



Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2005

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Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2005

Date Introduced: 26 May 2005

House: Representatives

Portfolio: Treasury

Commencement: On the date of Royal Assent

Purpose

To amend the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999* to increase the low income thresholds above which the Medicare Levy and Medicare Levy Surcharge (‘the Surcharge’) must be paid. This is to ensure that low income individuals and families will continue not to have to pay the Medicare Levy or the Surcharge.

The amended thresholds will apply to tax assessments for the 2004–05 financial year and later years.

Background

What is the Medicare Levy and Surcharge?

The Medicare Levy is a 1.5 per cent levy on taxable income for individuals and families earning over a certain amount, paid in addition to income tax. The purpose of the Medicare Levy is to help fund Medicare—Australia’s universal public health insurance scheme. The Medicare Levy was introduced when Medicare was established in 1984. There are exemptions from the Medicare Levy for low income earners, veterans, war widows, military personnel with dependents, and certain categories of social security recipients.

The Surcharge is a 1 per cent surcharge of taxable income imposed on high-income earners who do not have hospital insurance with a registered health fund (though there are exemptions for individual low income earners whose family income is over a certain amount, as explained below). The Surcharge is paid in addition to the 1.5 per cent Medicare Levy. The Surcharge was introduced in 1997 as part of the Howard government’s first round of private health insurance incentives.¹ The aim of the Surcharge is to encourage people earning over the threshold amounts to take out private health insurance: the rationale is that those who can afford to do so should contribute more to the costs of their own health care as private patients.

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The Medicare Levy and Surcharge raised around \$5.5 billion in revenue in 2003–04.² Revenue raised from the Surcharge accounts for a very small proportion—usually less than 2 per cent—of the total revenue collected from the Medicare Levy.³

Low income exemptions

There are exemptions for low income earners from both the Medicare Levy and the Surcharge: in the case of the Surcharge, the low income exemption applies where a person's taxable income is below a certain threshold amount, even if her or his family income is above the family surcharge threshold. The purpose of this Bill is to increase the low income thresholds for both the Medicare Levy and the Surcharge to ensure that low income individuals and families will continue to not have to pay the Medicare Levy or Surcharge.

Medicare Levy low income thresholds and phase-in limits

The Medicare Levy low income thresholds, below which the Medicare Levy is not payable or payable at a reduced amount, apply to individuals and families (including married couples with no children), and pensioners under age pension age. The low income threshold levels for families vary according to the number of dependent children.

There is a 'phasing-in' or 'shading-out' range, within which the Medicare levy applies, but at a reduced rate: above the low income threshold, but below what is called the 'phase-in limit', the Medicare Levy is payable at a maximum rate of 20 cents in each dollar where the taxable income exceeds the low income exemption threshold. As with the low income threshold level, the amount of the phase-in limit depends on the number of dependent children.

The Bill proposes to increase the low income thresholds and phase-in limits, in line with increases in the Consumer Price Index. The proposed increases are set out in Table 1.1 of the [Explanatory Memorandum](#), reproduced below. The current threshold levels (for 2003–04) are shown in parentheses.

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Table 1.1: 2004-05 Medicare levy low income threshold amounts and shading-in ranges

<i>Category of taxpayer</i>	<i>No levy payable if taxable income or family income does not exceed (figure for 2003-04)</i>	<i>Reduced levy if taxable income or family income is within range (inclusive)</i>	<i>Ordinary rate of levy payable where taxable income or family income exceeds (figure for 2003-04)</i>
Individual taxpayer	\$15,902 (\$15,529)	\$15,903-\$17,191	\$17,191 (\$16,788)
Pensioner under age pension age	\$19,252 (\$18,141)	\$19,253-\$20,812	\$20,812 (\$19,611)
Families ⁴ with the following children and/or students:	(family income)	(family income)	(family income)
0	\$26,834 (\$26,205)	\$26,835-\$29,009	\$29,009 (\$28,329)
1	\$29,298 (\$28,611)	\$29,299-\$31,673	\$31,673 (\$30,930)
2	\$31,762 (\$31,017)	\$31,763-\$34,337	\$34,337 (\$33,531)
3	\$34,226 (\$33,423)	\$34,227-\$37,001	\$37,001 (\$36,132)
4	\$36,690 (\$35,829)	\$36,691-\$39,664	\$39,664 (\$38,734)
5	\$39,154 (\$38,235)	\$39,155-\$42,328	\$42,328 (\$41,335)
6	\$41,618 ⁵ (\$40,641)	\$41,619 ⁶ -\$44,992 ⁷	\$44,992 ⁸ (\$43,936)

Medicare Levy Surcharge low income thresholds

As outlined above, the Surcharge is a 1 per cent surcharge on high income earners who don't have private hospital insurance. It is paid in addition to the Medicare Levy. The low income exemptions for the Surcharge apply to individuals on low incomes whose total family income is above the threshold at which the Surcharge applies.

The Surcharge applies to taxpayers without private hospital insurance whose assessable income⁹ is more than \$50 000 for individuals, or \$100 000 for families, plus \$1500 for each child after the first. (These threshold levels are not indexed and there is no 'phase-in' or 'shade-out' range.) In the case of families whose total assessable income is over the threshold amount, the 1 per cent Surcharge is levied on both taxable incomes.

However, if the income of an individual family member is *below* the Medicare Levy low income threshold, she or he is exempt from paying the Surcharge, even where the total family income exceeds the relevant family threshold (though the low income earner's partner or spouse may still be liable for the Surcharge).

For example, in the case of a two-income family with one dependent child, none of whom have private hospital insurance, and where the combined family income exceeds \$101 500, both parents would usually be liable to pay the Medicare Levy Surcharge.

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However, if one parent was on an assessable income of *less than* \$15 529, the current Medicare Levy low income threshold, and the other parent was therefore earning around \$86 000 (or more), the former would be exempt from paying the Surcharge, even though the total assessable income of the family exceeds the relevant Surcharge threshold of \$101 500.

The Bill proposes to increase the individual low income threshold for exemptions to the Surcharge to \$15 902, in line with the proposed new Medicare Levy low income threshold.

Cost

The projected cost to the government of the increased threshold levels in foregone revenue is \$93 million over four years, as shown in the following table:¹⁰

Revenue (\$m)				
	2005–06	2006–07	2007–08	2008–09
Australian Taxation Office	-38.0	-19.0	-18.0	-18.0

Main Provisions

Schedule 1—Medicare Levy and Medicare Levy Surcharge low income thresholds

Medicare Levy low income thresholds

Items 4 and 5 amend the *Medicare Levy Act 1986* to increase the low income thresholds for individual taxpayers and pensioners under age pension age.

Items 6, 7 and 8 amend the *Medicare Levy Act 1986* to increase the low income thresholds for families, and to adjust the amount by which the family threshold increases for each dependent child.

Medicare Levy low income 'phase-in' limits

Items 2 and 3 amend the *Medicare Levy Act 1986* to increase the phase-in limits for individual taxpayers and pensioners under age pension age.

Medicare Levy Surcharge low income threshold

Item 1 amends the *A New Tax System (Medicare Levy Surcharge—Fringe Benefits) Act 1999* to increase the Medicare Levy Surcharge individual low income threshold, in relation to the surcharge payable in respect of taxable income and reportable fringe benefits. The increased threshold amount is in line with the proposed changes to the Medicare Levy low income threshold.

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Items 9, 10, 11 and 12 amend the *Medicare Levy Act 1986* to increase the Medicare Levy Surcharge individual low income threshold.

Endnotes

1. The Private Health Insurance Incentives Scheme (PHIIS), introduced in July 1997, subsidised private health insurance for low and middle income earners. The PHIIS was superseded by the 30 per cent Private Health Insurance Rebate introduced in 1999.
2. *Final Budget Outcome 2003–04*, p. 3.
3. According to the ATO's *Taxation Statistics 2001–02*, the Medicare Levy Surcharge collected \$98 million in 2001–02.
4. These figures also apply to taxpayers who are entitled (or would have been entitled had the laws applicable to rebates not been amended with effect from 1 July 2000) to a sole parent, child-housekeeper or housekeeper rebate.
5. Where there are more than six dependent children or students, \$2464 is added for each extra child or student.
6. Where there are more than six dependent children or students, \$2464 is added for each extra child or student.
7. Where there are more than six dependent children or students, \$2663 is added for each extra child or student.
8. Where there are more than six dependent children or students, \$2663 is added for each extra child or student.
9. This is taxable income plus reportable fringe benefits amounts, the net amount on which family trust distribution has been paid and any exempt foreign employment income.
10. *Budget Paper No. 2—Budget Measures 2005–06*, p. 21.

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