



Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2008

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Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2008

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House: House of Representatives

Portfolio: Treasury

Commencement: Royal Assent

Links: The [relevant links](#) to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at ComLaw, which is at <http://www.comlaw.gov.au/>.

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 not being required to pay the Medicare levy or surcharge.

The amendments will apply to the 2007–08 year and later years of income.

Background

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).¹

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1. Hon. Chris Bowen, Minister for Competition Policy and Consumer Affairs, and Assistant Treasurer, ‘Second reading speech: Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2008’, House of Representatives, *Debates*, 27 May 2008, p. 46. In line with CPI movements since 2007, when the thresholds were last changed.

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An outline of the Medicare levy and surcharge

When Medicare was introduced in 1984, the scheme was part-funded by the imposition of a Medicare levy, originally set at one 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 one per cent surcharge on taxable income imposed on high-income earners who do not have private hospital insurance, currently set at \$50 000 for individuals and \$100 000 for couples and families. Increases to the surcharge thresholds are proposed in a separate Bill.²

The Medicare levy and surcharge only partially fund the total cost of Medicare. In 2006–07, the levy and surcharge raised around \$7.2 billion in revenue, while the cost of Medicare for the same period was \$17.2 billion.³

Exemptions

There are exemptions for low income earners for 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 MLA 1986 also provides for a ‘phasing-in’ or ‘shading out’ range wherein the Medicare levy applies, but at a reduced rate. For individual taxpayers with incomes above the low income threshold but below what is called the ‘phase-in limit’, the Medicare levy is payable at a rate limited to 10 per cent of the excess over the low income threshold amount.

The low income threshold levels for families vary depending on the number of children. The MLA 1986 contains a formula that limits the levy payable in families to 10 per cent of the amount of family income that exceeds their family income threshold.

2. Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008.

3. The Hon. P. Costello, Treasurer, *Final Budget Outcome 2006-07*, Australian Government, pp. 3 and p. 88, <http://www.budget.gov.au/2007-08/fbo/html/index.htm>, accessed on 30 May 2008.

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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 on pages 4 and 5 of this digest) for the 2007–08 taxation year.

Medicare levy surcharge low income thresholds

As noted above, the surcharge is a one 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 currently applies when their taxable income exceeds \$50 000, while for families, the surcharge applies when their combined taxable income exceeds \$100 000. ‘Phasing-in’ or ‘shading-out’ ranges do not apply to the Medicare levy surcharge. A separate bill, the Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008 proposes increases to these surcharge thresholds.⁴

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).

This Bill proposes to increase the Medicare levy surcharge low income exemption threshold to \$17 309, in line with the increase in the Medicare levy low income threshold as shown in the table in the Explanatory Memorandum (and reproduced below). The current threshold levels (2006–07) are shown in parentheses.

4. For further discussion of proposed changes to the Medicare levy surcharge thresholds, see Amanda Biggs, ‘Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008’, *Bills Digest* (forthcoming), Parliamentary Library, Canberra, 2008.

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Table: 2007–08 Medicare levy low-income threshold amounts and shading-in ranges

Category of taxpayer	No levy payable if taxable income or family income does not exceed (figure for 2006–07)	Reduced levy if taxable income or family income is within range (inclusive)	Ordinary rate of levy payable where taxable income or family income exceeds (figure for 2006–07)
Individual taxpayer	\$17,309 (\$16,740)	\$17,310—\$20,363	\$20,363 (\$19,694)
Pensioner under age pension age	\$22,922 (\$21,637)	\$22,923—\$26,967	\$26,967 (\$25,455)
Families ⁵ with the following children/and or students	(family income)	(family income)	(family income)
0	\$29,207 (\$28,247)	\$29,208—\$34,361	\$34,361 (\$33,231)
1	\$31,889 (\$30,841)	\$31,890—\$37,516	\$37,516 (\$36,283)
2	\$34,571 (\$33,435)	\$34,572—\$40,671	\$40,671 (\$39,335)
3	\$37,253 (\$36,029)	\$37,254—\$43,827	\$43,827 (\$42,387)
4	\$39,935 (\$38,623)	\$39,936—\$46,982	\$46,982 (\$45,438)
5	\$42,617 (\$41,217)	\$42,618—\$50,137	\$50,137 (\$48,490)
6	\$45,299 ⁶ (\$43,811)	\$45,300 ⁷ —\$53,292 ⁸	\$53,292 ⁹ (\$51,542)

5. 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: Explanatory Memorandum, Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2008, p. 6.
6. Where there are more than six dependent children or students, add \$2 682 for each extra child or student: *ibid.*
7. See note 6: *ibid.*
8. Where there are more than six dependent children or students, add \$3 155 for each extra child or student: *ibid.*
9. See note 8: *ibid.*

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Basis of policy commitment

This measure was announced in the 2008–09 Budget.¹⁰

Financial implications

Standing appropriations

The projected cost to the government in foregone revenue over four years is \$170 million over the forward estimates, as shown in the following table.¹¹

<i>2007–08</i>	<i>2008–09</i>	<i>2009–10</i>	<i>2010–2011</i>	<i>2011–12</i>
—	–\$65m	–\$35m	–\$35m	–\$35m

Main provisions

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

Item 1 proposes to amend the Medicare levy surcharge provisions in MLS-FBA 1999, so that the individual low income threshold amount would be increased to \$17 309.

Items 2 and 3 propose to amend the definitions of ‘phase-in’ limits in the MLA 1986,¹² so that for certain pensioners who are under the age pension age,¹³ the phase-in limit would be increased to \$26 967, and for certain other individuals,¹⁴ that limit would be increased to \$20 363.

Items 4 and 5 propose to amend the definitions of ‘threshold amount’ in the MLA 1986,¹⁵ so that for certain pensioners who are under the age pension age,¹⁶ the threshold amount

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10. See the Hon. Wayne, Treasurer, *Increasing the Medicare Levy Thresholds*, media release, Canberra, 13 May 2008.
 11. Explanatory Memorandum, op. cit., p. 1.
 12. *Medicare Levy Act 1986* paragraphs 3(1)(b) and (c) (definition of ‘phase-in limit’).
 13. See *Income Tax Assessment Act 1936* subsection 160AAA(2).
 14. That are not covered by *ibid.*, section 160AAAA.
 15. *Medicare Levy Act 1986* paragraphs 3(1)(b) and (c) (definition of ‘threshold amount’).

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would be increased to \$22 922, and for certain other individuals,¹⁷ that amount would be increased to \$17 309.

Items 6, 7 and 8 propose to amend the level of ‘family income threshold’ in the MLA 1986,¹⁸ so that the threshold amount for a person with a spouse or dependants would be increased to \$29 207, and that amount would be increased by \$2682 for each dependant child or student of that person.¹⁹

Items 9, 10, 11 and 12 propose to amend the MLA 1986,²⁰ so that the surcharge level threshold on taxable income would be increased to \$17 309 for certain individuals who are either married or are trustees thereof.

Item 13 specifies that these amendments would apply to income tax assessments for the 2007–08 financial year and later years.

Concluding comments

The amendments proposed in this Bill increase the low income threshold amounts and phase-in limits for the Medicare levy and surcharge in line with changes to the CPI.

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16. See *Income Tax Assessment Act 1936* subsection 160AAA(2).
 17. That are not covered by *ibid.*, section 160AAAA.
 18. *Medicare Levy Act 1986* subsections 8(5), (6) and (7).
 19. See *Income Tax Assessment Act 1936* subsection 159J(2).
 20. *ibid.*, paragraphs 8D(3)(c) and 8G(2)(c); subparagraphs 8D(4)(a)(ii) and 8G(3)(a)(ii).

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