



Department
for Education

International Student Levy – Impact Analysis

Methodology and impact analysis

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Summary

This publication provides additional detail regarding the Department for Education's methodology to estimate the impact of the International Student Levy (England Higher Education sector only).

The International Student Levy (ISL) will take the form of a £925 fee per-international student, per year of study, on higher education providers (HEPs). The tax liability of providers will be subject to a 220 student allowance (i.e. they will not be taxed on their first c. £200k of ISL revenues that would otherwise be due).

In advance of the policy introduction, updates and refinements will be made to consider the latest available evidence and data.

For more information, please refer to the International Student Levy technical consultation document¹.

¹ <https://www.gov.uk/government/consultations/international-student-levy-technical-detail>

Methodology and assumptions

Overarching methodology

Key data sources underpinning our analysis include:

1. International student forecasts, which are based on existing data from the Higher Education Statistics Agency² (HESA) and Home Office immigration statistics³.
2. International fee income by level of study⁴ (Undergraduate/Postgraduate).
3. Price elasticities of international student demand from London Economics⁵ and Public First⁶.

We use these data, and a range of assumptions, to model two key outputs: a) estimated ISL revenue generated and b) income loss incurred to HE providers. The overarching steps in our modelling are:

Step 1: Estimate future international tuition fee income in 2 scenarios:

Counterfactual (no levy): Counterfactual International Tuition Fee Income = Average international tuition fees per students x international student forecasts.

International tuition fees in the counterfactual are average fees increased with inflation (CPI⁷); we assume no other increase to fees.

Since in this scenario, HE providers do not increase fees by anything other than inflation, we assume no elasticity to student demand and therefore assume student forecasts remain as estimated.

Levy is implemented: International Tuition Fee Income = new international tuition fees (assuming some levy pass-through, and inflated with CPI) x new international student forecasts (assuming a behavioural response from international students from the increased fees, using assumed price elasticities).

International tuition fees in this scenario are fees uprated by inflation (CPI), with some levy pass-through from providers (see provider behaviour section below) from AY28/29 onwards.

² [HESA - Experts in higher education data and analysis](#)

³ [Migration statistics - GOV.UK](#)

⁴ [What is the income of HE providers? | HESA](#)

⁵ [London Economics PowerPoint Presentation](#)

⁶ [Public First - ISL Modelling Final Report](#)

⁷ [Consumer price inflation, UK - Office for National Statistics](#)

We assume this increase in fees causes a subsequent change in student demand, using recent Public First and previous London Economics price elasticity estimates to apply the estimated reduction in demand to different provider clusters (from Boliver 2015⁸). More information can be found in the price elasticities section.

Step 2: Estimate ISL Revenue generated

To estimate the ISL revenue generated, we multiply the ISL fee per student (£925 in year 1 of policy, increasing with inflation thereafter) by the adjusted international student forecasts per year.

Step 3: Estimate tuition fee income losses

The remainder of the income in this scenario is then compared to the counterfactual income to estimate the income loss to the HE sector (i.e. the counterfactual total international fee income is deducted from the total international fee income left, in the scenario where the levy is implemented).

Key assumptions

International student projections

Future international student numbers are inherently uncertain. The international student market is competitive and inflows depend on a range of factors, including recruitment strategies from international competitors, exchange rates and other economic variables, etc.

Our forecasts are based on sector level compound annual growth rates (CAGR) from historical HESA data on international student enrolments⁹.

In the short term, as per the Immigration White Paper¹⁰, we assumed that:

- International students, across all levels of study, fall by 13% between 2023/24 and 2024/25, and
- International students, across all levels of study, fall by 3.5% between 2024/25 and 2025/26.

In the medium to longer-term, we modelled 2 scenarios:

1. International student growth follows previous trends.
 - a. Undergraduate scenario is 0% per annum (from 2025/26)
 - b. Postgraduate scenario is 6% per annum (CAGR 2020/21 – 2024/25)

⁸ [Are there distinctive clusters of higher and lower status universities in the UK?](#)

⁹ [Where do HE students come from? | HESA](#)

¹⁰ [Restoring control over the immigration system: white paper - GOV.UK](#)

2. Slight decrease of international student numbers in future years.
 - a. Undergraduate growth is -1% per annum (CAGR 2018/19 – 2024/25)
 - b. Postgraduate growth is 0% per annum (from 2025/26)

A central estimate was then chosen corresponding to the middle point between these two scenarios.

International fee projections

Average undergraduate and postgraduate international tuition fees are calculated by dividing AY22/23 HESA international fee income data by the number of international students for AY22/23, at provider-level. AY22/23 data is used as this was the last full year of reported HESA income data at the time of the analysis (some providers were missing in AY23/24 data). As described above, the average international tuition fees have then been uprated with CPI for future years.

The uncertainties associated with this method are that it relies on accurate reported data from providers in HESA. Where a provider average international fee appeared as an anomaly (i.e. extreme outliers, high or low), we assessed its validity and if required replaced with the average international fee for providers in the same OfS student typology¹¹.

Provider behaviour

According to the literature, tax pass through depends on supply and demand elasticities, and the structure of the market. In reality, this is complex and highly uncertain. We have made a set of simplifying assumptions for the purpose of sector-level costing analysis.

We have assumed that that providers will pass through to varying degrees the cost of the levy to international students via increased tuition fees, corresponding to the best available evidence on varying price elasticities across the sector (see student behaviour section for more detail). We have used the Boliver (2015) clusters:

- Cluster 1: Oxbridge (Oxford and Cambridge) – the least price sensitive cluster. Extremely high research intensity and entrance requirements.
- Cluster 2: other pre-1992 universities (Russell Group and world-renowned specialist providers). High research activity and resources, selective admissions.
- Cluster 3: Post-1992 universities with relatively higher entry requirements.
- Cluster 4: Post-1992 institutions with lower entry requirements.

¹¹ [Provider typologies 2022: Methodology for grouping OfS-registered providers - Office for Students](#)

Our assumption is therefore that providers in Clusters 1 and 2 are likely to be able to pass on relatively more of the cost of the levy to their international students than providers in Clusters 3 and 4.

Student behaviour

Estimating the response of students to fees across the sector is a significant source of uncertainty, as students across different providers will react differently. Different cohorts of students will also react differently (PG vs UG, and EU vs non-EU) and price elasticity will vary by course type, even within individual providers.

It is not possible to fully adjust for this complexity. In order to use the best available evidence, we have applied different price elasticities to the 4 clusters described above, using Public First and London Economics analysis. The main price elasticity estimates use the more recent Public First figures, but the London Economics cluster analysis, using Boliver (2015) has been applied to those figures for more granularity.

The evidence from Public First and London Economics also suggests variations in price elasticity between EU and non-EU students, between Postgraduate and Undergraduate students, and between short-run and long-run.

To account for the transition between the short-run and the long-run elasticities, we used Public First half-life estimates where appropriate to create intermediate elasticities between the short-run and the long-run.

Allowance

All providers subject to the levy will receive an allowance of 220 international students per year (equivalent to not paying up to the first c.£200,000 tax due) This means a provider will not be charged a levy on the first 220 international students, but the levy will be charged at the full rate for remaining students.

Direct impact

Revenue generated

Financial Year	28-29	29-30	30-31
OBR-scored revenues	£445m	£465m	£480m

Rounded to nearest £5m. Estimates subject to change as refinements and updates are made in advance of the policy introduction.

The fiscal impact of the allowance and any further policy development will be accounted for in the next forecast.

Illustratively, £450m would represent around 4.5% of total international fee income at English HE providers in 2023/24¹².

Net cost to the HE sector

The below table shows estimated unmitigated income losses to the HE sector, when comparing international fee income post levy collection to the counterfactual, at aggregate level. These must be seen as indicative only because of the high degree of uncertainty in the underlying assumptions. The impact will vary depending on provider and student behaviour.

Financial Year	28-29	29-30	30-31
Income Loss to the Sector (including allowance)	-£270m	-£300m	-£330m

Rounded to the nearest £5m. Estimates are uncertain and subject to change as refinements and updates are made in advance of the policy introduction.

Illustratively, £300m would represent around 3% of total international fee income at English HE providers in 2023/24¹³.

This is before factoring in the impacts of other policy changes including the recent decision to uprate tuition fees. Illustrative detail on the impact of tuition fees is set out in the annex.

¹² [What is the income of HE providers? | HESA](#)

¹³ [What is the income of HE providers? | HESA](#)

Migration impact

The below table estimates the number of student enrolments lost due to the implementation of the ISL, calculated by taking the difference between student forecasts in the counterfactual versus elasticity adjusted forecasts.

Student losses	28/29	29/30	30/31	31/32	32/33	33/34
Total	-14,000	-15,500	-17,000	-16,500	-16,500	-16,500

Rounded to the nearest 500. Estimates are uncertain and subject to change as refinements and updates are made in advance of the policy introduction.

Wider impacts

Impact on exports

For every pound of the levy that is passed on to students, education exports will increase because international tuition fee income will increase. Because the evidence shows that international demand is on average price inelastic across the sector, we assume that the increases in fees we have modelled will lead to relatively lower reductions in demand. As such, we expect a net positive impact on education exports overall.

Impact on cross-subsidy within the HE sector

Research

International student income provides important investment in our world-class science and research capability. Universities perform c.80% of all non-business research and development. While we cannot predict the complete impact of the levy on research activity across the sector and individual institutional responses will vary, a decrease in international student income is likely therefore to decrease the cross-subsidy available to research. This is before accounting for the full reinvestment of levy income into higher education and skills, and the impact of other government policies including government reforms to research funding.

Domestic Teaching

Domestic teaching has become increasingly reliant on cross subsidies from international tuition fee income as the result of several years of tuition fee freezes. OfS analysis of 130 providers in England and Wales reported an aggregate deficit of £1.7bn in academic year 2023/24. The introduction of the levy is likely therefore to reduce cross-subsidy for domestic teaching. This is before accounting for the full reinvestment of levy income into higher education and skills, and the impact of other government policies including the impact of the government's decision to increase funding for domestic tuition fees, which will be covered by a separate impact assessment.

Illustrative annex: cumulative impact of the International Student Levy and tuition fee increases

The Office for Students, in their November 2025 update on the financial sustainability of HE providers in England, estimate based on their modelling that the announced tuition fee uplift for UK undergraduates would generate around £440m in additional income for the HE sector in 2026-27¹⁴.

If we look cumulatively, compared to a scenario where tuition fees remain frozen, the overall expected financial gain to the HE sector over time is significantly greater than the annual increase in income figures suggest. That is, HE providers benefit not just from the latest tuition fee uplift but also from all preceding annual increases. Due to this, the total annual value of each fee uplift increases over time.

To illustrate, if we assume from 2026-27 that fee uplifts generate an additional £400m in annual income (i.e. assuming similar income is generated in future years), then in 2027-28 providers will gain an additional £800m. This is because providers will be receiving the £400m from the previous 2026-27 uplift, in addition to the new £400m uplift of 2027-28. Based on our illustrative assumptions, between 2026-27 and 2030-31 the sector would gain an estimated additional £6 billion of income from fee uplifts¹⁵.

In contrast, the impacts of the ISL do not compound over time as the ISL is a flat, fixed annual cost on income from international students' tuition fees. We estimate the ISL to roughly cost the sector £300m annually from 2028-29. Previous years' ISL costs do not influence future impacts, since ISL costs are incurred in a given year and do not accrue over time.

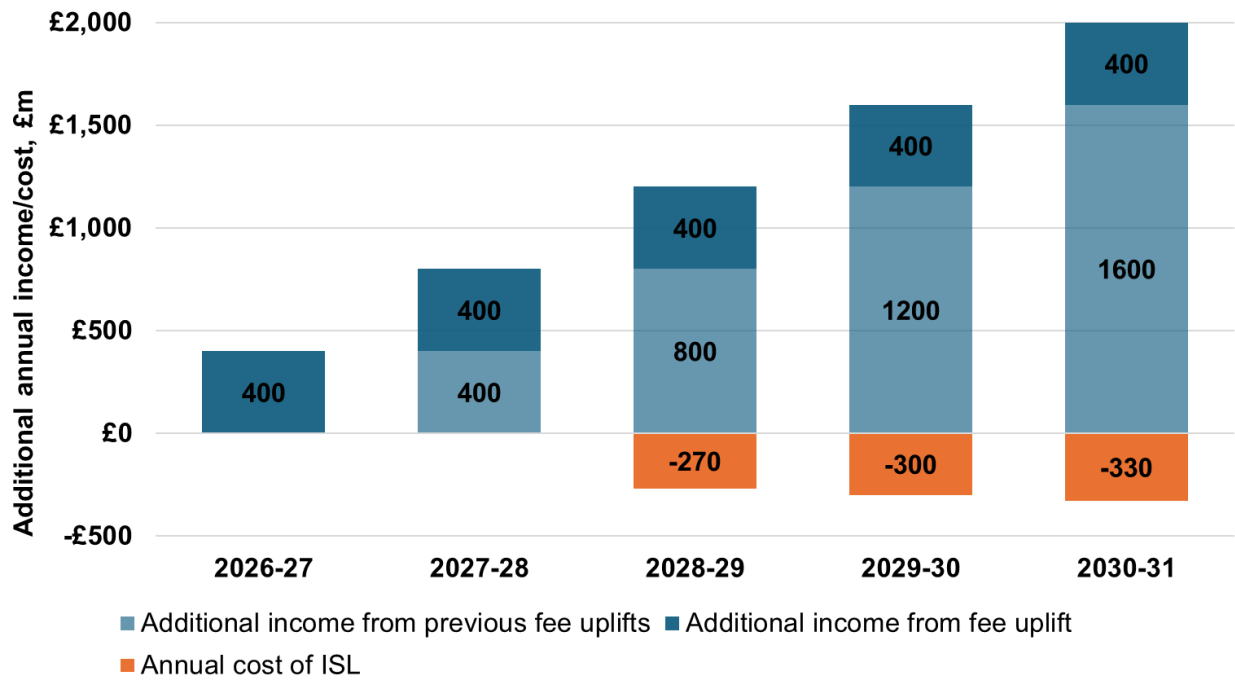
Assuming the ISL roughly costs the sector £300m annually from 28-29, this would imply that the sector would lose £0.9 billion in income by 2030-31.

See figure 1 below for illustrative example.

¹⁴ [Financial sustainability of higher education providers in England: November 2025 update](#)

¹⁵ Note that from 2028-29, tuition fee uplifts will be quality conditional – no account for this has been made in the tuition fee illustrative scenario.

Figure 1: Illustrative example of the cumulative impact of fee uplifts and the levy, £m





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