

Recent amendments to HECS

BDO Nelson Parkhill

The following information summarises the current position in relation to the Higher Education Contribution Scheme.

As the HECS Debt is non-deductible and voluntary payments receive a discount of up to 15%, voluntary repayments have considerable attractions; that is of course if you have the cash reserves or resources to make voluntary repayments.

In the past most solicitors have repaid their HECS Debt under the compulsory repayment programme determined by their taxable incomes.

As most solicitors do not have the ability to make the upfront payment and therefore benefit from the 25% discount, the recently introduced discount for voluntary payments represent an after tax return of up to 15% which in the current environment is very attractive indeed.

Taxpayers who have undertaken tertiary courses which are subject to the Higher Education Contribution Scheme ("HECS") are required to reimburse the Federal Government for the cost of those courses.

From 1 January 1997, the annual HECS charge payable by full-time law students is \$5,500 per annum. Economics and commerce courses attract a fee of \$4,700 pa.

There are two methods of repaying a HECS liability:

1. Making an *upfront payment* which attracts a 25% discount, or
2. Deferring payment until taxable income meets certain limits and repaying the liability through the taxation system.

Where the second method is used, the outstanding debt and the taxable income levels above which repayment is required are indexed to inflation.

Recent amendments were introduced to accelerate the rate of repayment and to encourage taxpayers to make voluntary repayments.

The recovery of HECS debt has been increased. The repayment thresholds for the 1995/96 and 1996/97 years are as follows:

1996/97		1997/98	
Income level	Rate of repayment	Income level	Rate of repayment
Below \$28,494	nil	Below \$20,701	nil
\$28,494 to \$30,048	3%	\$20,701 to \$21,830	3%
\$30,049 to \$32,380	3.5%	\$20,831 to \$23,524	3.5%
\$32,381 to \$37,562	4%	\$23,525 to \$27,288	4%
\$37,563 to \$45,334	4.5%	\$27,289 to \$32,934	4.5%
\$45,335 to \$47,717	5%	\$32,935 to \$34,665	5%
\$47,718 to \$51,291	5.5%	\$34,666 to \$37,262	5.5%
\$51,292 and above	6%	\$37,263 and above	6%

Where a taxpayer makes a voluntary repayment of \$500 or more, the HECS debt is reduced by the amount of the payment plus an additional 15%.

From the 1995/96 year, there is a voluntary 2% repayment for taxpayers with taxable incomes between \$20,000 and \$27,674. These repayments receive a 10% discount on the accumulated debt. (Note, however, that the lowering of the compulsory threshold to \$20,701 from the 1997/98 year brings an end to the discount for voluntary payments at this salary level).

HECS payments can not be claimed as a tax deduction.

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