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Taxation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2002

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Taxation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2002

Date Introduced: 14 May 2002

House: House of Representatives

Portfolio: Treasury

Commencement: On Royal Assent

Purpose

The stated aims of the Taxation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2002 ('the Bill') are:

- To increase the Medicare levy low income thresholds for individuals, married people and sole parents, in line with movements in the Consumer Price Index;
- To increase the Medicare levy low income threshold for pensioners below the age pension age, to ensure that where those pensioners do not have an income tax liability they will also not have a Medicare levy liability;
- To increase the Medicare levy surcharge low income threshold, in line with movements in the Consumer Price Index; and
- To allow a family income threshold to apply to a taxpayer where s/he is entitled to a child-housekeeper rebate or a housekeeper rebate;
- To correct a cross-referencing error in relation to the Medicare levy.

The changes will be introduced by amending relevant provisions of the *Medicare Levy Act 1986* ('the *ML Act*') *A New Tax System (Medicare Levy Surcharge – Fringe Benefits Act) 1999* ('the *MLS-FB Act'*) and the *Income Tax Assessment Act 1936* ('the *ITA Act'*).

These changes were announced in the 2002-03 Federal Budget. They are expected to cost revenue $42.8 million in 2002-03, $21.4 million in 2003-04, $21.4 million in 2004-05 and $21.4 million in 2005-06.[1]

Background[2]

Medicare levy low income thresholds

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 2001-2002 income year is 1.5% of taxable income.[3]

Since the Medicare levy was introduced in 1984, low income individuals and families 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.[4] Different low income exemption thresholds apply for individuals, married people and single parents.[5] The threshold for people with dependant children increases by a set amount per child.

Phase-in limits

Where an individual, married person 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 what is termed the ‘phase-in’ limit, the Medicare levy is payable at a maximum rate of 20 cents in every dollar where the taxable income exceeds the low income exemption threshold. The phase-in limit varies according to whether the taxpayer is single or married, and increases by a specified amount according to the number of dependant children. The phase-in limit is also regularly adjusted in line with movements in the CPI.

This Bill will increase both the low income exemption thresholds and the phase-in limits that apply to individuals, married people, single parents and pensioners below age pension age, for the 2001-02 year of income and subsequent years. The increases are set out in a table provided in the *Explanatory Memorandum* to the Bill.[6] The current figures for 2000-01 are shown in parentheses in the table.

Medicare levy surcharge thresholds

Since 1 July 1997, a Medicare levy surcharge of one percent has been imposed on certain higher income earners without private patient hospital insurance. Different income thresholds apply for the purpose of this surcharge, depending on whether the taxpayer is married and/or has dependants. Both taxable income and reportable fringe benefits are assessed to determine whether a taxpayer reaches the applicable income threshold. The income thresholds above which the Medicare levy surcharge applies are not routinely indexed to movements in the CPI, nor do 'shade-out' ranges apply.

This Bill will increase the Medicare levy surcharge exemption threshold, in line with the individual low income exemption threshold for the Medicare levy.

Main Provisions

Increases in Medicare levy low income thresholds

Subsection 7(1) of the *ML Act* provides that no Medicare levy is payable where a taxpayer has a taxable income at, or below, the applicable threshold amount as specified in subsection 3(1) of the *ML Act.*

Item 6 of Schedule 1 of the Bill changes the threshold amount specified in paragraph (c) of that subsection 3(1) definition, increasing it from $13 807 to $14 539. This raises the threshold amount applicable to individual taxpayers.

Item 5 of Schedule 1 changes the threshold amount specified in paragraph (b) of that subsection 3(1) definition, increasing it from $15 970 to $16 570. This change ensures that pensioners who are under age pension age will not have a Medicare levy liability where they have no income tax liability.

Subsections 8(5)-(7) of the *ML Act* establish the low income threshold at, or below, which married people and those with dependants are not liable to pay the Medicare levy. **Items 7, 9 and 10 of Schedule 1** will increase this 'family income threshold' from $23 299 to $24 534. **Item 8 of Schedule 1** will increase the family income threshold by a further $2253 for each dependent child or student, instead of the current $2 140 per dependant.

Item 15 of Schedule 1 provides that these changes to the Medicare levy low income thresholds apply to assessments for the 2001-02 year of income and to later years of income.

Increases in phase-in limits

Subsection 7(2) of the *ML Act* provides that the Medicare levy is payable at a reduced rate where a taxpayer has a taxable income above the threshold amount, but not more than the phase-in limit specified in subsection 3(1) of the *ML Act.*

Item 4 of Schedule 1 of the Bill changes the phase-in limit for individual taxpayers to whom paragraph (c) of that subsection 3(1) definition applies, increasing the phase-in limit from $14 926 to $15 717.

Item 3 of Schedule 1 changes the phase-in limit for pensioners who are under age pension age to whom paragraph (b) of the subsection 3(1) definition applies, increasing the phase-in limit from $17 264 to $17 913.

Subsection 8(2) of the *ML Act* establishes a formula that limits the Medicare levy payable by married people and those with dependants, to 20% of the amount by which their 'family income' exceeds their 'family income threshold.' The increases in the 'family income threshold' already discussed - *i.e.* the changes introduced by **Items 7-10 of**

Schedule 1 - will raise the lower end of the income range within which a reduced Medicare levy is payable.[7]

Item 15 of Schedule 1 provides that these changes to the phase-in limits apply to assessments for the 2001-02 year of income and to later years of income.

Increases in Medicare levy surcharge thresholds

Items 11 to 14 of Schedule 1 of the Bill increase the individual low income threshold amount in the Medicare levy surcharge provisions, in relation to the surcharge payable in respect of taxable income. The relevant provisions are paragraph 8D(3)(c), subparagraph 8D(4)(a)(ii) and paragraph 8G(2)(c) of the *ML Act*. The threshold amount will increase from $13 807 to $14 539.

Items 1 and 2 of Schedule 1 increase the individual low income threshold amount in the Medicare levy surcharge provisions, in relation to the surcharge payable in respect of reportable fringe benefits. The relevant provisions are sections 15 and 16 of the *MLS_FB Act*. This threshold amount will also increase from $13 807 to $14 539.

Item 15 of Schedule 1 provides that these changes to the individual low income threshold amount for the purpose of the Medicare levy surcharge apply to assessments for the 2001-02 year of income and to later years of income.

Minor technical amendments

Schedule 2 of the Bill introduces two further changes, described as 'minor technical amendments'.

The first of these is contained in **Items 4-7 of Schedule 2**. These items amend paragraphs 8(1)(b), 8(1)(d), 8(2)(b) and 8(2)(d) of the *ML Act*. The effect of these changes is that where a taxpayer is entitled to a child-housekeeper or housekeeper rebate, the taxpayer is also allowed a family income threshold for the purposes of calculating his or her Medicare levy liability. **Item 8 of Schedule 2** provides that this change applies to assessments for the 2000-01 year of income and later years of income.

The second amendment is contained in **Items 1 and 2** of **Schedule 2.** These items amend paragraph 251U(1)(cb) and subparagraph 251U(1)(cc)(ii) of the *ITA Act*, to correct a cross-referencing error:[8]

> [The amendment will] correct references to the [*Veterans' Entitlement Act 1986*] as a result of the references being repealed in 1997 when new Schedule 6 [to that Act] was created. The amendment will ensure that the classes of taxpayers that were previously prescribed persons in respect of Medicare levy will continue to be prescribed persons….This amendment is purely technical in nature and is designed to correct a cross-referencing error which has occurred as a result of the 1997 amendment [to that Act]. The method used for calculating the pension rate has not

> changed and this amendment merely corrects references to the [*Veterans' Entitlement Act 1986*] (as amended). This amendment will not have any detrimental effect.

Item 3 of Schedule 2 provides that this change applies to assessments for the 1997-98 year of income and later years of assessment *i.e.* this change is retrospective in application.

Endnotes

1 *Explanatory Memorandum*, p. 4.

2 The Background section of this Digest draws to an extent on the Bills Digest by Katrine Del Villar on the Medicare Levy Amendment (CPI Indexation) Bill (No 2) 2000 (Bills Digest No 74 of 2000–01).

3 *Medicare Levy Act 1986*, s 6.

4 See Medicare Levy Amendment Bill (No 2) 1997, Medicare Levy Amendment (CPI Indexation) Bill 1999, Medicare Levy Amendment (CPI Indexation) Bill (No 2) 2000. Almost a decade ago, the (then) Leader of the Australian Democrats noted that '[i]t is normal practice to increase the Medicare levy low income threshold at every budget, and that is what we are doing. Thank goodness that for once there is something we are not fighting about': *Senate Hansard*, 19 October 1993, p. 2145.

5 See *Medicare Levy Act 1986*, s 8(1).

6 *Explanatory Memorandum*, p. 8 (Table 1.1).

7 See further *Explanatory Memorandum*, p. 8 (Table 1.1).

8 *Explanatory Memorandum*, pp. 9–10.