



Taxation Laws Amendment (2007 Budget Measures) Bill 2007

Dale Daniels
Social Policy Section

Contents

Purpose.	2
Background.	2
The Dependent Spouse Tax Offset (DSTO)	2
Medicare Levy	2
Financial implications	3
Main provisions.	3

Taxation Laws Amendment (2007 Budget Measures) Bill 2007

Date introduced: 10 May 2007

House: House of Representatives

Portfolio: Treasury

Commencement: On the date of Royal Assent

Purpose

To increase the Dependent Spouse Tax Offset to \$2100 from 1 July 2007.

To increase the Medicare Levy low-income threshold for families, individuals and pensioners in line with movements in the consumer price index (CPI) and to increase the Medicare Levy Surcharge low-income threshold in line with movements in the CPI.

Background

The Dependent Spouse Tax Offset (DSTO)

DSTO was until recently commonly referred to as the Dependent Spouse Rebate. It has been a feature of the tax system for many decades. It was designed to provide a reduction in income tax for a person supporting a dependent spouse and therefore not having the benefit of a second tax free threshold within the family.

Prior to 2000 the rebate was available at a with-child rate to taxpayers supporting a dependent spouse where there were dependent children in the family. With the introduction of Family Tax Benefit Part B (FTBB) in 2000 the with-child rate of the rebate ceased to be available where FTBB was paid. It now has relevance only for the calculation of the zone tax offset and the overseas forces tax offset.

As a result of this change in 2000 the increased offset provided by this Bill will mainly benefit couples without dependent children.

Medicare Levy

The Medicare Levy is set at 1.5% of taxable income. However, there are a series of exemptions for low income people and pensioners. People with taxable incomes below the relevant threshold do not pay the levy. Once their income exceeds the threshold they pay a

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

levy equivalent to 10% of amount by which their income exceeds the levy until that amount reaches 1.5% of their total taxable income.

The thresholds vary for individuals, families and pensioners. Those for individuals and families are increased from time to time in line with movements in the CPI. The threshold for pensioners is set at a level that ensures that they pay no levy until they are liable for income tax.

The new thresholds for the various categories of tax payers are set out in Table 1.1 of the Explanatory Memorandum.

Financial implications

The increased rate of DSTO will decrease revenue by \$425 million over the four years 2007-08 to 2010-11.

The changes to the Medicare Levy thresholds will reduce revenue by \$150 million over the four years 2007-08 to 2010-11.

Main provisions

Item 7 of Part 1 of Schedule 1 repeals the existing table of rebate amounts in **Subsection 159J(2)** of the *Income Tax Assessment Act 1936* and substitutes a new table.

Part 2 of Schedule 1 omits the amounts specified for the various thresholds and substitutes new amounts in the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999*.

This is set out in a Table 1.1 in the *Explanatory Memorandum* at page 10.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

© Copyright Commonwealth of Australia 2007

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of Parliamentary Services, other than by senators and members of the Australian Parliament in the course of their official duties.

This brief has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2410.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.