The Taxing Wealth Report: Abolishing the UK's student t...

Published: January 12, 2026, 8:48 pm

I have this morning published the latest note in my series that will make up the Taxing Wealth Report 2024. This latest note suggests that the UK should abolish its student loan system and the associated student loan charge, which functions as a tax on younger graduates in much of the UK. This is the first recommendation in this series that reduces the UK government's tax revenues, in this case, by £4 billion per annum.

The summary of this report says:

Brief summary

This note suggests that:

* Student loan charges are, in effect, a graduate tax.

* The sums collected by this tax are relatively insignificant, having reached £4 billion in 2022/23 and totalling just £32.7 billion over the nineteen-year period ending then at an average of just £1.7 billion a year.

* This charge creates substantial horizontal and vertical tax inequality within the UK tax system, with it being possible for a graduate on median pay in the UK to have a marginal tax rate more than twice that of a person with similar income derived from investment sources.

* Within the current structure of the so-called student loan charge, there is no way in which these inequities can be addressed, and as a consequence, it is proposed that student loan charges be cancelled.

* It is recognised as a consequence that more than £200 billion of supposed student debt will have to be written off. However, in practice, it is expected that only 27% of students with loans taken out before 2023 will actually repay their liabilities in full, with that forecast supposedly increasing for students starting their courses after 2023 to approximately 64%, but that will be after 40 years. The reality is that much of this debt will never be repaid.

* It is already the case that much of this debt is not on the government balance sheet at present. The UK government Whole of Government Accounts for 2021 (the most recent available at the time of writing[1]**) suggests that the debt was worth £87.8 billion in March 2021 when the House of Commons Library suggests that the actual debt nominally owing was slightly more than double that sum at that time[2].**

* **Importantly, however, it seems likely that student debt is almost wholly excluded from Office for National Statistics national debt calculations and as such, the write-off of this sum will have no impact on this figure[3]. The reality is that the actual cost of providing students with their education has already been accounted for in existing debt calculations, and no adjustment to that would be required as a consequence of writing off these sums.**

* **The sole consequences of this change will be:**
* **To reduce foreseeable tax payments by graduates by approximately £4 billion a year, but with a significant likelihood that other proposed tax changes noted in this Report will be more acceptable as a result.**

* **That some student loan balances that have been sold will have to be repurchased by the government, which will marginally increase the cost of government borrowing, but not in any material fashion.**

* **The benefits of this proposal are:**
* **Disincentives to partake in higher education will be removed.**

* **A level playing field will be created within the nation-states of the United Kingdom, where Scotland, in particular, has pursued a different approach to England on this matter.**

* **Horizontal and vertical tax inequalities will be eliminated with overall improvement in tax justice resulting.**

* **The cost of higher education will be recognised as one that society needs to bear for the benefit that it supplies to everyone, and not just the student partaking in it.**

* **The likelihood that younger people will be able to afford to buy their own homes and contribute to pensions will increase when, at present, student loan repayments are a serious impediment to their prospects of taking on**

these government-promoted activities.

*** The quality of life for very large numbers of younger people in the UK will be substantially improved with a likely boost to economic confidence and so economic growth.**

*** It is also possible that reductions in student debt charges will encourage greater entrepreneurial activity in the UK.**

Discussion

Please note that references in this section are available [in the full paper](#).

In 2020/21, which is the last year for which full data is available, English resident students attending UK universities 1,218,000 students took out student loans with a value of £18.4 billion at an average of £15,080 each. Ninety-five per cent of students took out a loan. All of these figures are expected to rise in coming years.

A three-year English resident undergraduate student now faces student debt of around £45,000 when graduating.

Students are charged interest on their loans. The arrangements vary depending upon the loan that they were offered. Interest charges on these loans have usually been set at the increase in the retail price index (which is rarely used for other purposes, and tends to report inflation at rates higher than the more commonly used consumer prices index) plus three per cent. The impact during the recent period of inflation would have been dramatic. In practice, caps have been introduced to prevent excessive charges. Charges since 2022 have been at around seven per cent per annum instead. This still represents a charge of in excess of £3,000 per annum for many students. This sum is added to loan balances and is not the subject of immediate demand for payment. Like the capital sum owing, payment of interest is only made if the graduate has sufficient income to require it.

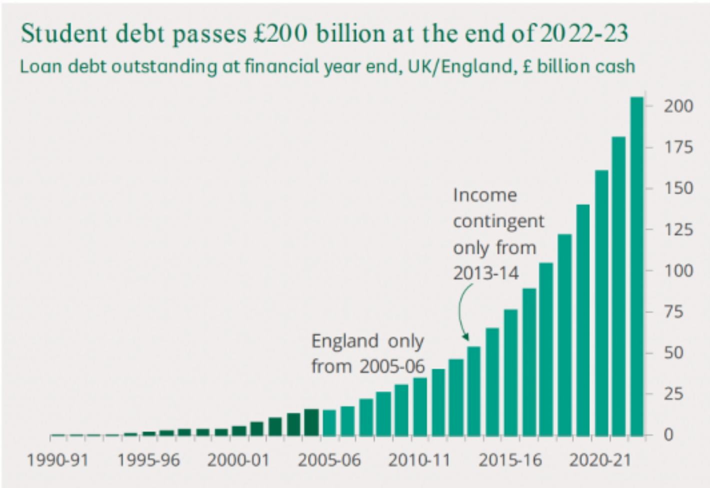
At the beginning of 2024 loan repayments were due if income of a graduate who had taken a loan exceeded these thresholds:

Plan type	Yearly threshold	Monthly threshold	Weekly threshold
Plan 1	£22,015	£1,834	£423
Plan 2	£27,295	£2,274	£524
Plan 4	£27,660	£2,305	£532
Plan 5	£25,000	£2,083	£480
Postgraduate Loan	£21,000	£1,750	£403

Repayments due are made at the following rates:

* 9% of income over the threshold in the case of Plans 1, 2, 4 or 5
* 6% of income over the threshold in the case of a Postgraduate Loan

What is most important to note if the fact that these rates are not covering the rate at which student debt is accumulating, not least because of the imposition of interest charges. As the House of Commons Library has noted, debt is increasing rapidly:



The primary reason for this is the growing number of student staking loans that were repayable over 30 years and will, from 2023/24 cohort onwards, be repayable over 40 years.

However, there are other significant factors, including the fact that of full-time undergraduate higher education students starting in academic year 2022/23, only 27% are expected to be repay their loan in full. This figure rises to 61% for the 2023/24 cohort because of the ten-year extension in time permitted for repayment from that year onwards.

This is explained by the fact that interest charges currently exceed repayments made on student loans, and this is expected to remain the case until about 2035. In effect the capital on these supposed loans is rarely being repaid. As a mechanism for providing loan finance the student loan arrangement for funding English student attendance at universities very clearly fails.

Given the noted facts it is impossible to suggest that the payments made by graduates in respect of their student loans are in respect of the education that they received. There is no obvious correlation between the sums that any one person might pay and the value of the degree that they secured, or the loan that they incurred. The charge made is simply an additional income tax that might cover a penal interest charge on the supposed loan that they incurred with a small capital repayment potentially occurring, but without any certainty. In that case the UK does not have a student loan scheme: it has a graduate tax that penalises those who pursued education that the government encouraged them to partake of.

It should be noted that this tax cannot be represented to be a charge on wealth. Whilst it is generally true that graduates do earn more than non-graduates within the UK economy, those who have the highest outstanding student balances tend to be students whose parents have more limited means. In other words, the student loan charge is most likely a regressive tax charge, with the wealthiest graduates likely to have no such liability at all as their parents meet the entire cost of their student education. There is, as a consequence, no progressive justification for a student tax charge, and yet we have one in the UK.

There is a serious consequence of the existence of the student tax charge. It effectively adds a nine per cent additional tax charge over and above that otherwise imposed by income tax and insurance on all graduates now earning in excess of a sum in itself less than median UK earnings per annum. This charge destroys horizontal tax equity between graduates and non-graduates. There is also nothing progressive about the charge when the liability owing is as much the consequence of the parental situation of a graduate as it is their own personal circumstance. To pretend that there is a progressive justification for this tax is, therefore, impossible.

In addition, the charge destroys any other attempts at creating justice within the UK tax system by creating particular distortions for some within society, not experienced by others. When the total sum collected by this charge is about £4 billion per annum, this is particularly inappropriate.

It is important to note that there would be contractual issues arising if changes were made to older student debts because some of their debt has now been sold to third parties. However, given the fact that so many of these debts will never be repaid these cannot be insurmountable and compensation could be paid to effectively repurchase this debt.

Recommendation

It is proposed that student loan charges be cancelled in their entirety at a cost of £4 billion per annum.

Cumulative value of recommendations made

The ***recommendations now made as part of the Taxing Wealth Report 2024*** ***would, taking this latest proposal into account, raise total additional tax revenues or release sums available for alternative spending of approximately £146.1 billion per annum, on top of which an additional £70 billion from ISA***

savings might be released for investment in social and green infrastructure projects. It is stressed that this proposal creates a cost and does not deliver additional revenue, but that is the price of creating tax justice and ensuring the proper delivery of the other recommendations in the Taxing Wealth Report 2024.

End notes

[1] https://www.gov.uk/government/collections/whole-of-government-accounts

[2] https://commonslibrary.parliament.uk/research-briefings/sn01079/

[3] The logic for the ONS excluding this debt is explained in this blog post https://www.taxresearch.org.uk/Blog/2023/12/24/the-good-news-this-is-christmas-is-that-trillion-of-the-uks-national-debt-does-not-exist/