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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.


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