, is that compared with the level of reporting observed in respect of New Zealand's student loan scheme,²⁶ the overall level of reporting that is publicly available on Australia's student loan scheme is severely lacking and warrants urgent consideration.

4.6 Summary of observations

Against the background of low overall collections and rapidly growing debt our research points to a range of contributing factors:

- A relatively generous minimum repayment threshold in the income tax assessment process (especially having regard to regimes in similarly advanced economies);
- A relatively high value initial payment on entry into the repayment regime (now over \$2,000 on the first \$1 of income above the minimum HRI threshold) which is likely to act as an incentive for a fair number of debtors to not comply by not properly reporting all income and deductions.
- Evidence of bunching of HELP debtors' WRE claims around the repayment thresholds, especially the minimum one, suggesting indications of over-claimed deductions.
- A higher incidence of self-education WRE among HELP debtors; collection priority should be given to collecting HELP debt before further benefits are given to HELP debtors on account of their education.

²⁶ Above 24

- A higher (unexplained) incidence of gift deductions among HELP debtors in some age groups.
- A collection gap: HELP debtors living and working overseas have no obligations to make repayments even where their income is above the minimum threshold—this is inequitable and costly to Government.
- Progressive erosion of incentives for upfront or voluntary debt repayments.
- The need for a more robust and comprehensive policy in the ATO to identify and address the risks to income tax non-compliance by HELP debtors.
- While HELP debtor activities may postpone HELP debt repayment, the impact each year on personal income tax collections is final and unrecoverable.

5. WHAT HELP DESIGN AND ADMINISTRATIVE REFORMS WOULD ADDRESS INCOME TAX INTEGRITY CONCERNS?

5.1 Do prospective HELP changes address or exacerbate HELP debt?

A range of actions have recently been taken by the Commonwealth which have directly impacted on HELP debts or will do so into the future:

1. expanded access;
2. reduced upfront discounts (and their ultimate elimination); and
3. 2014–15 Budget announcement to deregulate university fees and to modify the design of the HELP regime (that is, indexation, repayment thresholds and rates of repayment).

5.1.1 *Expansion of access*

The dramatic expansion of access to HELP followed the release of the Bradley Review²⁷ in 2008 in which the Commonwealth Government moved to lift the Commonwealth supported places over-enrolment cap from five per cent to 10 per cent in 2010 and 2011 and then uncapped these places from 1 January 2012. In the 2013–14 Budget it was announced that Student Start-up Scholarships would no longer be a grant but become an income contingent loan and part of HELP. At the same time, following a review of VET-FEE HELP,²⁸ as shown in Table A3 there is a planned rapid escalation in VET-FEE HELP in forthcoming years. In the 2014–15 Budget, the

²⁷ See Review of Australian Higher Education at <http://www.innovation.gov.au/highereducation/ResourcesAndPublications/ReviewOfAustralianHigherEducation/Pages/ReviewOfAustralianHigherEducationReport.aspx>

²⁸ VET FEE-HELP provides income contingent loans to students of higher-level VET courses such as diplomas and advanced diplomas. The scheme has been expanded following a review reported in: <http://ris.finance.gov.au/files/2012/10/03-VET-FEE-HELP-REDESIGN-RIS.pdf>
http://www.tda.edu.au/cb_pages/files/VET%20FEE-HELP%20Redesign%20Discussion%20Paper%20Final.pdf
http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201314/VocationalEducat

Trade Support Loans for apprentices (capped at \$20,000) would also become part of HELP and those apprentices who successfully complete their training would receive a 20 per cent discount on the amount to be repaid.²⁹

5.1.2 *Reduction and elimination of discounts*

The progressive reduction and eventual abolition of the HECS upfront fee discount and upfront HELP debt repayment discount are shown in Table A1.³⁰ The combined effect of expanded access and reduced discounts is, as shown in Table A6, to rapidly escalate HELP debt and debtors such that by 2017–18, around 26 per cent of those aged 18–54 years are likely to have some HELP debt and confront the average and marginal tax rates shown in Table 1 and Chart 1. While the expansion of HELP access might be important, so too is attention to a program for mitigating the incentive for taxpayers to not comply with their HELP repayment obligations and in turn impact adversely on income tax integrity.

*2014–15 Budget decisions*³¹

In May 2014, the Commonwealth announced as part of the 2014–15 Budget a number of proposals which, if implemented as intended, will have a significant overall impact on the future growth of HELP debt and its repayment:

- Changes to higher education will allow universities to set their own tuition fees from 2016. (For students already studying, existing arrangements will remain until the end of 2020.)
- The Government will reduce the income threshold for repayment of *Higher Education Loan Program* (HELP) debts commencing in 2016–17 and will adjust the indexation of HELP debts from 1 June 2016. (This is estimated to achieve savings of \$3.2 billion over four years from 2014–15.)
- A new minimum threshold will be established for the repayment of HELP debts, set at 90 per cent of the minimum threshold that would otherwise have applied in 2016–17. The new minimum threshold is currently estimated to be \$50,638 in 2016–17. A new repayment rate of two per cent of repayment income will be applied to debtors with incomes above the new minimum threshold (as indicated by the dashed line in Chart 1). There will be no other change to current repayment rates.
- The annual indexation applied to HELP debts will be adjusted from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at six per cent per annum, from 1 June 2016.
- From July 2014, the Government will also support those learning a trade by providing concessional Trade Support Loans of up to \$20,000 over a four-year apprenticeship, repayable under HELP and with a 20 per cent discount upon completion of the apprenticeship.

²⁹ 2014–15 Budget Paper 2, *Budget Measures 2014–15*, p172 See http://www.budget.gov.au/2014-15/content/bp2/download/BP2_consolidated.pdf

³⁰ This was scheduled for 1 January 2014 but to date, the legislation enacting the abolition of the upfront fee and debt repayment discounts has not been enacted.

³¹ These announcements are conditional on their approval by Parliament.

- The HECS-HELP benefit, which was intended to provide an incentive for graduates of particular courses to take up related occupations or work in specified locations will end from 2015-16. (This follows a recommendation of the *Review of the Demand Driven Funding System*³² that the benefit be discontinued, there being little evidence it had been effective in addressing skill shortages.)

As noted in 3.2, the combined impact of these changes over the medium term will be to significantly increase both the overall level of HELP debt and numbers of debtors. Realistically, this can only have a negative impact on tax compliance and collections of personal tax if not rigidly enforced.

5.2 Should HELP income definition be broadened? (Y')

Possible responses capable of removing these disincentive effects must begin with designing HELP parameters (Figure 1) in such a way as to remove scope for behavioural responses by HELP debtors that are designed to avoid or evade repayment of their debt. Since HELP repayments are determined by HRI (Y') and the repayment schedule (h, H), an obvious first line of any strategy would be to define HRI in such a way as to minimize the scope for the debtor to have discretion over its value without directly impacting their well-being. One obvious option is to exit the country (Section 5.4 below) but another is to receive income in a way which impacts HRI but not the welfare of the individual. This could be achieved through manipulating HRI by receiving income in non-taxable forms or incurring expenses deductible against income included in HRI (Section 6). Since HRI is directly related to taxable income under the personal income tax, there is limited action that can be undertaken with HRI independent of taxable income. However, as shown in Annex 1, while HRI was once equivalent to taxable income it is now much broader and removes scope for HELP debtors to use losses, fringe benefits or superannuation contributions to reduce their HELP debt repayments. What scope does remain for broadening HRI is evident from a review of the tax expenditure statement prepared by Treasury.³³ Omitted from HRI is the capital gains discount on investments other than the main residence, all capital gains on the main residence, the concessional treatment of non-superannuation termination benefits and of superannuation entity earnings.

As shown in Table 5, past moves to expand HRI to include reportable fringe benefits (RFB) and investment losses have prevented avenues for some HELP debtors to avoid HELP repayments. Another approach to broadening HRI would be to reduce those deductions which can be offset against income and therefore impact HRI. This was effectively the outcome of not enabling losses on investments (especially residential property) from being deductible against HRI (Annex 1). Table 5 outlines the HELP repayments and debtor impact in 2010–11 of moving to disallow either just work-related expenses or all deductions. By disallowing WRE, the number of HELP debtors making repayments would increase 6.4 per cent and repayments 9.5 per cent, while if 'all deductions' were not allowed, the respective figures would be 7.2 per cent and 11.1 per cent. Broadening the base obviously not only increases the number of

³² See <http://www.education.gov.au/report-review-demand-driven-funding-system>

³³ See <http://www.treasury.gov.au/Treasury%20Home/PublicationsAndMedia/Publications/2014/TES%202013>

HELP debtors liable for repayments, it also increases repayments by those already making payments.

Table 5 Impact of broadening HRI in HELP: 2010–11

	Base Case (BC) with:					
	No change	RFB and losses ignored	RFB ignored	Losses ignored	Deductions disallowed	WRE deductions disallowed
Revenue (\$m)	1,732	1,562	1,618	1,677	1,925	1,896
Taxpayers with HELP Repayment liability	402,700	375,700	383,000	396,100	431,800	428,600
HELP Debts with Repayments as a % of:						
All Taxpayers	3%	3%	3%	3%	3%	3%
All HELP debtors	34%	32%	33%	34%	37%	36%
Change from Base Australian case of:						
Popln making HELP Repayments	0	-27,000	-19,700	-6,600	29,100	25,900
Revenue (\$m)	0	-171	-114	-55	192	164

Source: Own estimates using ATO 1% Taxpayer file

5.3 Should the HELP repayment schedule be changed? (h, H)

While broadening HRI can increase HELP repayments, a more direct approach is to change either the rate of repayment (h) or the threshold (H) at which those different rates apply. Annex 1 sets out the rate schedules which have applied since 2000–01 and Table A1 calibrates the highest and lowest thresholds against AWOTE.

Most striking about the trends in Table A1 is the degree of movement in both the thresholds and rate over time. While the income contingent loan system was introduced in a way designed to only impact on those on around 90 per cent of AWOTE, the need for increased revenue saw the lowest thresholds reduced to around 55 per cent of AWOTE in 1997–98 and when the lowest rate was increased from three per cent to four per cent in 2004–05, the lowest threshold was increased to 68 per cent of AWOTE.

With the rapid expansion of the HELP scheme since 2005 into VET programs (Tables A1 and A2), it can be expected that many lower income HELP debtors will enter the scheme. If the capacity of the Commonwealth to fund HELP debts from general revenue is diminishing, then attention must inevitably be given to how the threshold (H) and rate (h) are set.

Both NZ and the UK have recently sought to address just this issue by adjusting both the threshold and rate of repayment under their income contingent student loan schemes³⁴. Table 6 presents the results from applying to Australia the current UK and NZ repayment schedules for their income contingent student loan schemes. The thresholds in each case are set on the basis of the average weekly earnings in the respective countries and applying that ratio to devise an Australian scheme. There is, however, one key difference between the Australian and UK and NZ schedules: while the Australian schedule applies a flat rate to all income once that rate is determined (Table 1 and Chart 1), the UK and NZ schemes only apply the rate on the excess of income above the threshold.

³⁴ The UK also moved to increase the student contribution as an increased the repayment rate and threshold.

With NZ applying a rate of 12 per cent at 35 per cent of average weekly earnings and the UK a rate of nine per cent applied at 84 per cent, Table 6 estimates what impact such schedules would have on HELP repayments and the number of HELP debtors making such repayments in Australia. What is apparent is the relatively generous approach in the UK and the strident approach taken in NZ to recouping the cost of providing tertiary education. Applying the NZ model in Australia would have seen the number of HELP debtors making repayments increase some 85 per cent from current levels and the level of repayments increase by just over 50 per cent.

Even if Australia was to introduce the initial threshold (in real terms) that it had in place in 2003–04, the effect would be to increase the number of HELP debtors required to make a repayment by nearly 40 per cent and the amount of repayment by 34 per cent. If a decision was made not to raise increased revenue from this change but to reduce the repayment rates each by two per cent so that the rates varied between two per cent and six per cent, the reduction in the threshold would be revenue neutral (Table 6) and act to reduce (but not eliminate) the pattern evident in Chart 1. If instead it was decided to both reduce the initial threshold to comparable levels to that in NZ and reduce the rates each by two per cent, Table 6 shows that an additional \$869 million would be raised, resulting in revenue not too dissimilar from that raised from NZ's 12 per cent rate imposed above the threshold.

In contrast, the approach announced in the 2014–15 Budget (shown in Table 1) is to set from 2016–17, a new lower threshold at 90 per cent of the existing four per cent threshold and to impose a two per cent rate before the 4 per cent threshold comes into force. The effect of this proposal as shown in Chart 1 will be to reduce the impact of stepping up initially to a four per cent rate, an approach justified given the significant disincentive that exists with the current repayment regime. There is however, still a case for a lower overall threshold, especially with the planned expansion of the HELP scheme to include institutions who can compete with current tertiary institutions in offering diploma, advanced diploma, associate degree and bachelor degree level course but who might receive lower remuneration upon graduation arising from the public standing of the institution.

Table 6 Impact of alternative HELP repayment schedules: 2010–11

	Australian Model				NZ Model (c)	UK Model (c)
	Actual Rates and Thresholds(a)	2003-04 Thresholds (b)		NZ Thresholds		
		Actual Rates (a)	Rates less 2%			
Lower Threshold: % of Average Weekly Earnings	68%	52%	52%	35%	35%	84%
\$A equivalent (Dec 2013)	45,913	34,625	34,625	23,287	23,287	56,492
Repayment Rate	4%-8%(a)	4%-8%(a)	2%-6%	2%-6%	12%	9%
HELP Repayments (\$m)	1,732	2,323	1,764	2,601	2,628	518
Change from Aust Case (\$m)	0	591	32	869	896	-1,214
Taxpayers with HELP Repayment liability	402,700	559,100	559,100	745,500	745,500	263,000
Change in taxpayers from Australia Case	0	156,400	156,400	342,800	342,800	-139,700
HELP Debtors with repayments as a % of:						
All Taxpayers	3%	4%	4%	6%	6%	2%
All HELP debtors	34%	47%	47%	63%	63%	22%

Note:

a. A flat rate of between 4% to 8% applies to all income when income exceed an income threshold (as detailed in Annex 1 and Table 5)

b. Thresholds for 2010-11 are set on the basis that the ratio of threshold to AWOTE in 2003-04 applied in 2010-11.

c. NZ schedule is 12% on income above NZ\$19,084pa and the UK schedule, 9% on income above £21,000

Source:

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202013?OpenDocument>

<http://www.ird.govt.nz/studentloans/guide/changes/>

<http://www.stats.govt.nz/~media/Statistics/Browse%20for%20stats/QuarterlyEmploymentSurvey/HOTPD13qtr/QuarterlyEmploymentSurveyDec13qtrH>

<https://www.gov.uk/student-finance/repayments>

Source: Own estimates using ATO one per cent taxpayer file

What is apparent from the discussion in this section and the results in Table 6 is that attention to the rate and threshold associated with HELP repayments is a critical first step in any move to increase repayments. However, given the significant disincentive effects associated with the current repayment schedule design (evident in Table 1), any action to lower the threshold and expose more HELP debtors to such disincentives must be associated with greater attention to limiting the scope for such debtors to respond adversely.³⁵

5.4 Would new exit rules HELP? (e)

At its simplest, an income contingent loan is designed to enable a person to enhance their human capital skills and, when the return from that human capital is realised, to use their increased earnings to fund repayment of the loan. While how to measure HRI and where the lowest HELP repayment threshold should be set are key considerations, it is meaningless if debtors can escape their loan obligation by simply changing their country of residence. While both NZ³⁶ and the UK³⁷ have programs in place to recoup outstanding loans from non-resident debtors, Australia has no such program. In the case of NZ, their program is now complemented with provisions that

³⁵ Under NZ and UK repayment schedules, the marginal and average rates differ at different income levels whereas under the Australian schedule, they are the same. As shown in Table 1, this results in real incentives for debtors to keep below HELP repayment thresholds. A lower rate associated with any lowering of thresholds (especially the initial threshold) would begin to address this issue.

³⁶ See NZ Inland Revenue Department Annual Report 2013, p24, <http://www.ird.govt.nz/resources/6/4/643702804171ef74bb01fb6fe0111a70/annual-report-2013.pdf> and, see <https://www.ird.govt.nz/studentloans/overseas/making-payments/#01>

³⁷ For the UK see http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678653&_dad=portal&_schema=PORTAL

include ‘arrest at border’ legislation for those with overdue debts who do not notify authorities of their intention to travel overseas.³⁸

If these debts were a factor in the individual deciding to reside in another jurisdiction, this obviously has implications for integrity of domestic personal income tax. However, in the majority of cases, such debts will not be the primary consideration. Nonetheless, not having in place any program designed to address outstanding debts from income contingent loans for tertiary study does undermine the integrity and sustainability of the scheme in the long term in an environment where tertiary-educated individuals are more mobile across international frontiers.

However, there is some debate about the effectiveness of the schemes and the need for bilateral arrangements between countries where debtors are working in order for the schemes to be effective. Voluntary repayments are fine in principle but problematic in practice, as noted by the UK NAO in their review of student loan payments.³⁹

Suggestions have been made by Chapman and Higgins (2013) that a legal obligation be imposed on those who go overseas for more than six months to repay a minimum HELP obligation of \$2,000 a year (on a self-assessment basis). In principle, their concern for this gap in HELP debt collection is shared and one can expect that the changes announced in the 2014–15 Budget will, if implemented, only increase the incentive for new graduates to seek employment overseas. However, a repayment of \$2,000 per annum would be a relatively modest amount for some debtors working overseas noting, for example, that a counterpart (with a HELP debt) remaining in Australia and earning say \$80,000 in 2013–14 would be expected to repay some \$5,200 of their HELP debt on assessment (Table 1). An alternative approach would be to require HELP debtors working overseas to report their annual income, thereby enabling a more realistic and equitable assessment to be made of their capacity to repay HELP debts.

5.5 Should outstanding debts be paid from debtors’ estates? (e)

Norton (2014)⁴⁰ argues that outstanding HELP debts should be collected from the estates of debtors, as would normally apply in the case of other debts of deceased debtors. When the Commonwealth Minister for Education, Christopher Pyne⁴¹ raised the possibility of this during the post 2014–15 Budget discussion, it was immediately described in some quarters as a ‘death’ tax.

While the equity arguments underpinning this suggestion are acknowledged, consideration of such any proposal along these lines also raises the legitimate issue of why repayments of HELP debt from capital assets might only be sought on the death of HELP debtors. For example, under current taxing arrangements, taxpayers (and HELP debtors) can enjoy certain capital gains free of any tax liability (as with sales of residence and lottery winnings) while only 50 per cent of assessable capital gains form

³⁸ See <http://taxpolicy.ird.govt.nz/publications/2013-commentary-sls-3/policy-changes>

³⁹ See http://www.nao.org.uk/wp-content/uploads/2013/11/10307-001-Student-loan-repayments_BOOK-ES.pdf

⁴⁰ See <http://grattan.edu.au/static/files/assets/dc751829/809-doubtful-debt.pdf>

⁴¹ See <http://www.smh.com.au/federal-politics/political-news/christopher-pyne-suggests-collecting-hecs-debts-from-dead-students-as-way-to-help-budget-20140528-394rx.html>

part of an individual's taxable income and are therefore taken into account for HELP repayment purposes.

In short, the suggestion of HELP debts being paid from debtors' estates warrants consideration but ideally in the context of a broader review of assessing all of the issues relevant to determining the debtors' capacity to repay their HELP debts.

5.6 Fee share (g), access (F) and loan limits (ΣX , X)

If the concern of government is less with the aggregate level of HELP debt in the long term and more with receiving a greater return in the short term, a laterally-based strategy might be to expand access to the scheme (F), as has been done in Australia, and to raise the contribution by individuals to the cost of tertiary education to government (g), as the UK did when it allowed institutions the option to increase tertiary fees up to a maximum of £9,000pa from the previous £6,000pa in 2012. A consequence of such a scheme is a high level of HELP debt and the likelihood that a substantial proportion of this debt might inevitably be written off. However, such an outcome might not be a problem if the original intention was to have those with a greater ability to pay, to pay more and those less able, to pay less.

To prevent individual debt from becoming unsustainable in such situations, an option available is to cap the size of the loan (ΣX). Australia has taken such an approach in the case of loans obtained through FEE-HELP as shown in Table A1 and, in the case of HECS-HELP, moved to capped access between 2005 and 2011 at seven effective full-time student load (EFTSL). This cap was removed in 2012 for HECS-HELP, an approach in common with NZ and UK.

However, in the 2014–15 Budget, it was announced that from 2016, Universities would have payments for their Commonwealth Supported Places reduced, the 'student contribution' uncapped and HECS-HELP uncapped. This policy proposal has been highly controversial and whether it is ultimately implemented is unclear. However, what is clear is that while increasing the student fee share and expanding access might help government recoup more of the cost of tertiary education, the risk to integrity of the personal income tax system is still present and significant, arising through the interaction between the income-contingent loan repayments on now much higher HELP debt and the personal income tax system. This challenge can only be addressed by actions designed to limit what debtors can do to minimise their loan repayments and in turn impact on personal income tax collections.

5.7 What escalation rate on HELP debt (r)

If debt was cost free, the real cost of that debt would be eroded with time due to the effects of price inflation. Furthermore, if that debt funded an investment in human capital whose inflation is greater than price inflation—as is typically the case—then there is no incentive to repay that debt. In Australia, HELP debt is indexed to the consumer price index (CPI) meaning that while ever wages rise faster than the CPI, there is little incentive to pay education costs fees upfront or to make HELP debt repayments upfront.

In NZ the indexation rate is zero per cent for domestic residence⁴² with a debt and for non-residents, equal to the five-year average of the 10-year bond rate to December in the year preceding the tax year to which the rate will apply (to two decimal places) plus a margin of 0.74 per cent⁴³. In contrast, the UK applies an indexation rate which is equivalent to the consumer price index below the threshold and increases above the threshold of £21,000, rising by the consumer price index plus three per cent above £41,000.⁴⁴ While the NZ approach reflects the opportunity cost of borrowed funds for the NZ government (but only for non-residents), the UK approach effectively incorporates some element of wage inflation into its measure as well as some progressivity. In contrast, the Australian approach is generous although not as generous as the NZ model although NZ has a much reduced threshold at which debt repayments begin. As a consequence, those with a debt begin making payments on their loan at 35 per cent of average weekly earnings compared to 68 per cent in Australia and 84 per cent in the UK (Table 6). The zero per cent interest-rate in NZ may therefore be not that important when repayment is expected over a short period of time.

However, the rate of debt escalation is important to income tax integrity if repayment is expected over a long period in which case it might impact on the incentive individuals have to repay their debt. If the debt is only increasing at the CPI and wages increase faster, then there is an incentive for individuals to delay repayment through non-compliance to delay the loan repayment. If the indexation rate is similar or greater than that for wages, there is an increased incentive to make early payments and less benefit from non-compliance. Combined with a lower threshold at which payments begin, a high debt escalation rate would help to reduce any incentive for non-compliance to delay debt repayment.

5.8 Would changes in HELP repayment administration make a difference?

Under existing governmental arrangements, the Department of Education is responsible for national policies and programs that help Australians access post-school higher education, international education and academic research.⁴⁵ This encompasses the HELP program and as part of its responsibilities the Department of Education promotes access to Government loans to students who meet eligibility requirements, as well as ensuring that the ATO is supplied with requisite individual student loan data for HELP debt collection purposes. The Department of Education is also responsible for the HELP receivable and each year it provides an actuarial assessment of its estimated present value for government financial reporting purposes (Table A6), along with a limited array of key performance indicators (including average amount of debt per student, average time to fully pay debt, and amount expected never to be repaid).⁴⁶

⁴² <https://www.ird.govt.nz/studentloans/overseas/interest-free/>

⁴³ See http://www.educationcounts.govt.nz/publications/tertiary_education/2555/student-loan-scheme-annual-report-2013 http://www.educationcounts.govt.nz/_data/assets/word_doc/0004/144571/2013-Student-Loan-Scheme-Support-Changes.docx

⁴⁴

http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678823&_dad=portal&_schema=PORTAL

⁴⁵ Until September 2013, the HELP was the responsibility of the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

⁴⁶ The most recent actuarial assessment suggests that by 2017-18 the proportion of new debt unlikely to be repaid will be equivalent to around 22% of the total receivable (Table A6 refers).

Given the nature of its responsibilities, the Department of Education can be regarded as the ‘owner’ of the HELP receivable.

For its part, the ATO has responsibilities for recording the value of HELP loans made to students in their individual loan accounts, processing voluntary repayments, undertaking the annual indexation of HELP debts, providing online access for HELP debtors to their loan accounts, administering the PAYGO withholding provisions in relation to HELP debtors, and raising HELP assessments via the income tax return assessment process where the conditions for loan repayment via the tax system are met. Until 2014, the ATO also published fairly detailed statistical information about HELP debtors and aggregate debt in its annual statistical series. However, reference to the operation of the HELP repayment process in the ATO’s annual performance report is extremely limited vis-à-vis other administered programs. Given the nature of its responsibilities, the ATO can be seen to have a central role in the collection of HELP debts, but nevertheless remains an ‘agent’ of the Department of Education.

While this paper will not explore in any detail the nature of the arrangements between the Department of Education (and its predecessor agencies) and the ATO for managing HELP debt and, in particular, the HELP debt collection process, this is an important issue. In 2006–07 the HELP program was the subject of review by the Australian National Audit Office (ANAO) which focused on assessing the effectiveness of procedures and processes used by Department of Education Science and Training (DEST, the government agency at the time responsible for HELP) and the ATO to record HECS–HELP student loans.⁴⁷ The ANAO’s findings were generally positive although its report noted that its examination specifically excluded the HELP repayment process. Concerning the HELP receivable, it is important to note that while both agencies publish their own aggregates (that is, covering both the value of debt and numbers of debtors) there is no attempt to reconcile their respective data or to report holistically on the HELP program ‘end-to-end’ (an issue raised in Table A6).

Reviewing the published materials of both agencies does not convey any real sense of collective ownership nor management of HELP debt and while this may misread the reality of what occurs in practice, the management of HELP repayment activities and outcomes would nevertheless benefit in our view from a more robust and comprehensive collection strategy and more extensive reporting of processes and outcomes in a ‘whole of government’ sense. This point is made, in particular, having regard to recent growth in HELP debt and its projected trend and is in line with increased ‘whole of government’ efforts to collect student loans observed in recent years in some other countries (including NZ and the UK). An example of the more concerted effort envisaged can be found in the report of the UK’s National Audit Office (NAO) titled *Student Loan Repayments* published in November 2013.⁴⁸ In their report on the UK student loan scheme, which has many design similarities to HELP and is expected to grow significantly in the coming years, the NAO references the need for a “jointly-owned strategy for improving collection performance” (p7), including:

⁴⁷ *The Higher Education Loan Programme*, ANAO, Audit Report No.50 2006–07.

⁴⁸ *Student loan repayments*, Report by the Comptroller and Auditor General, HC 818, Session 2013–14, 28 November 2013, United Kingdom.. http://www.nao.org.uk/wp-content/uploads/2013/11/10307-001-Student-loan-repayments_BOOK.pdf

1. Actions to better understand how the stock of receivables is performing;
2. Transparent and understandable forecasting of the amounts expected to be collected;
3. Consideration of collections targets;
4. Development of a collections strategy;
5. Analyses to better understand the circumstances of borrowers with no current employment record;
6. Better targeting of borrowers where there is a greater risk that they could be avoiding repayment;
7. Consideration of the use of external debt collection bodies, particularly in respect of borrowers living overseas; and
8. Work with other government departments to develop a strategy for sharing data that provides opportunities to gain information on the circumstances of specific borrowers.

There are strong arguments for similar attention in the Australian context.

5.9 HELP design findings

While the basic principles underlying the design of HELP are widely accepted,⁴⁹ how the scheme operates in practice is more controversial. If the intention of the HELP scheme was to offer a loan to all eligible tertiary education students and universally recoup that loan once HELP debtors earn income, then the analysis in this paper would conclude that the HELP collection regime underperforms in terms of both economic and administrative efficiency. However, the HELP scheme was not designed with this objective in mind; rather, it seeks repayment of loans only from those who have the capacity to repay them. It does this by a combination of discounts for upfront payment of student fees and upfront repayment of the debt; and mandatory repayments of debt based on annual income (as defined for HELP purposes). The findings of this paper are that the scheme only partially achieves its objective, given the following unsatisfactory aspects and developments:

1. By over-claiming deductions and not lodging returns, many taxpayers appear to be deferring, avoiding or reducing their repayments.
2. HELP debtors can leave Australia and be not obliged to repay debt, regardless of their income.
3. The repayment rate scale acts as an incentive for over-claiming deductions or understating income.

⁴⁹ See Section 3. Annex 2 also outlines the student income contingent loan schemes operating in Canada, NZ, Sweden, UK, and the US. While each of the schemes is different in terms of its operation, the ultimate objective is common.

4. The design of the repayment regime appears relatively generous vis-à-vis schemes elsewhere.
5. The direction of reform is for no incentives for upfront payment.

In response, this section has proposed the following reform options should be considered:

1. Lowering the repayment threshold by at least \$10,000 and introducing a lower initial repayment based on a rate of two per cent, rising progressively till it reaches six per cent rate (currently 8%); this would increase HELP aggregate repayments and reduce the incentive to avoid and evade by current HELP debtors, although it would expose more HELP debtors to higher marginal tax rates. The 2014–15 Budget proposal for a two per cent rate beginning at 90 per cent of the current four per cent rate threshold is an acknowledgement of the high threshold and its high effective marginal rate but is only a partial solution to inadequate levels of repayment.
2. At a minimum, the definition of HRI should be expanded and consideration given to writing back all WRE deductions or at a minimum, deductions for self-education expenses.
3. Establish a requirement for HELP debtors living overseas to make repayments where their income is over the threshold, with sanctions for non-compliance but where the approach taken is relatively simple and administrable.
4. Review the need to reconsider the non-payment of outstanding debt from deceased estates to assess whether this option for repayment should complement debtors' action to ensure repayments from those who exit their HELP debt by living and working overseas.
5. Restore incentives for early and voluntary fee and debt payments but only where the incentive to make such payments is restored through higher debt escalation rates, lower repayment thresholds and strict arrangement for repayments by overseas debtors.
6. Index HELP debt to AWOTE, not the CPI, or introduce an arrangement similar to that in the UK where the escalation rate on income-contingent loans depends on the borrowers' earnings. The adoption of the 10 year bond rate as the index in the 2014–15 Budget reflects the cost to government of the HELP debt and not the income generated through education or the ability to pay for that education funding.
7. Establish loan limits for each program (as for FEE-HELP and as did previously apply to HECS-HELP) combined with consideration of a global (all up) limit.
8. HELP repayment administration must give greater attention to the risk to income tax integrity from non-compliance by HELP debtors.

With these reforms comes the additional benefit of less need to write off HELP debt as more taxpayers become liable for HELP repayments and because those exiting overseas will not escape HELP debt obligations. As a result, the difference between

the debt as reported by the Department of Education and by the Australian Tax Office in Table A6 would be reduced.

6. DOES PERSONAL INCOME TAX DESIGN AND ADMINISTRATION IMPACT HELP LOAN COLLECTION INTEGRITY?

While the focus of this paper is on the impact of HELP on personal income tax integrity, the approach to personal income taxation is not independent of HELP design. While HRI is broader but inclusive of taxable income, any changes in the tax treatment of taxable income sources and deductible expenses will directly affect HRI. Although Section 5.2 highlighted how HRI had been broadened since the introduction of HELP, it is equally possible to change HRI through a broadening of the taxable income base. This could be achieved by denying various deductions or income discounts to HELP debtors. However, while changes to HRI will only affect HELP debtors, changes to taxable income will affect all taxpayers. In this case, the issues involved relate more to tax deduction design (Warren 2014a, 2014b) and less to HRI.

A further complication is the policy inconsistency arising from having work-related self-education expenses a deductible expense for income tax purposes when those expenses are funded through a government provided loan which might not be repaid or not indexed appropriately. There is also a question about consistency where self-education expenses are not deductible when those expenses are related to potential future employment income but not current employment, a major reason for tertiary education. To be consistent, expenses related to current and future employment should both be deductible. However, if those expenses are met through income contingent loans, a case for their non-deductibility could be developed.

Another approach to reducing the distortion arising from the HELP repayment schedule is to change the personal income tax rates and thresholds (M , m in Figure 1) but this would be costly and a poorly targeted strategy to addressing the root cause of the problem. Similarly, action to improve income tax compliance by HELP debtors involves more issues than just HELP compliance and would have implications for all income tax payers.

7. WAY FORWARD

The main purpose of this study was to examine whether there are indications that the operation of HELP undermines personal income tax integrity. In other words, does HELP as currently designed lead to increased personal income tax non-compliance by some HELP debtors in order to defer or avoid the repayment of their HELP debts?

In our view, and acknowledging the limitations of the methodology used, there are such indications but these need to be tested more fully against the full population of HELP debtors to assess with any reasonable level of precision their significance and revenue consequences for collections of both personal income tax and HELP debt.

In completing this study it also became apparent that there are inherent design weaknesses in the HELP program that not only unduly impede the collection of HELP debt but also encourage abuse of the personal income tax.

The HELP debt book is now a significant public asset and one which will grow significantly over the coming decade. In line with this there will also be significant growth in the HELP debtor population with implications, based on the findings of this study, for personal income tax integrity.

The 2014–15 Budget response has been both to acknowledge the problem, offer some modest solutions, such as a lower repayment threshold. However, it also proposes policies that will significantly add to overall HELP debt (such as, deregulating student fees, broadening access to HELP, and indexing HELP debt based on the funding cost to government). In the event these policies are adopted what results, as shown in Table A6, is a rapid escalation in total and average student debt over the Budget forward estimate period.

Missing from the 2014–15 Budget was concerted attention to formulating a broad range of reforms designed to both reduce opportunities for undermining the personal income tax and to ensure a speedier collection of HELP debt. As this paper has argued, there is no single solution; rather, attention should be given to HELP design (both in the accumulation and decumulation phases), to the design of the personal income tax, and to the administration of HELP debt repayment.

Matters needing consideration in this context include:

HELP design

- Lowering the HELP repayment threshold well below that proposed in the 2014–15 Budget, while retaining the proposed two per cent initial rate (see 5.3 and 5.9).
- Modifying the definition of HRI (see 5.2 and 5.9).
- Imposing an obligation on eligible HELP debtors living overseas to make repayments, supported by appropriate sanctions for non-compliance (see 4.3, 5.4 and 5.9) (accompanied by incentives and sanction along the lines of those adopted by NZ).
- Review alternatives to automatically writing-off of all HELP debts for deceased estates.
- Restoring incentives for early and voluntary repayments (see 5.1 and 5.9) (rather than their abolition as currently proposed).
- Modifying the HELP debt indexation approach (see 5.6 and 5.7) by aligning it to AWOTE (rather than the 10 year bond rate proposed in the 2014–15 Budget).

Personal income tax design

- Adoption of recommendations made in the AFTS (2009) concerning work-related expenses and gifts (see 4.2 and 5.2).

HELP repayment administration

- Development of a jointly-owned and comprehensive HELP debt collection strategy (see 4.4, 4.5 and 5.8).

- More comprehensive and transparent reporting on HELP repayment administration (see 4.5 and 5.8).

Income tax administration

- Increased recognition to HELP debt as a compliance risk criterion for all aspects of income tax administration, including PAYG withholding requirements (see 4.4 to 4.6).

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9. ANNEX 1: AUSTRALIAN HIGHER EDUCATION LOAN PROGRAM (HELP)

The Australian Higher Education Loan Program provides students with universal access to a higher education loan to fund their tertiary education student contribution. Discounts are available where students make a voluntarily upfront payment of their student contribution⁵⁰ or a voluntarily upfront repayment of their accumulated HELP debt. In relation to repaying any HELP debt, this is done through the tax system once the debtor's income exceeds a prescribed HELP Repayment Income (HRI) threshold. The HELP scheme is therefore an income contingent loan with incentives to repay early and income-based rules for when mandatory repayments are required.

9.1 Historical Changes: 1989-2013

While the original loan arrangements were introduced to enable undergraduate students in Commonwealth supported places to obtain a loan to fund the charge set by and paid to the government under the Higher Education Contribution Scheme (HECS), as Tables A1 and A2 show the scope of the loan scheme has since been progressively expanded. Today, HELP comprises five separate schemes including: 1) HECS-HELP which funds Commonwealth-supported (mostly undergraduate) students to pay their student contribution amounts; 2) FEE-HELP which supports fee paying students (primarily postgraduates); 3) SA-HELP which is available to pay for all or part of student services and amenities fee; 4) OS-HELP which assists eligible undergraduate Commonwealth supported students to pay their overseas study expenses; and 5) VET FEE-HELP which is available to students undertaking higher-level vocational education and training courses at approved VET providers⁵¹.

This evolution has been gradual. In 2002, the undergraduate focussed HECS was complemented with a Postgraduate Education Loans Scheme (PELS) designed to provide loans to fund the cost of postgraduate study and a scheme to support overseas study (OS) study by undergraduate students. In 2005, HECS was changed from being a charge set by and paid to the government to being a 'student contribution' set by and going to universities, up to a maximum set by the Commonwealth, with HECS-HELP being the scheme designed to finance the associated student loan. In the same year, the debt under the PELS and OS, renamed FEE-HELP and OS-HELP respectively, were combined with the HECS-HELP into a single loan scheme – the Higher Education Loan Program⁵².

Any resulting HELP debt incurred by students is treated as an advance paid to students by the Department of Education with the recovery of this advance managed on behalf of the Department by the ATO. In 2012, HELP was further expanded with access to the scheme made available to fund vocational education and training (VET-HELP) and student services and amenities fee (SA-HELP), and from July 2014, those learning

⁵⁰ Under decisions of the previous Government, it was planned for the discount on both upfront payment of fees and the repayment of debt to be abolished from 1 January 2014. However, as a 1 April 2014, this legislation had not passed both Houses of the Australian Parliament and these discounts were still available.

⁵¹ See : <http://studyassist.gov.au/sites/StudyAssist/HELPpayingMyFees>

⁵² A further change in 2005 that was administrative in nature was that access to HELP was available to all higher education providers that met the requirements set by government, rather than being available to students in designated institutions. In doing so it depoliticised system and significantly broadened student access to HELP.

a trade and accessing a Trade Support Loan, would have their loan added to their HELP debt.

In contrast to HECS which is a 'student contribution' to the shared cost of Commonwealth supported places, the other tertiary education fees are determined by educational institutions (and the market) for the educational service and can be funded through a HELP loan. In some cases as with FEE-HELP (Table A1), there are caps on the fees able to be funded through HELP. As a result, only HECS fee limits are determined by the Commonwealth and their level (equivalent to (p+b).C in Figure 1) is detailed in Table A3 for the period since the inception of the scheme. Not only does the Commonwealth set the number of Commonwealth Supported Places (CSP) (until 2012) (or F in Figure 1) for which the HECS student contribution is payable by students, it also makes a direct additional contribution to the tertiary institutions. With HECS indexed to the consumer price index, if AWOTE is a better measure of the growth in value of what students earn from their education investment then HECS will decline relative to AWOTE. However, as shown in Table A3, this decline has been responded to twice, once in 1997 and again in 2005, with each increase acting to restore some of the decline in HECS relative to AWOTE.

Another trend also evident in Table A1 is the progressive reduction in the discount for upfront voluntary payment of HECS and for the upfront voluntary repayment of any HELP debt. Currently, students wishing to pay the full student contribution upfront need only pay 90% of the total fee as the balance of 10% is paid directly to the course provider by the Government, an amount known as the HELP discount.⁵³ HELP debtors may also make voluntary repayments at any time to reduce their accumulated HELP debt with voluntary repayments over \$500 attracting a bonus of 5%.⁵⁴ With this discount now considerably less than originally available, it must be expected that this decline must act to substantially reduce the incentive for students to pay their HECS in advance, or for those with HELP debt to make an early repayment.

9.2 Prospective HELP changes: 2014 and beyond

A range of actions were proposed in the Commonwealth 2014-15 Budget which will directly impact HELP debt into the future including: expanded education program access; reduced upfront discounts (and their ultimate elimination); and a proposal to deregulate university fees and to modify the design of the HELP regime (i.e. indexation, repayment thresholds and rates of repayment).

9.2.1 Expansion of access

The dramatic expansion of access to HELP followed the release of the Bradley Review⁵⁵ in 2008 in which the Commonwealth Government moved to lift the Commonwealth supported places over-enrolment cap from 5 per cent to 10 per cent in 2010 and 2011 and then uncapped these places from 1 January 2012. In the 2013-14 Budget it was announced that Student Start-up Scholarships would no longer be a grant but become an income contingent loan and part of HELP. At the same time,

⁵³ See note 1 in Table A1

⁵⁴ *ibid*

⁵⁵ See Review of Australian Higher Education at <http://www.innovation.gov.au/highereducation/ResourcesAndPublications/ReviewOfAustralianHigherEducation/Pages/ReviewOfAustralianHigherEducationReport.aspx>

following a review of VET-FEE HELP⁵⁶, as shown in Table A3 there is an expected rapid escalation in VET-FEE HELP in forthcoming years.

9.2.2 *Reduction and elimination of discounts*

The progressive reduction and eventual abolition of the HECS upfront fee discount and upfront HELP debt repayment discount is shown in Table A1⁵⁷.

The combined effect of these two policies is in the first instance to rapidly increase access to HELP while at the same time removing any incentive for upfront payment of fees or early repayment of HELP debt. What results is shown in Table A6, a rapid escalation in HELP debt and debtors such that by 2017-18, around 26% of those aged 18-54 years are likely to have some HELP debt and confront the average and marginal tax rates shown in Table A7.

An additional factor which could have indirectly impacted HELP debt repayment was the 2013-14 Budget announcement of the previous Government to introduce a \$2,000 cap on the tax deduction for work-related self-education expenses. This proposal was initially delayed by the then-Labor Government and eventually abolished by the incoming Liberal-National Party government.

9.2.3 *2014-15 Budget decisions*

In May 2014, the Commonwealth announced as part of the 2014-15 Budget a number of proposals which, if implemented as intended, will have a significant overall impact on the future growth of HELP debt and its repayment

- Changes to higher education will allow universities to set their own tuition fees from 2016. (For students already studying, existing arrangements will remain until the end of 2020.)
- The Government will reduce the income threshold for repayment of *Higher Education Loan Program* (HELP) debts commencing in 2016-17 and will adjust the indexation of HELP debts from 1 June 2016. (This is estimated to achieve savings of \$3.2 billion over four years from 2014-15.)

A new minimum threshold will be established for the repayment of HELP debts, set at 90 per cent of the minimum threshold that would otherwise have applied in 2016-17. The new minimum threshold is currently estimated to be \$50,638 in 2016-17. A new repayment rate of 2 per cent of repayment income will be applied to debtors with incomes above the new minimum threshold (as indicated by the dashed line in Chart 1). There will be no other change to current repayment rates.

⁵⁶ VET FEE-HELP provides income contingent loans to students of higher-level VET courses such as diplomas and advanced diplomas. The scheme has been expanded following a review reported in: <http://ris.finance.gov.au/files/2012/10/03-VET-FEE-HELP-REDESIGN-RIS.pdf>
http://www.tda.edu.au/cb_pages/files/VET%20FEE-HELP%20Redesign%20Discussion%20Paper%20Final.pdf
http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201314/VocationalEducat

⁵⁷ This was scheduled for 1 January 2014 but to date, the legislation enacting the abolition of the upfront fee and debt repayment discounts has not been enacted.

- The annual indexation applied to HELP debts will be adjusted from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6.0 per cent per annum, from 1 June 2016.
- From July 2014, the Government will also support those learning a trade by providing concessional Trade Support Loans of up to \$20,000 over a four-year apprenticeship, repayable under HELP and with a 20 per cent discount upon completion of the apprenticeship.
- The HECS-HELP benefit, which was intended to provide an incentive for graduates of particular courses to take up related occupations or work in specified locations, will end from 2015-16. (This follows a recommendation of the *Review of the Demand Driven Funding System*⁵⁸ that the benefit be discontinued, there being little evidence it had been effective in addressing skill shortages.)
- Announcement that Trade Support Loans for apprentices (capped at \$20,000) would also become part of HELP and those apprentices who successfully complete their training would receive a 20 per cent discount on the amount to be repaid.

As noted in 3.2, the combined impact of these changes over the medium term will be to significantly increase both the overall level of HELP debt and numbers of debtors⁵⁹.

9.3 HELP trends

Aggregate debt has been growing significantly over recent years (as shown in Tables A5 and A6). Total HELP debt outstanding as at end-2011 was of the order of \$22.6 billion, having increased by 160% over the prior 10 years and is expected to increase more than threefold over the period 2010-11 to 2017-18 (Table A6).

The population of HELP debtors at the end of 2012 was 1,681,000, having grown by 52% over the prior eleven year period and around 2.1 million by the end of 2014, in part fuelled by decisions of the Government to expand the number of higher education places.

Despite the HELP scheme having been in place well over twenty years, the number of debtors subject to HELP assessments has risen only marginally over the last decade. Except for financial year 2004-05 when the repayment threshold was raised substantially, the number of debtors making payments through the annual tax return assessment process has been in the range 300,000-380,000 (or just over 25% of all debtors in 2011). Viewed over the decade to June 2011, annual assessments rose by just under 9% while the value of assessments increasing 121%. During the 10 years to 2011-12, the aggregate value of HELP assessments each financial year as a proportion of overall HELP debt declined from 7.0% to 5.7% (Table A8), although the results for more recent years will increase marginally as late-lodged returns are processed although their impacts are unlikely to alter the downwards trend observed. The trend

⁵⁸ See <http://www.education.gov.au/report-review-demand-driven-funding-system>

⁵⁹ See the Report on several of these issues by the Australian Senate Education and Employment Committee cited in note 26 above.

towards expanding access HELP, especially Commonwealth supported places (HECS-HELP in Table A2) has contributed significantly to this outcome.

Table A1 Australian HELP parameters: 1988-98 to 2013-14

Year*	HELP indexation rate (r)	Threshold relative to Debt AWOTE:		HELP Repayment Rates			HELP Discount (1)		Scope of HELP (F) (2)					Limit to Debt		HELP Income (Y')	Personal Income Tax MTR on H _L (m) (4)	Company Tax Rate (t) (4)	Fringe Benefits Tax (f) (4)
		Lower Threshold	Upper Threshold	Lowest Threshold	Highest Threshold	Range Increment	Upfront HECS	Upfront Debt	HECS (UG)	FEE (PG)	OS	VET- FEE	SA	HECS- Threshold (sX)	FEE-HELP (sX) (Non- Medical)				
		(H _L)	(H _U)	(h _L)	(h _U)		Fee (d)	Repayment (v)											
2013	2.0%	66%	111%	4.0%	8.0%	5.0%	10%	5%	✓	✓	✓	✓	✓	Uncapped	96,000	HRI 4	32.5%	30%	46.5%
2012	2.9%	67%	124%	4.0%	8.0%	0.5%	10%	5%	✓	✓	✓	✓	✓	Uncapped	93,204	HRI 5	32.5%	30%	46.5%
2011	3.0%	68%	125%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	89,706	HRI 5	30.0%	30%	46.5%
2010	1.9%	67%	124%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	86,422	HRI 5	30.0%	30%	46.5%
2009	3.9%	67%	125%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	85,062	HRI 4	30.0%	30%	46.5%
2008	2.8%	68%	126%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	83,313	HRI 4	30.0%	30%	46.5%
2007	3.4%	68%	127%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	81,600	HRI 4	30.0%	30%	46.5%
2006	2.8%	68%	127%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL	80,000	HRI 4	30.0%	30%	46.5%
2005	2.4%	67%	125%	4.0%	8.0%	0.5%	20%	10%	✓	✓	✓	✓	✓	7.0 EFTSL		HRI 4	30.0%	30%	48.5%
2004	2.4%	68%	127%	4.0%	8.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	30.0%	30%	48.5%
2003	3.1%	52%	93%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	30.0%	30%	48.5%
2002	3.6%	52%	94%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	30.0%	30%	48.5%
2001	5.3%	52%	94%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	30.0%	30%	48.5%
2000	1.9%	53%	95%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	30.0%	34%	48.5%
1999	1.2%	55%	99%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 3	34.0%	36%	48.5%
1998	-0.1%	55%	99%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 2	34.0%	36%	48.5%
1997	2.0%	55%	100%	3.0%	6.0%	0.5%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 2	34.0%	36%	48.5%
1996	4.6%	79%	143%	3.0%	6.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 2	34.0%	36%	48.5%
1995	2.5%	80%	127%	3.0%	5.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	34.0%	36%	48.5%
1994	1.9%	81%	129%	3.0%	5.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	34.0%	33%	48.25%
1993	0.9%	83%	132%	3.0%	5.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	38.5%	33%	48.25%
1992	2.4%	90%	143%	2.0%	4.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	35.5%	39%	48.25%
1991	6.4%	89%	142%	2.0%	4.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	38.0%	39%	47.0%
1990	8.0%	88%	140%	2.0%	4.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	38.5%	39%	47.0%
1989		87%	138%	1.0%	3.0%	1.0%	25%	15%	✓	✓	✓	✓	✓	Uncapped		HRI 1	39.0%	39%	49.0%

Notes:

* Year shown is start year if data applies to fiscal year eg 2004 applies to 2004-05 fiscal year as with HELP repayment schedule

HRI 5 = Taxable income plus any total net investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income.

HRI 4 = Taxable income plus any net rental losses, total reportable fringe benefits amounts and exempt foreign employment income.

HRI 3= taxable income plus any net rental losses and total reportable fringe benefits amounts

HRI 2 = Taxable income plus any net rental losses

HRI 1= Y =Taxable income

(1) The intention was for the HELP payment/repayment incentives to be set at 0% from 1 July 2014 but the relevant legislation for changing them has not passed by the Senate.

(2) UG CSP is undergraduate Commonwealth support places; PG is postgraduate.

(3) EFTSL is Equivalent Full Time Study Load

(4) Tax data is for fiscal year beginning from June for personal income tax and April for fringe benefits tax, for the year shown.

Sources:

ABS 6302.0 Average Weekly Earnings, Australia

Chapman(2007)

ATO Website (www.ato.gov.au)

http://parinfo.aph.gov.au/parinfo/download/legislation/billsdgs/2326534/upload_binary/2326534.pdf;fileType=application/pdf

http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1314/QG/HELP

<http://parinfo.aph.gov.au/parinfo/search/display/display.w3p;query=ld%3A%22library%2Fprspub%2F2935268%22>

<http://studyassist.gov.au/sites/StudyAssist/>

<http://heimshelp.deewr.gov.au/sites/heimshelp/news/pages/201308-os-help>

Table A2 Current additions to HELP loans by source: 2010–11 to 2017–18 (Parameter F)

	Actual			Budget Estimates		Budget Projections			2010-11 to 2017-18
	2010–11	2011–12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	
Commonwealth supported places for which HECS–HELP loans paid (F)	395,177	414,709	450,314	472,700	497,000	544,000	599,000	621,000	57%
Places for which FEE-HELP loans paid (F)	64,766	70,849	75,388	90,700	87,000	93,000	129,000	137,000	112%
OS–HELP loans to assist students to undertake some of their course overseas (F)	4,086	5,035	5,675	7,200	12,600	13,800	15,200	16,300	299%
SA–HELP loans to assist students to pay their services and amenities fees (F)	0	0	307,339	402,900	463,400	478,900	492,100	503,900	0%
Places for which VET FEE-HELP loans paid (F)	20,108	28,570	37,700	87,700	172,300	186,900	248,000	263,500	1210%

Sources:

http://budget.gov.au/2013-14/content/bp1/download/bp1_consolidated.pdf

<http://docs.education.gov.au/node/35771>

<http://www.innovation.gov.au/AboutUs/Budget/Pages/Library%20Card/PortfolioBudgetStatementsDIICSRTE2013-14.aspx:pp92-93>

<http://www.innovation.gov.au/AboutUs/CorporatePublications/AnnualReports/AnnualReport201213/wp-content/uploads/annual-report-2013.pdf>

Tables 25 and 26 p70; Section 1.3 p181; Note 24H p245

Table A3 HELP fees for students commencing study by year per EFTSL: 1989 to 2014 (Parameters (p+b)*C in Figure 1)

Year	Uniform Contribution		National Priority		Band 1		Band 2		Band 3	
		%	Mathematics, Statistics, Science,	%	Education, Nursing, Humanities, Behavioural Science, Social studies, Foreign languages, Visual and Performing arts, Nursing, Education, Clinical Psychology	%	Computing, Built Environment, Health Sciences, Engineering, Surveying, Agriculture	%	Law, Dentistry, Medicine, Veterinary science, Accounting, Administration, Economics, Commerce	%
		AWOTE		AWOTE		AWOTE		AWOTE		AWOTE
2014					\$6,044		\$8,613		\$10,085	
2013					\$5,868	7.9%	\$8,363	11.2%	\$9,792	13.1%
2012			\$4,520	6.3%	\$5,648	7.9%	\$8,050	11.2%	\$9,425	13.2%
2011			\$4,355	6.3%	\$5,442	7.9%	\$7,756	11.3%	\$9,080	13.2%
2010			\$4,249	6.5%	\$5,310	8.1%	\$7,567	11.5%	\$8,859	13.5%
2009			\$4,162	6.6%	\$5,201	8.3%	\$7,412	11.8%	\$8,677	13.8%
2008			\$4,077	6.8%	\$5,095	8.5%	\$7,260	12.2%	\$8,499	14.3%
2007			\$3,998	7.0%	\$4,996	8.8%	\$7,118	12.5%	\$8,333	14.6%
2006			\$3,920	7.2%	\$4,899	9.0%	\$6,979	12.8%	\$8,170	15.0%
2005			\$3,847	7.3%	\$4,808	9.1%	\$6,849	13.0%	\$8,018	15.2%
2004					\$3,768	7.5%	\$5,367	10.7%	\$6,283	12.6%
2003					\$3,680	7.7%	\$5,242	10.9%	\$6,136	12.8%
2002					\$3,598	7.9%	\$5,125	11.2%	\$5,999	13.2%
2001	\$2,644 (continuing)				\$3,521	8.1%	\$5,015	11.6%	\$5,870	13.6%
2000	\$2,600 (continuing)				\$3,463	8.4%	\$4,932	12.0%	\$5,772	14.0%
1999	\$2,560 (continuing)				\$3,409	8.7%	\$4,855	12.4%	\$5,682	14.5%
1998	\$2,520 (continuing)				\$3,356	8.8%	\$4,779	12.5%	\$5,593	14.7%
1997	\$2,478 (continuing)				\$3,300	9.0%	\$4,700	12.8%	\$5,500	15.0%
1996	\$2,442	6.9%								
1995	\$2,409	7.1%								
1994	\$2,355	7.3%								
1993	\$2,328	7.4%								
1992	\$2,250	7.3%								
1991	\$1,993	6.7%								
1990	\$1,882	6.7%								
1989	\$1,800	6.8%								

Note: EFTSL is effective full time student load;

Source:

http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/hecs<http://studyassist.gov.au/sites/studyassist/help-paying-my-fees/csps/pages/student-contribution-amounts><http://www.universitiesaustralia.edu.au/resources/400/386>**Table A4 Status of HELP debt and average time to make a repayment (by payment type)**

Status of HELP debt	As of June 2007		As of June 2009		As of June 2011	
	No	%	No.	%	No.	%
Paid off	881,770	41.2	1,018,785	42.4	1,160,362	42.6
Paying off	502,989	23.5	440,507	18.3	592,844	21.8
Written off	8,856	0.4	10,304	0.4	9,581	0.4
No repayments ever made	744,476	34.8	931,407	38.8	958,585	35.2
<i>Totals</i>	<i>2,138,091</i>	<i>100.0</i>	<i>2,401,003</i>	<i>100.0</i>	<i>2,721,372</i>	<i>100.0</i>
Average time to make first compulsory repayment	1,789 days / 4.9 years		1,874 days/ 5.1 years		1,860 days / 5.1 years	
Average time to make first voluntary repayment	2,485 days/ 6.8 years		2,572 days/ 7.0 years		2,577 days / 7.1 years	
Average time to repay debt (for those who have repaid)	2,729 days/ 7.5 years		2,869 days/ 7.9 years		2,953 days /8.1 years	

Source : ATO Tax Statistics 2010-11

Table A5 Accumulated HELP debts and debt not expected to be repaid: 1989-90 to 2009-10

Year	Accumulated HELP debt (b)		Fair value of accumulated HELP debt			Debt expected not to be repaid (DNER) (c)		Voluntary repayment s by students	Compulsory repayments through tax system (a)
		% repaid through tax system	\$m	% of Accumulated HELP Debt	% repaid through tax system	\$m	% of accumulated HELP debt (d)		
2009-2010	20,497	6.1%	14,018	68%	8.9%	4,495	21.9%	202	1,251
2008-2009	18,278	6.4%	12,048	66%	9.7%	3,934	21.5%	196	1,163
2007-2008	16,113	7.2%	10,517	65%	11.0%	3,698	22.9%	184	1,158
2006-2007	14,425	6.4%	9,603	67%	9.6%	2,964	20.5%	158	921
2005-2006	12,779	6.3%	8,830	69%	9.1%	2,496	19.5%	137	800
2004-2005(e)	11,371	5.9%	7,580	67%	8.8%	2,166	19.0%	193	666
2003-2004	10,185	6.9%	6,891	68%	10.2%	2,055	20.2%	156	701
2002-2003	9,164	7.0%	5,918	65%	10.8%	2,019	22.0%	137	638
2001-2002	8,104	7.6%	5,661	70%	10.8%	1,723	21.3%	134	612
2000-2001	7,162	8.2%	5,323	74%	11.0%	1,397	19.5%	97	586
1999-2000	6,229	8.5%	4,812	77%	11.1%	1,124	18.0%	80	532
1998-99	5,526	9.0%	N/A			953	17.2%	72	497
1997-98	4,922	8.7%	N/A			700	14.2%	67	427
1996-97	4,504	5.8%	N/A			607	13.5%	58	262
1995-96	3,958	5.5%	N/A			687	17.4%	32	218
1994-95	3,354	5.0%	N/A			541	16.1%	16	169
1993-94	2,932	4.5%	N/A			438	14.9%	19	133
1992-93	2,321	3.1%	N/A			386	16.6%	11	73
1991-92	1,749	3.3%	N/A			N/A	N/A	12	58
1990-91	1,190	4.2%	N/A			N/A	N/A	6	50
1989-90	673	4.2%	N/A			N/A	N/A	2	28
1988-89	216	4.2%	N/A			N/A	N/A	0	9

Source: Australian Taxation Office / DEEWR/ Budget Papers 2013-14

(a) Compulsory repayments (PAYG withholdings) made through the tax system are in relation to the income year.

(b) The actual outstanding HELP debt for a particular year may be different to that published in the Annual Report for that year because the Annual Report is based on estimated compulsory repayments and estimated first half year debt.

(c) 'Debt not expected to be repaid' arises from the income contingent nature of HELP repayments and debt being written off upon death of a debtor. The estimated provision for the amount of HELP debt not expected to be repaid is determined by a preliminary actuarial assessment accounting for compulsory (PAYG) repayments when they are credited against individuals' outstanding debts. The actual amount is determined once a full dataset is available for the financial year. The income repayment threshold was

(d) Debt not expected to be repaid as a percentage of estimated net outstanding debt taking account of PAYG receipts over the course of the financial year that have not yet been allocated against individual debtors' obligations.

(e) Before 2005, debts were incurred under HEFA. From 1 January 2005, debts are incurred under HESA and are known as HELP debts. Debts incurred under HEFA include HECS, PELS, BOTPLS and OLDPS debts. All previous debts under these schemes became HELP debts on 1 June 2006. HELP debts incurred since 1 January 2005 include HECS-HELP, FEE-HELP and OS-HELP

Table A6 HELP debt: 2010–11 to 2017–18

Department of Education	Actual			Budget Estimates		Budget Projections			2010-11 to 2017-18
	2010–11	2011–12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	
Higher Education Loan Program (Advances paid)* (\$m)	16,489	18,617	21,473	25,183	29,908	36,796	43,599	51,436	212%
Average amount of debt (\$)	14,402	15,200	15,900	16,800	17,500	18,600	20,000	21,500	49%
Average number of years to repay debt	8.1	8.3	8.4	8.6	8.7	8.9	9.3	9.8	21%
Proportion of new debt not expected to be repaid	16%	17%	17%	17%	20%	21%	22%	23%	44%
Number with HELP debt (m) (Estimated from Advances paid/Average debt) (Actuarial Basis)	1.145	1.225	1.351	1.499	1.709	1.978	2.180	2.392	109%
Indexation of HELP receivable and other student loans (\$m)	216	388	503	536	671	1,366	1,640	2,012	831%
Australian Taxation Office									
Number of Debtors (Actual)^ (millions)	1.567	1.681	1.849	2.052	2.339	2.708	2.984	3.275	109%
Total HELP Debt (\$m)* ^	22,573	25,486	29,396	34,475	40,943	50,373	59,686	70,415	212%
Average amount of debt (\$) (Estimated)^	14,404	15,202	15,903	16,803	17,503	18,603	20,003	21,503	49%
Total HELP Debt deemed unrecoverable (\$m)* ^	6,084	6,869	7,923	9,292	11,035	13,577	16,087	18,979	212%
HELP Debtors as a % of 18-54 year olds	13.5%	14.3%	15.5%	17.0%	19.1%	21.8%	23.7%	25.7%	75%

Notes

* THE ATO HELP debt and those of the Department of Education can be reconciled as follows. The ATO taxation statistics records all HELP debt since 1989. The Department of Education has an accruals accounting value of all HELP debt. As noted in the 2012-13 Annual Report (cited in Sources) on p181 it is stated that: "In the process of applying the accounting policies listed in this note the Department has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The value of the Higher Education Loan Program (HELP) receivable is calculated each year by actuarial assessment. The two main measures impacting on the calculation of the HELP asset are the face value of the debt not expected to be repaid and the fair value of the remaining receivable calculated as the present value of projected future cash flows."

The implications of this assumption are detailed in Note 24H on p245 of the Department of Education 2012-13 Annual Report.

^ For years 2011-12 forward, projections are based on the ratio of the value of ATO HELP debt to Department of Education data on HELP Advanced Paid.

The values for 2010-11 and 2011-12 were based on previous Budget estimates but revised in such a way as to make those years forward estimates comparable with the aggregates for the period 2012-13 to 2016-17 reported in the 2013 Budget Papers.

Sources:

<http://www.innovation.gov.au/AboutUs/Budget/Pages/Library%20Card/PortfolioBudgetStatementsDIIICCSRTE2013-14.aspx:pp92-93>

<http://www.innovation.gov.au/AboutUs/CorporatePublications/AnnualReports/AnnualReport201213/wp-content/uploads/annual-report-2013.pdf>

Tables 25 and 26 p70; Section 1.3 p181; Note 24H p245

<http://www.ato.gov.au/uploadedFiles/Content/CR/downloads/AR2012-13-complete.pdf>: Table 2.8

http://www.ato.gov.au/uploadedFiles/Content/CR/Research_and_statistics/In_detail/Downloads/cor00345977_2011TAXSTATS.pdf: Table 2.15 - 2.19

http://www.budget.gov.au/2010-11/content/fbo/html/part_2.htm: Notes 5 and 14

http://www.budget.gov.au/2011-12/content/fbo/html/part_2.htm: Notes 5 and 14

http://www.budget.gov.au/2013-14/content/bp1/html/bp1_bst9-01.htm: Notes 5 and 13

Table A7 HELP repayment income levels and repayment Rates: 2000-01 to 2013-14

HELP repayment income (HRI*)	Repayment rate	HELP repayment income (HRI*)	Repayment rate
2013-14		2012-13	
Below \$51,309	Nil	Below \$49,096	Nil
\$51,309 - \$57,153	4% of HRI	\$49,096-\$54,688	4% of HRI
\$57,154 - \$62,997	4.5% of HRI	\$54,689-\$60,279	4.5% of HRI
\$62,998 - \$66,308	5% of HRI	\$60,280-\$63,448	5% of HRI
\$66,309 - \$71,277	5.5% of HRI	\$63,449-\$68,202	5.5% of HRI
\$71,278 - \$77,194	6% of HRI	\$68,203-\$73,864	6% of HRI
\$77,195 - \$81,256	6.5% of HRI	\$73,865-\$77,751	6.5% of HRI
\$81,257 - \$89,421	7% of HRI	\$77,752-\$85,564	7% of HRI
\$89,422 - \$95,287	7.5% of HRI	\$85,565-\$91,177	7.5% of HRI
\$95,288 and above	8% of HRI	\$91,178 and above	8% of HRI
2011-12		2010-11	
Below \$47,196	Nil	Below \$44,912	Nil
\$47,196-\$52,572	4% of HRI	\$44,912-\$50,028	4% of HRI
\$52,573-\$57,947	4.5% of HRI	\$50,029-\$55,143	4.5% of HRI
\$57,948-\$60,993	5% of HRI	\$55,144-\$58,041	5% of HRI
\$60,994-\$65,563	5.5% of HRI	\$58,042-\$62,390	5.5% of HRI
\$65,564-\$71,006	6% of HRI	\$62,391-\$67,570	6% of HRI
\$71,007-\$74,743	6.5% of HRI	\$67,571-\$71,126	6.5% of HRI
\$74,744-\$82,253	7% of HRI	\$71,127-\$78,273	7% of HRI
\$82,254-\$87,649	7.5% of HRI	\$78,274-\$83,407	7.5% of HRI
\$87,650 and above	8% of HRI	\$83,408 and above	8% of HRI
2009-10		2008-09	
Below \$43,151	Nil	Below \$41,595	Nil
\$43,151-\$48,066	4% of HRI	\$41,595-\$46,333	4% of HRI
\$48,067-\$52,980	4.5% of HRI	\$46,334-\$51,070	4.5% of HRI
\$52,981-\$55,764	5% of HRI	\$51,071-\$53,754	5% of HRI
\$55,765-\$59,943	5.5% of HRI	\$53,755-\$57,782	5.5% of HRI
\$59,944-\$64,919	6% of HRI	\$57,783-\$62,579	6% of HRI
\$64,920-\$68,336	6.5% of HRI	\$62,580-\$65,873	6.5% of HRI
\$68,337-\$75,203	7% of HRI	\$65,874-\$72,492	7% of HRI
\$75,204-\$80,136	7.5% of HRI	\$72,493-\$77,247	7.5% of HRI
\$80,137 and above	8% of HRI	\$77,248 and above	8% of HRI
2007-08		2006-07	
Below \$39,825	Nil	Below \$38,149	Nil
\$39,825-\$44,360	4% of HRI	\$38,149-\$42,494	4% of HRI
\$44,361-\$48,896	4.5% of HRI	\$42,495-\$46,838	4.5% of HRI
\$48,897-\$51,466	5% of HRI	\$46,839-\$49,300	5% of HRI
\$51,467-\$55,322	5.5% of HRI	\$49,301-\$52,994	5.5% of HRI
\$55,323-\$59,915	6% of HRI	\$52,995-\$57,394	6% of HRI
\$59,916-\$63,068	6.5% of HRI	\$57,395-\$60,414	6.5% of HRI
\$63,069-\$69,405	7% of HRI	\$60,415-\$66,485	7% of HRI
\$69,406-\$73,959	7.5% of HRI	\$66,486-\$70,846	7.5% of HRI
\$73,960 and above	8% of HRI	\$70,847 and above	8% of HRI
2005-06		2004-05	
Below \$36,185	Nil	Below \$35,001	Nil
\$36,185-\$40,306	4% of HRI	\$35,001-\$38,987	4% of HRI
\$40,307-\$44,427	4.5% of HRI	\$38,988-\$42,972	4.5% of HRI
\$44,428-\$46,762	5% of HRI	\$42,973-\$45,232	5% of HRI
\$46,763-\$50,266	5.5% of HRI	\$45,233-\$48,621	5.5% of HRI
\$50,267-\$54,439	6% of HRI	\$48,622-\$52,657	6% of HRI
\$54,440-\$57,304	6.5% of HRI	\$52,658-\$55,429	6.5% of HRI
\$57,305-\$63,062	7% of HRI	\$55,430-\$60,971	7% of HRI
\$63,063-\$67,199	7.5% of HRI	\$60,972-\$64,999	7.5% of HRI
\$67,200 and above	8% of HRI	\$65,000 and above	8% of HRI
2003-04		2002-03	
Below \$25,348	Nil	Below \$24,365	Nil
\$25,348-\$26,731	3% of HRI	\$24,365-\$25,694	3% of HRI
\$26,732-\$28,805	3.5% of HRI	\$25,695-\$27,688	3.5% of HRI
\$28,806-\$33,414	4% of HRI	\$27,689-\$32,118	4% of HRI
\$33,415-\$40,328	4.5% of HRI	\$32,119-\$38,763	4.5% of HRI
\$40,329-\$42,447	5% of HRI	\$38,764-\$40,801	5% of HRI
\$42,448-\$45,628	5.5% of HRI	\$40,802-\$43,858	5.5% of HRI
\$45,629 and above	6% of HRI	\$43,859 and above	6% of HRI
2001-02		2000-01	
Below \$23,242	Nil	Below \$22,346	Nil
\$23,242-\$24,510	3% of HRI	\$22,346-\$23,565	3% of HRI
\$24,511-\$26,412	3.5% of HRI	\$23,566-\$25,393	3.5% of HRI
\$26,413-\$30,638	4% of HRI	\$25,394-\$29,456	4% of HRI
\$30,639-\$36,977	4.5% of HRI	\$29,457-\$35,551	4.5% of HRI
\$36,978-\$38,921	5% of HRI	\$35,552-\$37,420	5% of HRI
\$38,922-\$41,837	5.5% of HRI	\$37,421-\$40,223	5.5% of HRI

\$41,838 and above	6% of HRI	\$40,224 and above	6% of HRI
* Details of progressive broadening of HRI definition			
2010-11	HRI = Taxable income plus any total net investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income.		
2005-06	HRI = Taxable income plus any net rental losses, total reportable fringe benefits amounts and exempt foreign employment income.		
1999-2000	HRI= taxable income plus any net rental losses and total reportable fringe benefits amounts		
1996-97	HRI = Taxable income plus any net rental losses		
1989	HRI= Taxable income		

Source: www.ato.gov.au**Table A8 ATO selected HELP performance indicators 2001-02 to 2011-12**

Financial year	HELP Debtors		Average HELP Debt (\$)	HELP assessments for financial year (2)		Average HELP assessments	Value of HELP assessments / HELP debt	No. HELP Assessments / No. HELP debtors	% of Income Tax Payers with HELP:		Value of HELP Debt / Personal Income Tax
	(000's) (1)	Debt (\$b) (1)		No.	Value	\$	(%)	(%)	Debt	Assessment	(%)
2001-02	1,100	8.7	7,909	349	0.612	1,753	7.0	31.7	10.1	3.2	10.1
2002-03	1,200	9.8	8,166	352	0.639	1,815	6.5	29.3	10.8	3.2	10.5
2003-04	1,200	10.9	9,083	369	0.704	1,907	6.5	30.8	10.6	3.3	10.8
2004-05	1,120	11.0	9,821	270	0.683	2,529	6.2	24.1	9.6	2.3	10.0
2005-06	1,185	12.4	10,464	302	0.809	2,678	6.5	25.5	9.9	2.5	10.8
2006-07	1,247	14.0	11,226	325	0.939	2,889	6.7	26.1	10.2	2.7	11.5
2007-08	1,313	15.8	12,033	364	1.124	3,087	7.1	27.7	10.5	2.9	12.5
2008-09	1,371	17.8	12,983	369	1.195	3,238	6.7	26.9	10.6	2.8	14.6
2009-10	1,462	19.9	13,611	377	1.270	3,368	6.4	25.8	11.3	2.9	15.9
2010-11	1,567	22.6	14,422	401	1.407	3,508	6.2	25.6	12.2	3.1	17.0
2011-12	1,681	25.5	15,169	402	1.451	3,609	5.7	23.9			
% per annum change 2001-	4.3%	11.4%	6.7%	1.4%	9.0%	7.5%	-2.0%	-2.8%			
% Total	52.8%	193.1%	91.8%	15.2%	137.1%	105.9%	-18.6%	-24.6%			

Source: Taxation Statistics and Commissioner's Annual Reports

(1) As reported each year in ATO Commissioner's Annual Report and/or Taxation Statistics.

(2) These are cumulative data, as reported in Table 1 of ATO Taxation Statistics 2010-11

10. ANNEX 2: DEDUCTIONS BY HELP AND NON-HELP DEBTORS (2010-11 INCOME YEAR)

(Source: ATO Individuals 1% Sample File 2010-11)

Shaded area: Deviation in incidence of claims by HELP and non-HELP debtors exceeds 4%+ (absolute)

10.1 A. Deductions for work-related expenses of HELP and Non- HELP debtors

Age group: 20-29

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	546	468	85.7	1,612	1,532	1,301	84.9	1,711
30,000	488	408	83.6	1,512	1,641	1,436	87.5	1,751
35,000	437	365	83.5	1,530	1,577	1,402	88.9	1,969
40, 000	438	376	85.8	2,047	1,487	1,315	88.4	1,942
45,000	315	273	86.7	1,923	1,148	1,037	90.3	2,254
50,000	307	277	90.2	1,988	895	809	90.4	2,669
55,000	262	238	90.8	2,027	685	611	89.2	3,016
60,000	223	203	91.0	1,768	545	489	89.7	3,108
65,000	194	182	93.8	1,985	407	374	91.9	3,078
70,000	150	134	89.3	1,767	323	289	89.5	3,146
75,000	95	74	77.9	1,752	259	234	90.3	3,549
80,000	68	57	83.8	2,486	230	207	90.0	3,931
85,000	60	56	93.3	3,029	157	137	87.3	3,663
Above	(Data for income ranges over \$85,000 not elaborated but included in totals)							
Totals	6,689	5,028	75.2	1,705	18,596	14,260	76.7	2,093

Age group: 30-39

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	171	129	75.4	1,843	1,142	852	74.6	1,458
30,000	173	148	85.5	1,904	1,301	1,041	80.0	1,902
35,000	210	175	83.3	2,279	1,309	1,096	83.7	1,946
40, 000	212	187	88.2	2,441	1,354	1,149	84.9	1,976
45,000	184	162	88.0	1,876	1,295	1,111	85.8	2,227
50,000	205	184	89.8	2,783	1,168	1,029	88.1	2,281
55,000	203	187	92.1	2,567	1,153	1,015	88.0	2,687
60,000	194	171	88.1	2,655	1,032	916	88.8	2,761
65,000	163	145	88.9	2,980	920	820	89.1	2,981
70,000	135	122	90.4	2,797	852	770	90.4	3,166
75,000	83	73	88.0	3,111	717	640	89.3	3,195
80,000	65	59	90.8	3,433	636	566	89.0	3,070
85,000	60	56	93.3	2,890	573	499	87.1	3,249
Above	(Data for income ranges over \$85,000 not elaborated but included in totals)							
Totals	3,222	2,415	75.0	2,401	22,545	16,908	75.0	2,549

Age group: 40-49

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	84	59	70.2	1,999	1,250	871	69.7	1,263
30,000	85	67	78.8	1,951	1,342	1,016	75.7	1,349
35,000	85	61	71.8	2,116	1,467	1,136	77.4	1,681
40, 000	74	63	85.1	2,763	1,492	1,202	80.6	1,730
45,000	80	69	86.2	2,264	1,344	1,141	84.9	1,918
50,000	70	60	85.7	2,898	1,189	1,014	85.3	1,949
55,000	59	54	91.5	2,590	1,194	1,038	86.9	2,291
60,000	49	42	85.7	2,510	1,111	955	86.0	2,453
65,000	56	47	83.9	2,861	1,029	893	86.8	2,633
70,000	25	24	96.0	3,573	931	806	86.6	2,805

75,000	27	24	88.9	3,089	866	753	86.9	2,801
80,000	20	17	85.0	3,348	733	635	86.6	2,785
85,000	14	12	85.7	3,654	683	600	87.8	2,704
Above	(Data for income ranges over \$85,000 not elaborated but included in totals)							
Totals	1,254	856	68.3	2395	24,907	18,165	75.0	2,346

Age group: <20, 50+

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	47	30	63.8	2,302	2,769	1,269	45.8	1,256
30,000	39	31	79.5	1,652	2,811	1,538	54.7	1,305
35,000	37	28	75.6	2,057	2,771	1,698	61.3	1,388
40,000	30	25	83.3	2,297	2,478	1,639	66.1	1,392
45,000	30	23	76.7	1,008	2,348	1,628	69.3	1,604
50,000	27	21	77.8	1,933	1,995	1,442	72.3	1,716
55,000	21	19	90.5	2,800	1,787	1,347	75.4	1,828
60,000	18	15	83.3	866	1,516	1,180	77.8	2,063
65,000	20	19	95.0	2,542	1,363	1,051	77.1	2,146
70,000	18	17	94.5	1,481	1,257	986	78.4	2,349
75,000	11	11	100	2,337	1,090	867	79.7	2,454
80,000	9	6	66.6	1,599	974	754	77.4	2,699
85,000	4	4	100	522	862	671	77.8	2,453
Above	(Data for income ranges over \$85,000 not elaborated but included in tables.)							
Totals	617	384	62.2	1599	47,519	24,701	52.0	1,865

All ages

Totals	11,782	8,683	73.7	1,988	113,567	74,034	65.2	2,183
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10.2 B. Gift Deduction Claims of HELP and Non- HELP debtors**Age group: 20-29**

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of gift claims	% claiming	Average claim value	No. of records	No. of gift claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	547	194	35.5	125	1,531	423	27.6	120
30,000	489	164	33.5	161	1,640	516	31.5	113
35,000	436	174	39.9	189	1,576	548	34.8	146
40,000	437	185	42.3	235	1,488	555	37.3	189
45,000	314	136	43.3	162	1,145	438	42.6	170
50,000	306	150	49.0	174	897	373	41.6	161
55,000	263	132	50.0	264	685	291	42.5	196
60,000	223	124	55.6	220	541	220	40.7	256
65,000	194	103	53.1	214	408	169	41.4	138
70,000	150	72	48.0	219	323	139	43.0	192
75,000	95	53	55.8	454	262	116	44.3	243
80,000	68	38	55.9	226	231	77	33.3	218
85,000	60	28	46.6	362	156	59	37.8	214
Above	(Data for income ranges over \$85,000 not elaborated but included in tables.)							
Totals	6,689	2,271	33.9	196	18,596	5,315	28.6	174

Age group: 30-39

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of gift claims	% claiming	Average claim value	No. of records	No. of gift claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	168	62	36.9	218	1,139	340	29.9	187
30,000	175	67	38.2	287	1,294	448	34.6	236
35,000	206	78	37.9	290	1,310	491	37.5	260
40,000	213	98	46.0	386	1,347	531	39.4	192
45,000	182	88	48.3	190	1,293	562	43.5	197
50,000	205	95	46.3	242	1,170	518	44.3	187

55,000	202	102	50.5	412	1,145	535	46.7	216
60,000	193	109	56.5	239	1,021	465	45.5	244
65,000	165	82	49.7	484	927	454	49.0	256
70,000	135	72	53.3	361	850	399	46.9	266
75,000	81	41	50.6	356	720	359	49.9	268
80,000	69	35	50.7	172	631	326	51.7	300
85,000	57	33	57.9	257	569	282	49.5	352
Above	(Data for income ranges over \$85,000 not elaborated but included in totals)							
Totals	3,222	1,288	40.0	301	22,545	8,504	38.0	266

Age group: 40-49

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of gift claims	% claiming	Average claim value	No. of records	No. of gift claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	84	25	29.8	233	1,253	428	34.2	161
30,000	84	37	44.0	278	1,335	519	38.9	187
35,000	83	29	34.9	241	1,456	560	38.5	252
40,000	74	35	47.3	302	1,480	628	42.4	203
45,000	80	42	52.5	177	1,328	607	45.7	230
50,000	71	30	42.3	238	1,188	556	46.8	275
55,000	61	34	55.7	324	1,192	625	52.4	259
60,000	47	18	38.3	216	1,116	574	51.4	252
65,000	56	30	53.6	250	1,021	531	52.0	295
70,000	26	17	65.4	192	921	462	50.2	333
75,000	28	9	32.0	281	879	468	53.2	317
80,000	20	11	55.0	241	730	408	55.9	327
85,000	14	4	28.6	274	680	370	54.4	336
Above	(Data for income ranges over \$85,000 not elaborated but included in tables.)							
Totals	1,254	455	36.3	264	24,907	10,568	42.4	335

Age group: <20, 50+

Max income	HELP debtors				Non-HELP debtors			
	No. of records	No. of gift claims	% claiming	Average claim value	No. of records	No. of gift claims	% claiming	Average claim value
Below	(Data for income ranges up to \$20,000 not elaborated but included in totals)							
25,000	48	16	33.3	334	2,796	1,117	39.9	297
30,000	40	17	42.5	354	2,801	1,233	44.0	300
35,000	36	19	52.8	296	2,760	1,230	44.6	386
40,000	31	14	45.2	469	2,458	1,215	49.4	367
45,000	29	12	41.4	446	2,355	1,183	50.2	354
50,000	28	20	71.4	229	2,006	1,030	51.3	304
55,000	21	9	42.9	239	1,779	958	53.9	348
60,000	18	13	72.2	309	1,512	819	54.2	351
65,000	20	12	60.0	648	1,354	784	57.9	388
70,000	18	8	44.4	175	1,256	691	55.0	386
75,000	11	6	54.5	419	1,093	597	54.6	441
80,000	8	5	62.5	255	971	538	55.4	475
85,000	5	3	60.0	59	865	488	56.4	444
Above	(Data for income ranges over \$85,000 not elaborated but included in totals)							
Totals	617	228	37.0	410	47,519	18,954	39.1	447

All ages

Totals	11,782	4,242	36.0	247	113,567	43,341	38.0	350
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10.3 C. Rental income deductions

Age groups	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
20-29	6,689	262	3.9	18,711	18,596	744	4.0	18,352
30-39	3,222	396	12.3	18,776	22,545	3,085	13.7	21,062
40-49	1,254	180	14.4	18,984	24,907	4,389	17.6	22,544
<20, 50+	617	92	14.9	21,247	47,519	8,624	18.1	19,862
Totals	11,782	930	7.9	19,042	113,567	16,842	14.8	20,714

Other deductions

Age groups	HELP debtors				Non-HELP debtors			
	No. of records	No. of claims	% claiming	Average claim value	No. of records	No. of claims	% claiming	Average claim value
20-29	6,689	169	2.5	516	18,596	657	3.5	847
30-39	3,222	194	6.0	1,238	22,545	1,898	8.4	1,233
40-49	1,254	84	6.7	1,443	24,907	2,669	10.7	1,990
<20, 50+	617	54	8.6	1,423	47,519	3,647	7.7	2,009
Totals	11,782	501	4.2	1,049	113,567	8,871	7.8	1,751