



Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill (No. 2) 2008

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Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill (No. 2) 2008

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House: 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 purpose of this Bill is to amend the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits Act) 1999* in order to increase the Medicare levy surcharge thresholds on annual taxable income from 2008–09 and subsequent years. The Bill proposes that the thresholds be increased: for individuals from \$50 000 to \$75 000; and for families from \$100 000 to \$150 000 and going forward to be double the single threshold. The Bill proposes annual indexation of the thresholds by applying the full-time adult average weekly ordinary time earnings index as published by the Australian Bureau of Statistics (rounded down in \$1000 increments) to the singles threshold.

The Bill also proposes transitional arrangements so that individuals who obtain private health insurance before 1 January 2009 will avoid liability for the Medicare levy surcharge threshold for the period 1 July 2008 to 31 December 2008. Amendments to the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits Act) 1999* are proposed in order that reportable fringe benefits are taken into account when calculating income for the Medicare levy surcharge.

Background

This is the second attempt by the government to give legislative effect to a 2008–09 budget measure first proposed in the *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008* introduced by the Hon. Chris Bowen (Assistant Treasurer) on the 27

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May 2008.¹ This earlier Bill proposed to increase the Medicare levy surcharge thresholds for individuals from \$50 000 to \$100 000, and for families from \$100 000 to \$150 000. These proposed changes to the thresholds attracted considerable public debate and the Bill was referred to the [Senate Economics Committee](#) for inquiry. After canvassing a wide range of views the Majority Report of the Committee recommended that the Bill be passed unchanged. However, the Coalition remained ‘strongly opposed’ to the Bill and the Greens also indicated opposition to the Bill ‘in its current form’.²

Subsequently, on the 24 September 2008 the government introduced amendments to the Bill proposing a lower threshold level of \$75 000 for singles and double this amount for families, annual indexation and transitional arrangements. These amendments were broadly supported by the Greens and Senator Xenophon. However, the amended Bill failed to win the support of the Coalition and Senator Fielding and was voted down on 24 September 2008.³

This Bill proposes identical threshold amounts, indexation and transitional arrangements that were detailed in the amendments to the first Bill and that were rejected by the Senate.

Basis of policy commitment

As noted above, the Bill proposes to give effect to a budget commitment, albeit with revised thresholds.

Committee consideration

This Bill has not been referred to Committee, although, as noted previously, the original Bill was referred to the Senate Economics Committee on 18 June 2008.

Position of significant interest groups/press commentary

The original proposal to increase the Medicare levy surcharge thresholds attracted considerable debate and argument. Many of the views expressed at the time were summarised in the Bills Digest prepared when the original Bill was introduced.⁴ This included arguments supporting and opposing the Bill. Broadly, opponents, including the federal opposition, argued that the increases would lead to an exodus of members from

1 For an analysis of this Bill see Amanda Biggs, ‘[Tax Laws Amendment \(Medicare Levy Surcharge Thresholds\) Bill 2008](#)’, *Parliamentary Library Bills Digest*, no. 121, 2007–08, 4 June 2008.

2 Senate Standing Committee on Economics, *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008*, Standing Committee on Economics, August 2008, see, p. 56 and p. 65.

3 For Schedule of amendments refer to the Bills [home page](#) in ParlInfo.

4 Amanda Biggs, op.cit.

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private health insurance and place a strain on the public hospital system. Some further argued that this loss of membership would add upward pressure to health insurance premiums.

Supporters of the proposed measure, including the government, argued that the measure would reduce financial pressure on working families, and that concerns over an exodus of members from health insurers and its likely impact, were over-stated.

However, since first being introduced and subsequent to the publication of the Digest, the Bill has been considered by a Senate Committee and further debate has ensued. Proposals to amend the original Bill have been discussed, including revisions to the original proposal to increase the Medicare levy surcharge threshold levels. Much of the recent debate has moved to discussions around these specific proposals.

ALP/Coalition/Greens/Family First policy position/commitments

Government

The Minister for Health and Ageing, the Hon. Nicola Roxon has continued the government's argument that the proposed threshold changes outlined in this Bill will provide tax relief to working families, although under the revised thresholds fewer families are expected to benefit. The government now estimates that this measure will provide tax relief to some 330 000 taxpayers.⁵ Under the original measure some 485 000 taxpayers were expected to benefit by no longer being liable for the surcharge.

Coalition

As noted previously, the Coalition members of the Senate Committee opposed the proposed increases to the Medicare levy surcharge thresholds proposed in the earlier Bill. The Coalition also opposed the government's amendments to the earlier Bill which would have introduced the thresholds this Bill now proposes. The Shadow Minister for Health and Ageing, the Hon. Peter Dutton described the original measure as 'bad public policy' that was 'fundamentally flawed'. He further commented that the proposed amendments to the earlier Bill 'failed' to fix these flaws. The Coalition has also criticised the government for failing to make an adequate assessment of the likely impact of the proposed threshold changes on the health sector.⁶

5 Hon. Nicola Roxon (Minister for Health and Ageing), 'Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill (no. 2) 2008: Second Reading', House of Representatives *Debates*, 25 September 2008, p. 30.

6 Hon. Peter Dutton (Shadow Minister for Health and Ageing) and Senator Matthias Cormann (Shadow Parliamentary Secretary for Health Administration), 'Medicare Levy Surcharge Bill defeated in the Senate', joint media release, Canberra, 24 September 2008.

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Greens

As noted previously the Greens did not fully support the original measure as proposed in the earlier Bill. They outlined their views in their dissenting report prepared for the Senate Economics Committee inquiry. In it they agreed with the government that those on lower incomes should not be 'forced' to pay the Medicare levy surcharge and that the drop out rate from private health insurance as a result of the increased thresholds 'is likely to be exaggerated'. But they also argued that the thresholds should be indexed annually and that savings from the measure be redirected to the public health system. They further called for an 'ongoing review' of the longer term impact of the threshold changes on public hospital elective surgery waiting lists.⁷

The Greens supported the government's amendments that would have lowered the singles threshold to \$75 000 and provided for annual indexation, in return for an ongoing review of the impact of the raised thresholds.⁸

Senator Xenophon

While Senator Xenophon expressed broad support for the original proposal to raise the thresholds, he noted there were 'legitimate concerns' over the possible impact of the raised threshold levels.⁹ Senator Xenophon also questioned the need to lift the threshold levels so far above the levels that would have applied if the thresholds had been indexed from the beginning. He estimated that if the threshold levels had been indexed to the Consumer Price Index they now would be between \$67 000 and \$76 000 for individuals and around \$134 000 for families.¹⁰ Subsequently, Senator Xenophon also indicated support for the government's amendment to revise the threshold for singles down to \$75 000 and index the thresholds.¹¹

Senator Fielding

Senator Fielding opposed the original measure to lift the threshold for singles to \$100 000 and then opposed the government amendment that would have revised the threshold level for singles to \$75 000. He argued that low income families and singles on incomes below

7 The Senate, Standing Committee on Economics, 'Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008' [Report], Standing Committee on Economics, Canberra, August 2008, p. 65.

8 Senator Rachel Siewert, 'Greens achieve Medicare win', media release, Canberra, 23 September 2008.

9 Senator Nick Xenophon, 'Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008: Second Reading Speech', Senate *Debates*, 15 September 2008, p. 65.

10 Ibid.

11 See 'Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008: Second Reading: Division', Senate *Debates*, 24 September 2008, p. 71.

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the threshold levels would be adversely affected, because they would not benefit from the tax cut but would face higher health insurance premiums, as a result of fewer people taking out health insurance.¹² He also argued that the government should provide more relief for lower income families who purchase health insurance, by lifting the private health insurance rebate by 5 per cent for those on low incomes.¹³

Other groups

Michael Armitage of the Australian Health Insurance Association (AHIA), the peak body representing health insurers, welcomed the Senate's rejection of the earlier Bill and its amendments, describing it as a 'sensible decision'.¹⁴

Any consequences of failure to pass (e.g. potential double dissolution trigger)

If this Bill fails to pass it will not become a 'trigger' for a double dissolution. A Bill must fail twice in the Senate following an interval of at least three months, in order to become a 'trigger' for a possible double dissolution.¹⁵ Although proposing the same threshold levels that were contained in government amendments to the *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008*, and that were rejected by the Senate, this is a new Bill and so in itself cannot trigger a double dissolution.

Financial implications

The revenue implications over the forward estimates are provided in a table in the Explanatory Memorandum that accompanied the Bill and are reproduced below.

<i>2007–08</i>	<i>2008–09</i>	<i>2009–10</i>	<i>2010–11</i>	<i>2011–12</i>
–	\$129m	\$79m	\$68m	\$78m

The government estimates that the financial impact, which includes the effects of decreased expenditure on the private health insurance rebate, will result in a net saving to government of \$354 million over the forward estimates. This is slightly higher than the

12 Senator Steve Fielding, 'Hike in health insurance premiums will slug lower income earners', media release, Canberra, 24 September 2008.

13 Senator Steve Fielding, 'Medicare levy surcharge changes – lower incomes earners the losers'

14 Michael Armitage, '[Senate rejects MLS threshold Bill](#)', media release, Canberra, 24 September 2008.

15 For a full discussion on double dissolution triggers see Sudip Sen, '[The double dissolution process: questions and references](#)', Parliamentary Library Research Note, no. 45, 2002-03.

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\$299 million in net savings forecast under the original measure. The government revenue forecasts in the Explanatory Memorandum do not decompose the financial impact of the revised threshold levels, making it difficult to assess the underlying assumptions about savings to revenue and spending on the private health insurance rebate. However, the higher net savings forecast under the revised measure may be due to expectations that the cost to taxation revenue of the revised threshold level for singles will be lower.

Main provisions

Schedule 1—Singles and families income thresholds

Items 1 to 5 proposes to amend the reportable fringe benefits threshold provisions contained in *A New Tax System (Medicare Levy Surcharge—Fringe Benefits) Act 1999*.

Item 2 proposes to insert **new subsections: 5A(1)** describes the singles surcharge threshold for a person for the 2008–09 year of income as being \$75 000; **5A(2)** describes how the singles surcharge threshold will be annually indexed. **Proposed subsection 5A(3)** specifies that the singles surcharge threshold is not indexed if its indexation factor is 1 or less. **Proposed subsection 5A(4)** proposes a formula for calculating the indexation factor using quarterly index numbers specified in **proposed subsection 5A(6)**. **Proposed subsection 5A(5)** specifies that the proposed indexation factor be calculated to 3 decimal places and then rounded up. **Proposed subsection 5A(6)** specifies that the quarterly index number used to calculate the indexation factor is the estimate of full-time adult average weekly ordinary time earnings for the middle month of the quarter as published by the Australian Bureau of Statistics.

Item 3 proposes to amend subsection 6(1) that specifies the family surcharge threshold amount, to omit the figure \$100 000 and replace it with an amount that is double the singles surcharge threshold for the year of income.

Item 4 proposes to repeal subsection 6(2) and replace it with a new meaning for the family surcharge threshold amount that specifies that it be double the singles surcharge threshold; and proposes inserting a new formula to be used for calculating the family surcharge threshold amount for a person with 2 or more dependents who are children. **Proposed paragraph 6(2)(b)** specifies that for each additional dependent child the threshold amount be increased by \$1,500.

Item 5 proposes to amend paragraph 12(1)(a) that specifies the amount of surcharge for singles, to omit the figure \$50 000 and replace it with the singles surcharge threshold for the year of income.

Items 6 to 10 proposes to amend provisions of the *Medicare Levy Act 1986*.

Item 6 proposes to insert into subsection 3(1) a definition of the singles surcharge threshold that is consistent with the definition given under a **new subsection 3AA**.

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Item 7 proposes to insert a **new subsection 3AA** describing the singles surcharge thresholds: **proposed subsection 3AA(1)** describes the singles surcharge threshold for a person for the 2008–09 year of income as being \$75 000; **proposed subsection 3AA(2)** describes the process for applying annual indexation by multiplying the singles surcharge threshold for the 2008–09 year of income by its indexation factor, then rounding this amount down in \$1,000 increments. **Proposed subsection 3AA(3)** specifies that the singles surcharge threshold is not indexed if its indexation factor is 1 or less. Proposed subsections 3AA(4)–(6) provide further mathematical formula for calculations, with specifying that the quarterly index number used to calculate the indexation factor is the estimate of full-time adult average weekly ordinary time earnings for the middle month of the quarter as published by the Australian Bureau of Statistics.

Item 8 proposes repealing subsection 3A and replacing it with a new meaning for the family surcharge threshold amount that specifies that it be double the singles surcharge threshold; and proposes inserting a new formula to be used for calculating the family surcharge threshold amount for a person with 2 or more dependents who are children. Proposed subsection 3A(2) specifies that for each additional dependent child the threshold amount be increased by \$1,500.

Item 9 proposes, for the purposes of reportable fringe benefits, omitting from subsection 8B(2) the figure \$50 000 and replacing it with the singles surcharge threshold for the year of income.

Item 10 proposes, for the purposes of beneficiary's trust income, omitting the figure \$50 000 and replacing it with the singles surcharge threshold for the year of income.

Item 11 specifies that the amendments made to the Schedule apply to assessments for the 2008–09 year of income and later years.

Item 12 proposes transitional arrangements so that individuals who purchase appropriate private health insurance before 1 January 2009, will not be liable to pay the Medicare levy surcharge for the period 1 July 2008 to 31 December 2008.

Concluding comments

This Bill is the second attempt by the government to give effect to its Budget commitment to lift the thresholds on the Medicare levy surcharge and deliver tax relief. The proposed surcharge threshold amount for singles of \$75 000 is lower than was originally proposed and is to be indexed, while the family surcharge threshold is now double the singles amount. The Greens and Senator Xenophon supported these amended proposals when they were introduced as amendments to the original Bill, so it is expected that they will support this Bill. However, these proposals failed to win the support of Senator Fielding or the Opposition. Unless the government can win further support, the Bill in its current form is at risk of rejection in the Senate.

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