


What is the HELP-HECS loan scheme?

The Higher Education Loan Program or HELP is a loan program to help eligible students enrolled in Commonwealth supported places, to pay their student contribution amounts. Before 2005, this was known as HECS.

Upon enrolment, the Australian government pays the amount of the loan directly to your education institution. This debt is paid back through the pay as you go (PAYG) withholding payments system when you are paid by your employer, in the same way you pay tax.

The repayment amount for your debt is based on your salary - increasing as your income increases, with certain thresholds determining when repayments begin and how much you are required to pay.

On 1 June each year, the Australian Taxation Office (ATO) applies an index amount to your loan (rather than an interest rate). This indexation is applied to debt more than 11months old, and the amount is based on the last 2 years' worth of Consumer Price Index (CPI) data.

For many people, the amount withheld each year from your salary will be more than the indexed amount.

What do I need to know?

The key things you need to know about HECS-HELP are:

Repayment Income

The amount of income that you earn determines the level of compulsory repayments you are required to make. Retirement Income (RI) is taxable income, plus any total net investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions (such as salary sacrifice) and exempt foreign employment income.

Compulsory repayment

The amount that is withheld via your salary and wages. It is collected throughout the year and applied to your HELP-HECS debt after you complete your tax return. If you are self-employed, you will need to keep aside a repayment amount as once you complete your first tax return, you will be required to make your first repayment.

Voluntary repayment

When you elect to pay more toward your HELP or HECS debt above the compulsory repayment.

Repayment income thresholds

The amount that you are required to pay toward your HELP debt, based on your income.

Indexation

The amount by which your HELP debt increases by on 1 June each year. Based on the last 2years of CPI data. Whatever HELP debt is older than 11 months on 1 June is the amount that is indexed. The indexation rate for 2023 is 7.1% which is one of the highest rates in many years.

CPI

Consumer Price Index. The increasing costs of goods and services in an economy, measured quarterly by the Australia Bureau of Statistics (ABS).offsets for spouses.

After-tax contributions are non-concessional contributions and will count towards your non-concessional contribution cap unless you have claimed a tax deduction for them. The general non-concessional contributions cap is $110,000 or $330,000 over three financial years. You may have a lower limit or not be entitled to the full amount, depending on the size of your total super balance at the beginning of the financial year.

Repayment income thresholds and rates 2022-2023.

REPAYMENT INCOME (RI)	REPAYMENT RATE
Below $48,361	Nil
$48,361 – $55,836	1.0%
$55,837 – $59,186	2.0%
$59,187 – $62,738	2.5%
$62,739 – $66,502	3.0%
$66,503 – $70,492	3.5%
$70,493 – $74,722	4.0%
$74,723 – $79,206	4.5%
$79,207 – $83,958	5.0%
$83,959 – $88,996	5.5%
$88,997 – $94,336	6.0%
$94,337 – $99,996	6.5%
$99,997 – $105,996	7.0%
$105,997 – $112,355	7.5%
$112,356 – $119,097	8.0%
$119,098 – $126,243	8.5%
$126,244 – $133,818	9.0%
$133,819 – $141,847	9.5%
$141,848 and above	10%

A word on salary sacrifice and salary packaging

The two big traps for ending up with an extra tax bill at the end of the year are from salary sacrifice contributions either to superannuation, or salary packaging arrangements, such as novated leasing.

Your employer may only withhold a compulsory amount based on your taxable income (income after the salary sacrifice arrangement) which can be lower than the compulsory repayment based on your income which INCLUDES the salary sacrificed amount. The ATO will reconcile the amount of compulsory repayment required at the end of the financial year, which may mean extra tax – refer to the example below.

This example shows that if someone salary sacrificed $15,000 to their superannuation (above their employer super amount), their employer would have withheld 2% or $2,050 less HELP repayments throughout the year than what is required as a compulsory repayment, which is reconciled at tax time.

This is regardless of the tax on income or take-home pay because of strategies like salary sacrifice to super etc. This is the same for other Reportable Fringe Benefits (cars) or other salary packaging arrangements (meal cards etc.). You must be aware of your total liability and plan for it each year.

TAXABLE INCOME	$80,000	$65,000
Salary sacrifice to super (15% tax applies to contribution)	Nil	$15,000
Total earnings	$80,000	$80,000
Compulsory HELP repayments withheld by employer	$4,000 (5% based on taxable income)	$1,950 (3% based on taxable income)

You have two options when it comes to salary sacrifice, salary packaging or other reportable fringe benefit arrangements:

- Ask your employer to withhold an additional amount per week to cover the compulsory repayment due; or
- Understand you will need to save this amount yourself and pay the lump sum when your tax is lodged

How can I make voluntary repayments?

Voluntary payments can be made directly from your bank account, using BPAY or credit card.

You must make the compulsory payment via the PAYG tax withholding system even if you make a voluntary repayment.

Voluntary repayments do not reduce compulsory repayments (unless you extinguish your debt entirely).

This may mean having to repay more than expected!

As your income grows your repayments increase, so they can weigh heavily on you emotionally to see so much money being withheld each year from your income.

You may wish to pay it down to get it out of your life, however other factors to consider include:

- Your emergency fund is in place.
- You have considered repaying other debt off (credit cards, personal loans, buy-now-pay-later)
- Your house deposit sorted (if this is a goal)
- Your career is well established, or your business is established
- Other short-term financial goals have been met.

How does a HELP-HECS loan affect borrowing capacity for a mortgage?

If you are looking to borrow for a home, HELP debt can impact this. There may be circumstances where a mortgage broker would tell you it's beneficial to clear your HELP debt prior to obtaining a mortgage.

It may be beneficiary to speak with a mortgage broker first if you are considering a home loan in the near future. Other factors to consider include the interest applicable to your home loan in comparison to the withholding rate and compulsory repayment level of your HELP-HECS loan.

When it comes to borrowing for a mortgage the thing that a HELP debt does impact is serviceability.

This is based on your rate of payment at that time rather than the amount of HELP debt you have.

If you have a HELP debt of $100,000 yet earn under the threshold to pay that debt back, there may be no difference to your borrowing capacity, as it is calculated on what you actually pay back.

For most first home buyers their deposit size is the factor that holds them back reaching their desired purchase price, more than serviceability for the loan.

For this reason, it is always best to check your personal situation with a broker before you make a move, such as using cash to pay out a HELP loan.

Once those funds have been moved onto your HELP balance, you cannot get them back.

Generally, a mortgage broker can assess your borrowing capacity both with and without your HELP debt so you can make an informed decision before making a move.

How can a Financial Planner help me?

The decision to pay off HELP debt this year still requires careful consideration. When looking at the next 12 months alone, your return on this 'investment' is a guaranteed 7.1%. Not bad!

If indexation likely peaks later this year, the average benefit over the longer term would be lower.

It might still be a no-brainer for you, but in weighing this up think about what other choices you have for your savings. It might be offsetting a home loan, helping you save for a house deposit, perhaps inside the First Home Super Saver (FHSS) scheme with concessional tax rates, or investing elsewhere like the share market.

If you have any credit card, buy-now-pay-later or personal loans at higher rates then you may wish to focus on these first.

Also don't forget that HELP debt wipes out at death so if you're a low-income earner and likely to remain in that position long term, it might not be beneficial paying this off right now.

FAQs

What if I'm self-employed?

In the first year of being self-employed as a sole trader, you will need to keep aside a repayment amount as once you complete your first tax return, you will owe the money. After the first tax return you will receive a quarterly instalment for your tax.

What if I have a spouse or partner?

Your compulsory repayment is based on your income alone - not the income of your spouse or partner.

Are there times a compulsory repayment isn't needed?

You will not have to make a compulsory repayment if you have a spouse or dependents and if (due to low family income) you are entitled to a reduction of the Medicare levy or you don't have to pay the Medicare levy.

Are there any circumstances where I can defer the compulsory repayments?

Yes. If making your repayment would cause you serious hardship, or due to other special reasons such as natural disasters affecting you, death or serious illness or other serious or difficult circumstances.

Getting help from your adviser

This time of change can also be a time of great opportunity. That's why good financial advice is so important. Making the right decisions now about how you deal with your redundancy can help you maximise your payment, minimise the amount of tax you pay and ensure you can access any social security benefits you might be entitled to.

The choices you make will depend on your age, lifestyle, the size of your payment, your debt levels and your future job prospects. This is where a financial adviser can guide you through the range of options available and help you select the best choice for your situation.

Things to consider:

- Take time to think through all your work and lifestyle options before making any immediate decisions.
- Get advice from your financial adviser before you finish work so they can help optimise your benefits and pay-out structure.
- Seek out experts in career transition who can provide specialist tools and resources to get you back on track and working sooner.

For more information, please contact us.

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Your life your way