

Bills Digest  
No. 74 2000–01

Medicare Levy Amendment (CPI Indexation)  
Bill (No. 2) 2000

ISSN 1328-8091

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22 December 2000

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# Medicare Levy Amendment (CPI Indexation) Bill (No. 2) 2000

**Date Introduced:** 7 December 2000

**House:** House of Representatives

**Portfolio:** Treasury

**Commencement:** On Royal Assent

## Purpose

To raise the Medicare levy low income exemption threshold and the Medicare levy surcharge threshold in line with Consumer Price Index (CPI) movements and to adjust the 'shading-out' range.

## Background<sup>1</sup>

Since 1984, Australian residents have been liable to pay a Medicare levy based on the amount of their taxable income for the income year. The rate of the Medicare levy for the 2000-2001 income year is 1.5% of taxable income.<sup>2</sup>

### Low income levy exemption

Since the Medicare levy was introduced in 1984, low income earners have been exempt from paying the levy. The taxable income levels below which the exemptions apply (the low income exemption threshold) is regularly adjusted in line with movements in the CPI.<sup>3</sup> Different low income exemption thresholds apply for individuals, couples and single parents.<sup>4</sup>

Where an individual, couple or single parent's taxable income is within a certain range above the low income exemption threshold, the Medicare levy applies, but at a reduced rate. This is known as 'shading-out' the exemption. Above the low income exemption threshold, but below the 'shade-out' threshold, the Medicare levy is payable at a rate of 20% of the excess over the low income exemption threshold. The 'shade-out' threshold

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varies according to whether the taxpayer is single or married, and according to the number of dependant children.

The low income exemption thresholds and exemption shade-out ranges which are proposed to apply for the 2000-2001 financial year are set out in a table provided in the *Explanatory Memorandum* to the Bill.<sup>5</sup> The current figures for 1999-2000 are shown in parentheses in the table.

### High income levy surcharge

This Bill also affects the application of the one percent Medicare levy surcharge on certain higher income earners without private patient hospital insurance, which commenced on 1 July 1997.

An additional one percent surcharge is payable by a single person whose taxable income and reportable fringe benefits exceeds \$50,000, if the person is not covered by private patient hospital insurance. The family surcharge threshold (which also applies to single parent families) is \$100,000, increased by \$1,500 for each dependent child after the first. The income thresholds above which the Medicare levy surcharge applies are not indexed to movements in the CPI, nor do 'shade-out' ranges apply.

An exemption from the surcharge applies in the case of a taxpayer earning below the low income exemption threshold but whose family taxable income is above the family surcharge threshold. The Bill proposes that the Medicare levy surcharge exemption threshold be increased in line with the individual low income exemption threshold for the Medicare levy.

## Main Provisions

The Bill amends the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999* to increase the low income exemption thresholds for individuals, married couples and single parents. It also increases the 'shade-out' thresholds which apply for the purposes of the Medicare levy. All these amendments will apply to income taxation assessments for the 2000-2001 year of income and later years (**items 2 and 13**).

### Amendments to *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999*

Sections 15 and 16 of the *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999* deal with the amount of Medicare levy surcharge levied on a person's reportable

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fringe benefits. **Item 1** raises the low income exemption threshold from \$13,550 to \$13,807.

### Amendments to *Medicare Levy Act 1986*

**Items 3 and 4** increase the low income exemption threshold from \$13,550 to \$13,807.

**Item 5** increases the exemption 'shade-out' threshold – the amount above which the full amount of the Medicare levy is payable – from \$14,648 to \$14,926.

**Items 6 and 8** increase the family low income exemption threshold from \$22,865 to \$23,299. The threshold amount increases by \$2,100 for each dependent child or student for whom the taxpayer or the taxpayer's spouse is entitled to a notional dependant's rebate.

**Item 7** increases this additional amount from \$2,100 to \$2,140.

**Items 9 to 12** raise the Medicare levy surcharge exemption threshold from \$13,550 to \$13,807, in line with the increase in the low income exemption threshold.

## Endnotes

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- 1 The Background section of this Digest is largely taken from the Bills Digests by Lee Jones and Paul Mackey on the *Medicare Levy Amendment Bill (No 2) 1997* (Bills Digest No 117 of 1997/1998), and by Rosemary Bell on the *Medicare Levy Amendment (CPI Indexation) Bill 1999* (Bills Digest No 111 of 1999/2000).
- 2 Section 6 of the *Medicare Levy Act 1986*.
- 3 See *Medicare Levy Amendment Bill (No 2) 1997*, *Medicare Levy Amendment (CPI Indexation) Bill 1999*.
- 4 Single parents and taxpayers entitled to a rebate for a housekeeper or dependant (including spouse, child, student, parent, child-housekeeper or invalid relative) are assessed by reference to the family income threshold, as are married couples with or without children, subsection 8(1) of the *Medicare Levy Act 1986*.
- 5 *Explanatory Memorandum to the Medicare Levy Amendment (CPI Indexation) Bill (No 2) 2000*, p. 6.

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