



Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2006

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Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2006

Date Introduced: 25 May 2006

House: House of Representatives

Portfolio: Treasury

Commencement: On the date of Royal Assent

Purpose

The Bill proposes increases to the Medicare levy low-income thresholds for individuals and families, and to the low-income threshold in the Medicare levy surcharge provisions, to ensure that low-income individuals and families will continue to not have to pay the Medicare levy or surcharge.

The amendments will apply to the 2005-06 year of income and later years.

Background¹

The Bill amends the *Medicare Levy Act 1986* (MLA 1986) to raise the Medicare levy low income threshold amounts and ‘phase-in’ limits for individuals, families and pensioners below age pension age, and amends the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999* (MLS-FBA 1999) to increase the Medicare levy surcharge low income threshold. The increases are in line with movements in the consumer price index (CPI).

An outline of the Medicare levy and surcharge

When Medicare was introduced in 1984 the scheme was funded by the imposition of a Medicare levy, originally set at 1 per cent of taxable income, with a low income cut-off threshold below which no levy was payable. In 1995 the Medicare levy was increased to its current level of 1.5 per cent of taxable income.

The Medicare levy surcharge is an additional 1 per cent surcharge on taxable income imposed on high-income earners (with household income over \$100,000) who do not have private hospital insurance, and was introduced in July 1997 as part of the Howard government’s private health insurance reforms.²

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The Medicare levy and surcharge only partially fund the total cost of Medicare. In 2004-05 the levy and surcharge raised around \$6.1 billion in revenue, while the cost of Medicare for the same period was \$14.89 billion.³

Revenue raised from the surcharge accounts for a small proportion (around 2 per cent) of revenue collected from the levy.⁴

Exemptions

There are exemptions for low income earners for both the Medicare levy and the Medicare levy surcharge, as well as 'phase-in' limits which only apply to the levy. These are detailed below.

Medicare levy low income thresholds and phase-in limits

The taxable income levels below which no Medicare levy is payable (known as the low income thresholds) are regularly adjusted in line with movements in the CPI, with different low income threshold levels set for individuals, families (including couples with no children) and pensioners under age pension age. The low income threshold levels for families vary depending on the number of children.

The MLA 1986 also provides for a 'phasing-in' or 'shading out' range wherein the Medicare levy applies, but at a reduced rate. For taxpayers with incomes 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 every dollar where the taxable income exceeds the low income exemption threshold.

The Bill proposes to raise the low income thresholds and phase-in limits as set out in Table 1.1 of the *Explanatory Memorandum* to the Bill (reproduced below) for the 2005-06 taxation year. The current threshold levels (2004-05) are shown in parentheses.

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Table 1.1: 2005-06 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 2004-05)</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 2004-05)</i>
Individual taxpayer	\$16,284 (\$15,902)	\$16,285 - \$17,604	\$17,604 (\$17,191)
Pensioner under age pension age	\$19,583 (\$19,252)	\$19,584 - \$21,170	\$21,170 (\$20,812)
Families ⁵ with the following children/and or students	(family income)	(family income)	(family income)
0	\$27,478 (\$26,834)	\$27,479 - \$29,705	\$29,705 (\$29,009)
1	\$30,001 (\$29,298)	\$30,002 - \$32,432	\$32,432 (\$31,673)
2	\$32,524 (\$31,762)	\$32,525 - \$35,159	\$35,159 (\$34,337)
3	\$35,047 (\$34,226)	\$35,048 - \$37,886	\$37,886 (\$37,001)
4	\$37,570 (\$36,690)	\$37,571 - \$40,613	\$40,613 (\$39,664)
5	\$40,093 (\$39,154)	\$40,094 - \$43,340	\$43,340 (\$42,328)
6	\$42,616 ⁶ (\$41,618)	\$42,617 ⁷ - \$46,067 ⁸	\$46,067 ⁹ (\$44,992)

Medicare levy surcharge low income thresholds

As described above, the surcharge is a 1 per cent surcharge on high income earners where they do not hold private hospital insurance and is paid in *addition* to the Medicare levy. The surcharge also applies to reportable fringe benefits in certain cases.

The surcharge applies to both individual and family taxable income where the taxpayers do not hold private hospital cover. For individuals the surcharge applies when their taxable

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income exceeds \$50,000, while for families the surcharge applies when their combined taxable income exceeds \$100,000 (plus \$1,500 for each child after the first). The surcharge is levied on both taxable incomes in the case of families whose total assessable income exceeds the threshold amount. The Medicare levy surcharge high income thresholds are not indexed to the CPI (and have remained unchanged since their introduction in 1997); nor do ‘phasing-in’ or ‘shading-out’ ranges apply.

However, an individual family member maybe exempt from paying the surcharge if their individual income falls below the Medicare levy low income threshold, even though the family’s combined taxable income exceeds the threshold at which the Medicare Levy threshold applies (although the partner or spouse may still be liable for the surcharge).

In the case of a two income family with 2 children, who are not covered by private hospital cover, and where the combined income exceeds the surcharge threshold of \$101,500 (which applies to a family with 2 children), both parents are liable to pay the Medicare levy surcharge. However if one family member earns *less* than the Medicare levy low income threshold (that is, less than \$15,902) she or he is exempt from paying the surcharge.

This Bill proposes to increase the Medicare levy surcharge low income exemption threshold to \$16,284, in line with the increase in the Medicare levy low income threshold.

Basis of policy commitment

This measure was announced in the 2006-07 Budget and in the Minister for Revenue and Assistant Treasurer’s Press Release No. 015 of 9 May 2006.

Cost

The projected cost to the government of the increased threshold levels in foregone revenue over four years is \$96 million, as shown in the following table¹⁰:

Revenue (\$m)				
	2006-07	2007-08	2008-09	2009-10
Australian Taxation Office	-\$39m	-\$20m	-\$19m	-\$18m

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Main Provisions

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

Medicare Levy low income thresholds

Item 4 amends the *Medicare Levy Act 1986* to increase the low income threshold for a pensioner under pension age from \$19,252 to \$19,583.

Item 5 amends the *Medicare Levy Act 1986* to increase the low income threshold for an individual taxpayer from \$15,902 to \$16,284.

Items 6 and 8 amend the *Medicare Levy Act 1986* to increase the low income threshold for a family from \$26,834 to \$27,478.

Item 7 amends the *Medicare Levy Act 1986* to increase the ‘family income threshold’ from \$2,464 to \$2,523 for each dependent child or student.

Medicare Levy low income ‘phase-in’ limits

Item 2 amends the *Medicare Levy Act 1986* to increase the ‘phase-in limit’ for pensioners under age pension age from \$20,812 to \$21,170.

Item 3 amends the *Medicare Levy Act 1986* to increase the ‘phase-in limit’ for individual taxpayers from \$17,191 to \$17,604.

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 threshold amount will increase from \$15,902 to \$16,284.

Items 9, 10, 11 and 12 amend the *Medicare Levy Act 1986* to increase the Medicare levy surcharge individual low income threshold from \$15,902 to \$16,284.

Endnotes

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- 1 The Background and Main Provisions sections draw on previous Bills Digests by Dr Angela Pratt *Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2005 (Bills Digest No 167 2004-05)* and Dr Luke Buckmaster *Tax Laws Amendment (Medicare Levy and Medicare Levy surcharge) Bill 2004 (Bills Digest No 163 2003-04)*.

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- 2 This included the Private Health Insurance Incentives Scheme, introduced in July 1997, which subsidised private health insurance for low and middle income earners. This Scheme was superseded by the 30 per cent private health insurance rebate in 1999.
- 3 *Final Budget Outcome 2004-05*, p. 3 and p. 88.
- 4 According to the ATO's *Taxation Statistics* in 2001-02 revenue from the surcharge was \$98 million; in 2002-03 revenue from the surcharge was calculated at \$128 million.
- 5 According to Footnote 1 of Table 1.1 of the *Explanatory Memorandum* to the Bill 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.
- 6 According to Footnote 2 of Table 1.1 of the *Explanatory Memorandum* to the Bill, where there are more than six dependent children or students, add \$2,523 for each extra child or student.
- 7 See note 6.
- 8 According to Footnote 4 of Table 1.1 of the *Explanatory Memorandum* to the Bill, where there are more than six dependent children or students, add \$2,727 for each child or student.
- 9 See note 8.
- 10 *Explanatory Memorandum*, p. 3.

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