Cabinet Paper material
Proactive release

Minister & portfolio	Hon Dr Shane Reti Minister for Universities Hon Simon Watts Minister of Revenue
Name of package	Commissioner Discretion for Overseas Borrowers
Date considered	8 December 2025
Date of release	18 June 2026

These documents have been proactively released:

Commissioner Discretion for Overseas Borrowers
Date considered: 8 December 2025
Author: Offices of the Minister for Universities and the Minister of Revenue

Cabinet Economic Policy Committee Minute ECO-25-MIN-0202
Date considered: 3 December 2025
Author: Committee Secretary

Cabinet Minute CAB-25-MIN- 0452
Date considered: 8 December 2025
Author: Secretary for the Cabinet

Material redacted

Some deletions have been made from the documents in line with withholding grounds under the Official Information Act 1982. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

The applicable withholding grounds under the Act are as follows:

Section 18(c)(i)	that the making available of the information requested would be contrary to the provisions of a specified enactment

Some deletions have been made from the documents as the information withheld does not fall within scope of the Minister's portfolio responsibilities, and is not relevant to the proactive release of this material.

You can read the Official Information Act 1982 here:
http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html

Office of the Minister for Universities

Office of the Minister of Revenue

Chair, Cabinet Economic Policy Committee

Student Loan Interest Relief

Proposal

1 This paper seeks the Cabinet Economic Policy Committee's agreement to introduce a legislative discretion to allow the Commissioner of Inland Revenue (the Commissioner) to provide relief from student loan interest.

2 The Commissioner already has the discretion to provide relief from late payment interest on student loans. He also has powers to write off or remit interest and penalties in some circumstances for tax debt.[1]

Relation to Government priorities

3 This proposal supports the Government's priority to get the Government's books back in order and restore discipline to public spending. The proposal aims to improve the Crown's financial position, through obtaining value from student loans that are in default. The Student Loan Scheme represents a significant financial asset on the Government's balance sheet, which impacts the Government's ability to fund public services. The proposal could also reduce barriers for skilled overseas-based borrowers (OBBs) to return to New Zealand and contribute to the economy.

Executive summary

4 New Zealand's Student Loan Scheme aims to ensure access to tertiary education without financial barriers. However, low repayment compliance among OBBs significantly impacts the value of the Scheme and its cost to future generations.

Current challenges

4.1 Only 30% of OBBs meet repayment obligations and compliance declines sharply the longer the borrower is overseas.

4.2 Historic debt is growing due to accumulated interest and penalties. Currently 90% of overdue debt is owed by borrowers overseas for more than 10 years.

4.3 For individual OBBs, high debt levels deter engagement, creating stress and perceived unfairness. Some borrowers fear returning to New Zealand due to enforcement actions.

[1] In relation to tax debt, relief can be provided for serious hardship, unrecoverable amounts, inefficient use of resources, insolvency (e.g., bankruptcy or liquidation) and for events beyond the taxpayer's control.

Recent progress at increasing compliance

5 Budget 2024 funding for direct compliance interventions has improved collections.[2] Inland Revenue exceeded its target, collecting around $243 million in repayments in 2024/25 (40% increase year-on-year). Despite this, the debt book is forecast to grow to $3 billion by 2029 and $5 billion by 2036 under current settings.

Proposal – interest relief discretion

6 We propose that the Commissioner be given the discretion to provide relief from core student loan interest (currently limited to late payment interest).[3] This would:

6.1 s 18(c)(i) [redacted]

6.2 enable full and final settlements either through a lump-sum payment or short-term payment arrangement, and

6.3 improve the Crown's financial position by recovering amounts that would be otherwise challenging to collect.

7 s 18(c)(i) [redacted]

8 We propose that legislative changes be included in the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill, effective from enactment in March 2026.

Monitoring

9 Inland Revenue will monitor the impact on compliance and report after 18 months to the Minister of Finance, the Minister for Universities and the Minister of Revenue. In addition, Inland Revenue will report every 6 months to the Minister for Universities and the Minister of Revenue (refer to the Minister of Finance) on the use of the discretion. We also propose that we report to Cabinet when relief exceeds $30 million. At that time or if significant impacts on compliance are observed, the discretion can be reviewed to determine if it is meeting the policy intent and repealed if necessary.

Background

Improving OBB compliance continues to be challenging

10 The purpose of New Zealand's Student Loan Scheme is to enable access to tertiary education for all students so that finance is not a barrier. However, this needs to be balanced against the cost of the Scheme to current and future generations if borrowing is not repaid.

[2] Inland Revenue received $29 million in funding, with $4 million of this focused on student loan overdue debt.

[3] Core interest refers to interest that applies to the loans of OBBs regardless of whether payments are made (currently 4.9%). Core interest stops being charged when a repayment amount falls due. Late payment interest refers to the interest that applies to overdue payments (when that is $334 or more, currently 8.9%).

11 We have been focusing on improving the value of student loan spending. A major area of low-value lending is to borrowers who go overseas and do not repay their loan. These OBBs have much lower repayment compliance and slower repayment times than domestic borrowers.

12 Addressing low compliance among OBBs has been a persistent challenge. As of October 2025, total student loan debt was at $2.6 billion, and OBBs accounted for 93% of that debt ($2.4 billion). Debt in this context refers to the part of a student loan balance made up of missed payments and any penalties and late payment interest. There are approximately 114,000 OBBs, of which 82,000 (72%) have overdue debt. In comparison, only 5.7% of New Zealand-based borrowers have overdue debt.

13 On average, over the past year only around 30% of OBBs are meeting their repayment obligations. Compliance can fluctuate for various reasons, with a key factor being time overseas as shown in the table below:

Overseas for less than 10 years (54,000 borrowers)[4]	Overseas for more than 10 years (60,000 borrowers)
56% (30,000) fully compliant	16% (9,600) fully compliant
15% (7,900) making some payments (partially compliant)	12% (7,100) making some payments (partially compliant)

14 s 18(c)(i) [redacted]

Student loan debt is forecast to grow

15 Stemming the flow of new OBBs defaulting and getting borrowers into good repayment habits from the start is important for improving their compliance over the long term. This is because once borrowers stop repayments, it is difficult to get them to start again.

16 Budget 2024 funding is making a difference and Inland Revenue has been exceeding its targets. Inland Revenue's target was $189 million in repayments for the financial year ending 30 June 2025, however, it received around $243 million. This is a 40% increase in comparison to repayments collected in the previous year.

17 Despite this progress, there are diminishing returns on these administrative activities and without more tools to address poor compliance, the student loan debt book for OBB is forecast to grow. This is because historic debt is growing due to the accumulation of interest and late payment interest. As a result, approximately $2.1 billion of the $2.4 billion OBB debt is owed by OBBs who have been overseas for 10 or more years, accounting for 90% of the debt. Under current settings, OBB student loan debt could surpass $3 billion by 2029 and $5 billion by 2036, based on the year-on-year growth from 2023–24 to 2024–25.[6]

[4] Figures are rounded to the nearest 1,000.

s 18 [redacted]

High levels of older debt are deterring some OBBs from engaging with Inland Revenue

18 Based on correspondence and direct engagement with OBBs, for some their debt has become so large they avoid engagement with Inland Revenue, due to the inability to pay off such a large amount and perceived unfairness. At this point, interest and penalties can act as a barrier to compliance. Borrowers with high levels of debt report experiencing anxiety and stress due to limited options available to resolve the debt. Many fear returning to New Zealand due to the risk of getting arrested at the border.

19 The example below, based on a borrower's experience, demonstrates what can happen when a borrower falls behind in their payments.

Example 1: Impact of interest on OBB [7]

Lana borrowed **$44,000** in student loans between 1998 and 2005. She moved overseas in 2005 and has not moved back.

In 2017, Lana finally started dealing with her student loan, by which time it was **$120,000** including $66,000 of interest and $14,500 of penalties. Since then, she has made payments of **$77,000**. She is still living overseas so interest has kept applying to her loan. Her current balance at September 2025 is **$90,000** (over double her original loan balance).

If she keeps up her current repayments and remains overseas, it will take her over **20 years** to repay her loan in full, which will eventually be close to **six times** her original loan balance. This is because the required repayment of $5,000 is only slightly greater than the interest being charged each year.

20 While some OBB do accept responsibility for the situation they are in, many are requesting greater flexibility to negotiate settlement of their loan. Inland Revenue can currently only provide relief from late payment interest on student loans (i.e., interest that applies when a borrower does not make a payment on time). This means there may be some situations where Inland Revenue has limited tools to negotiate with borrowers to settle their loan balances. While the existing discretion does incentivise some borrowers to engage with Inland Revenue, in many cases, it is not sufficient to enable full settlement.

Proposal: Discretion to provide relief from interest

21 We have been investigating ways to increase student loan repayments and improve the Crown's financial position. We recommend that legislation be introduced to allow the Commissioner discretion to provide relief from student loan interest. This proposal would build on the increased proactive OBB compliance activities funded in Budget 2024.

22 The Commissioner can currently only provide relief from late payment interest on student loans. This legislative power is broad in nature and can be exercised when it is equitable to provide relief. We recommend this power be extended to cover relief from core student loan interest so that the Commissioner can provide relief on a case-by-case basis when it is equitable to do so. The term equitable is a broad decision-making consideration that generally means people in similar situations would be treated consistently.

[7] This example is based on borrower experience. Note this has been anonymised and figures have been rounded to the nearest $1,000.

Implementation: Application of the discretion [information contained in this section is revenue information[8]]

23 s 18(c)(i) [redacted]

24 In the medium term, Inland Revenue would limit uses of this discretion to relief for full and final settlements (either via a lump-sum payment or through a short-term instalment arrangement). s 18(c)(i) [redacted]

25 The discretion would allow Inland Revenue to improve the Crown's financial position through obtaining value from loans that are otherwise challenging to collect. The extent to which this purpose is achieved will depend on an OBB's ability to make a settlement and the amount of that settlement.

Risks

26 The impact on broader compliance is unknown. The discretion could weaken the incentive to remain compliant in the expectation that the OBB will receive interest relief at some point and end up better off.[9] It is unclear how significant this risk is to current compliance, but this risk could be managed by the administration of the new rule, including how it is messaged to OBBs.

27 If current student loan compliance decreases, the value of OBB student loans may decline and debt may increase.[10] Equally, the value of student loans may decline if interest relief is granted but that interest would have eventually been paid by the borrower. If the value of the Scheme decreases, there will be a parallel increase in the cost of ongoing lending.

28 There is also a perception risk that providing interest relief to non-compliant OBBs is seen as unfair by compliant borrowers and the general public. The size of this risk is uncertain.

Monitoring application of discretion

29 We propose that Inland Revenue report after 18 months to the Minister of Finance, the Minister for Universities and the Minister of Revenue on any impacts on broader compliance. In addition, Inland Revenue will report every six months to the Minister for Universities and the Minister of Revenue (refer to the Minister of Finance) on the use of the discretion, such as the number of borrowers granted relief and the amount of relief granted.

[8] Revenue information in this context means information relating to how Inland Revenue would administer a proposed discretion. This information should not be disclosed to the public.

[9] This is referred to as "moral hazard" – the change in behaviour of someone when there is a perceived lack of consequence.

[10] The Student Loan Scheme valuation is very sensitive to OBB repayment behaviour. Even small changes can significantly reduce the value of the Scheme. For example, if the probability of making a repayment in a year while overseas falls by 2.5% then the value of the Scheme in the Crown's account would decrease by $202 million (PwC, 2025 Student Loan Valuation Report).

30 Inland Revenue will also provide information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process. This would help us understand whether the interest relief provided was financially beneficial for the Crown.

31 We also propose that the Minister of Revenue report to Cabinet once the amount of interest relief exceeds $30 million with a further assessment of whether the policy is achieving its policy purpose. If at any time a problem emerges, joint Ministers may review and recommend repealing the discretion if necessary.

Financial implications

32 There is considerable uncertainty in the costing due to challenges predicting borrowers' behaviour. Officials from the Ministry of Education estimate the most likely outcome of a tightly targeted discretion is a modest gain of around $1.5 million over the forecast period. However, this assumes no negative repayment behaviour shift among other borrowers.

33 This forecast also assumes a net increase in cash receipts from this policy of $8.290 million over the forecast period. Because we are expecting the cash earlier than previously forecast, there will be just over $1 million less interest unwind over the forecast period. This in part offsets the expected gain in paragraph 33 above.

Legislative implications

34 Implementing these proposals requires changes to the Student Loan Scheme Act 2011.

35 If approved, we propose including the legislative changes resulting from these recommendations in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage scheduled for early next year. The Bill is due to be passed by the end of March 2026. The legislative changes would apply from date of enactment.

Impact analysis

Regulatory impact assessment

36 The Quality Assurance panel from Inland Revenue and the Ministry of Education has reviewed the "Student loan interest relief" regulatory impact statement (RIS) prepared by Inland Revenue and Ministry of Education and considers that the information and analysis summarised in the RIS partially meets the quality assurance criteria. This is because there is a fundamental uncertainty around the behavioural response of existing compliant or partially compliant overseas borrowers. This uncertainty cannot easily be resolved as there is limited comparable empirical evidence available.

37 Detailed consultation has not been undertaken; however, this is considered reasonable given there are limited interested third parties other than the borrowers themselves.

Climate implications of policy assessment

38 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal because the threshold for significance is not met.

Population implications

39 This proposal impacts OBBs. These are typically New Zealand residents that have completed tertiary studies in New Zealand and are currently overseas. Currently there are approximately 113,000 OBBs, 54% female / 46% male split with an average age of 41 years. Inland Revenue does not collect ethnicity data for this group.

40 While the main objective of a discretion is to improve the Crown's financial position, the effect of the discretion would be more borrowers repaying their student loan. This could mean the proposal may reduce the stress and anxiety associated with high loan balances and concerns about coming back to New Zealand at the risk of being arrested at the border.

41 We do not anticipate there will be any negative population impacts resulting from the proposal, however, some borrowers may not be able to access the benefits of this proposal if they do not have the funds to settle the loan or enter into a short-term instalment arrangement. s 18(c)(i) [redacted]

Human rights

42 There are no inconsistencies with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 as a result of this proposal.

Administrative impacts

43 Inland Revenue will administer the discretion, which will require system changes and updating operational guidance and training material for staff. Inland Revenue will absorb any costs within baselines.

Use of external resources

44 No external resources were used in the development of this proposal or Cabinet paper. PwC was informed of this proposal as part of its role in the valuation of the Student Loan Scheme.

Consultation

45 The Treasury and the Ministry of Social Development were consulted throughout the development of this proposal and in the preparation of this Cabinet paper.

46 No external consultation has been undertaken, however, regular engagement with OBBs and their representatives indicate that this proposal will be well received by many borrowers. Greater ability to negotiate with Inland Revenue as to the repayment of OBB loans has been the most requested change.

Communications

47 We will make an announcement when the amendment paper is tabled early next year. A commentary on the amendment paper will be released on the Tax Policy website at this time. Inland Revenue will publish details of the new legislation in an Act commentary released on the Tax Policy website after the Bill is enacted.

Proactive release

48 We propose to proactively release this Cabinet paper, associated minutes and key advice papers in part following the tabling of the amendment paper. Note that the information on how Inland Revenue proposes to apply the discretion is revenue information and should not be disclosed to the public.

Recommendations

The Minister of Revenue and Minister for Universities recommend that the Committee:

1 **agree** to introduce a legislative discretion to allow the Commissioner of Inland Revenue to provide relief from student loan interest when the Commissioner considers it equitable;

2 **note** the purpose of the discretion is to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position, through obtaining value from student loans that are in default;

3 **agree** to introduce the discretion in an amendment paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at Committee of the whole House stage scheduled for early 2026;

4 **agree** that the discretion apply from the date of enactment of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill;

5 **authorise** the Minister of Revenue to release an amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill to give effect to the decision in recommendation 1 above;

6 **delegate** authority to the Minister for Universities and Minister of Revenue to make decisions on the detailed design of the proposal recommended in this paper;

7 s 18(c)(i) [redacted]

8 **note** that the impact on broader compliance is unclear, and that Inland Revenue will assess and report on the impact of the policy by:

8.1 monitoring compliance and reporting to the Minister for Universities and the Minister of Revenue if any adverse impacts are observed,

8.2 reporting every six months on the use of the discretion to the Minister for Universities and the Minister of Revenue, with these reports referred to the Minister of Finance, and

8.3 reporting to the Minister of Finance, Minister for Universities and the Minister of Revenue after 18 months on shifts in repayment behaviour;

8.4 providing information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process;

9 **agree** that the Minister for Universities and Minister of Revenue report to Cabinet on the application of the discretion once total relief exceeds $30 million with a further assessment of whether the policy is achieving the policy purpose as set out in recommendation 2;

10 **note** that if a problem emerges at any time, the Minister for Universities and Minister of Revenue may review and recommend repealing the discretion if necessary;

11 **note** that as a result of the decisions in recommendations 1 and 2 above, a small gain in the fair value of the Scheme of approximately $1.500 million is expected to arise over the forecast period. This will flow through into the year-end fair value remeasurements over the forecast period and be incorporated into the actuals;

12 **note** the following changes as a result of the decision in recommendations 1 and 2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Capital receipts	0.101	1.298	3.938	2.972	(0.019)
Non-Tax Revenue:					
Interest on Impaired Student Loans	(0.001)	(0.018)	(0.162)	(0.381)	(0.484)
Total Capital Receipts	**0.101**	**1.298**	**3.938**	**2.972**	**(0.019)**
Total Operating	**0.001**	**0.018**	**0.162**	**0.381**	**0.484**

13 **note** that the capital receipts (cash) have no operating impact and no impact on the operating budget allowance;

14 **note** that although the decrease in interest on impaired student loans shown in recommendation 12 above will impact on the operating balance, the expected gain in the value of the Scheme noted in recommendation 11 will offset this impact**;**

15 **agree** to allow the operating balance impacts in recommendations 13 and 14 above to flow through allowances directly to the fiscal indicators**;**

16 **note** that the financial implications do not include the impact of any behavioural shifts that reduce current compliance levels.

Authorised for lodgement

Hon Dr Shane Reti

Minister for Universities

Hon Simon Watts

Minister of Revenue

ECO-25-MIN-0202

Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Commissioner Discretion for Overseas Borrowers

Portfolio **Universities / Revenue**

On 3 December 2025, the Cabinet Economic Policy Committee:

1 **agreed** to introduce a legislative discretion to allow the Commissioner of Inland Revenue to provide relief from student loan interest when the Commissioner considers it equitable (the discretion);

2 **noted** that the purpose of the discretion is to collect the highest amount possible from student loan borrowers with the aim of improving the Crown's financial position, through obtaining value from student loans that are in default;

3 **agreed** to introduce the discretion in an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill at the Committee of the Whole House stage, scheduled for early 2026;

4 **agreed** that the discretion apply from the date of the enactment of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill;

5 **authorised** the Minister of Revenue to release an Amendment Paper to the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill to give effect to the decision in paragraph 1 above;

6 **authorised** the Minister for Universities and the Minister of Revenue to make decisions on the detailed design of the discretion;

7 s 18(c)(i) [redacted]

8 **noted** that the impact on broader compliance is unclear, and that Inland Revenue will assess and report on the impact of the policy by:

8.1 monitoring compliance and reporting to the Minister for Universities and the Minister of Revenue if any adverse impacts are observed;

8.2 reporting every six months on the use of the discretion to the Minister for Universities and the Minister of Revenue, with these reports referred to the Minister of Finance;

8.3 reporting to the Minister of Finance, Minister for Universities and the Minister of Revenue after 18 months on shifts in repayment behaviour;

8.4 providing information on the amount of relief provided as part of current reporting to Stats NZ (to the Integrated Data Infrastructure), which is used in the annual valuation process;

9 **invited** the Minister for Universities and the Minister of Revenue to report back to Cabinet on:

9.1 the application of the discretion once total relief exceeds $30 million with a further assessment of whether the policy is achieving the policy purpose as set out in paragraph 2 above;

9.2 wider policy work on student loan obligations when borrowers go overseas and the Crown's ability to collect from overseas based borrowers;

10 **noted** that if a problem emerges at any time, the Minister for Universities and the Minister of Revenue may review and recommend repealing the discretion if necessary;

11 **noted** that as a result of the decisions in paragraphs 1 and 2 above, a small gain in the fair value of the student loan scheme of approximately $1.500 million is expected to arise over the forecast period, and that this will flow through into the year-end fair value remeasurements over the forecast period and be incorporated into the actuals;

12 **noted** the following changes as a result of the decisions in paragraphs 1 and 2 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Revenue Minister of Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Crown Revenue and Receipts:					
Capital receipts	0.101	1.298	3.938	2.972	(0.019)
Non-Tax Revenue: Interest on Impaired Student Loans	(0.001)	(0.018)	(0.162)	(0.381)	(0.484)
Total Capital Receipts	**0.101**	**1.298**	**3.938**	**2.972**	**(0.019)**
Total Operating	**0.001**	**0.018**	**0.162**	**0.381**	**0.484**

13 **noted** that the above capital receipts (cash) have no operating impact and no impact on the operating budget allowance;

14 **noted** that although the decrease in interest on impaired student loans in paragraph 12 above will impact on the operating balance, the expected gain in the value of the Scheme noted in paragraph 11 above will offset this impact;

15 **agreed** to allow the operating balance impacts in paragraphs 13 and 14 above to flow through allowances directly to the fiscal indicators;

16 **noted** that the financial implications do not include the impact of any behavioural shifts that reduce current compliance levels.

Rachel Clarke
Committee Secretary

Present:
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Simeon Brown
Hon Brooke van Velden
Hon Shane Jones
Hon Dr Shane Reti
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Officials Committee for ECO

Cabinet

Minute of Decision

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Report of the Cabinet Economic Policy Committee: Period Ended 5 December 2025

On 8 December 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 5 December 2025:

Not in scope

ECO-25-MIN-0202	**Commissioner Discretion for Overseas Borrowers** Portfolios: Universities / Revenue	CONFIRMED

Not in scope

Rachel Hayward
Secretary of the Cabinet