



Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009

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Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009

Date introduced: 27 May 2009

House: House of Representatives

Portfolio: Treasury

Commencement: Sections 1–3 on Royal Assent; Schedule 1 immediately after the commencement of Schedule 1 to the *Fairer Private Health Insurance Incentives Act 2009*.

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

This Bill is one of three Bills which propose changes to various Acts in order to implement a 2009–10 Budget initiative changing private health insurance incentives and penalties.¹ The other two Bills are Fairer Private Health Insurance Incentives Bill 2009 and Fairer Private Health Insurance Incentives (Medicare Levy Surcharge—Fringe Benefits) Bill 2009.² The Bills propose the introduction of three new Private Health Insurance Incentive Tiers, so that those on higher incomes receive a lower private health insurance rebate when they purchase a complying health insurance policy, and face a higher Medicare levy surcharge if they opt out of private health cover.

This Bill proposes amendments to the *Medicare Levy Act 1986* (MLA 1986). The MLA 1986 determines whether an individual is liable to pay the Medicare levy surcharge on their taxable income. The Medicare levy surcharge is an additional surcharge on taxable income imposed on ‘high-income’ earners who do not have appropriate private hospital insurance. This Bill proposes, from July 2010 new income thresholds—tiers 1, 2 and 3—for singles and families so they are consistent with the proposed changes to the *Income Tax Assessment Act 1997* contained in the Fairer Private Health Insurance Incentives Bill 2009. It also proposes to increase the Medicare levy surcharge for those assessed as high income earners in tiers 2 and 3, to 1.25 per cent and 1.5 per cent respectively.

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- 1 W Swan (Treasurer), N Roxon (Minister for Health and Ageing), *Rebalancing support for private health insurance*, media release, Canberra, 12 May 2009, viewed 28 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2009-hmedia13.htm>
 - 2 For analysis of the measures contained in these Bills refer to the relevant Bills Digests.

Warning:

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Background

When Medicare was introduced in 1984 the scheme was part-funded by the imposition of a Medicare levy, originally set at 1 per cent of taxable income, with low income exemptions. In 1995 the Medicare levy was increased to its current level of 1.5 per cent of taxable income. Other than for those on low incomes, all taxpayers are liable for the Medicare levy, regardless of their private health insurance status.

The Medicare levy surcharge (MLS) is an additional surcharge on taxable income imposed on 'high-income' earners who do not have appropriate private health insurance.³ Currently the income thresholds above which the taxpayer is liable for the MLS are set at \$70 000 for singles and \$140 000 for couples. The MLS has applied since 1997 and was introduced by the former Howard government as the first of a package of reforms that were subsequently introduced to address declining private health insurance membership.⁴ When the MLS was first introduced, private health insurance membership covered around 30.4 per cent of the population; currently around 44.6 per cent of the population is covered by private health insurance.⁵

The Government has now announced it intends to 'rebalance' support for private health insurance, so that from July 2010 those on higher incomes receive 'less carrot and more stick' to take out private cover.⁶ The proposed measures contained in these Bills are expected to generate \$1.9 billion in savings over four years.⁷

This Bill proposes amendments to allow for the Medicare levy surcharge to be increased incrementally from 1 per cent of taxable income up to 1.5 per cent for those in the highest income brackets (proposed tiers 2 and 3) when they decline to take out private health insurance.

3 Appropriate health insurance is one that provides hospital cover; private health insurance that only covers 'general treatment', that is, ancillaries, is not considered appropriate. See Private Health Insurance Administration Council (PHIAC), *Insure? Not sure?* PHIAC, 2008, p. 10, viewed 29 May 2009, <http://www.phiac.gov.au/insurenotsure/pdf/insure.pdf>

4 The other measures were Lifetime Health Cover and the Private Health Insurance Rebate.

5 This figure is for people with basic hospital cover. Private Health Insurance Administration Council (PHIAC), 'Membership statistics: Table 1', *Industry statistics*, PHIAC, 2009, viewed 29 May 2009, <http://www.phiac.gov.au/statistics/membershipcoverage/table1.htm>

6 W Swan, N Roxon, *Rebalancing support for private health insurance*.

7 N Roxon, 'Second reading speech: Fairer Private Health Insurance Incentives Bill 2009', House of Representatives, *Debates*, 27 May 2009, p. 2, viewed 28 May 2009 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2F2009-05-27%2F0009%22>

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Basis of policy commitment

The measures proposed in this and the other two Bills were announced in a joint media release from the Treasurer, Wayne Swan, and the Minister for Health and Ageing, Nicola Roxon on 12 May 2009, as part of the 2009–10 Budget.⁸

Committee consideration

The Bill has been referred to the Senate Economics Legislation Committee, to report by 16 June 2009.

Position of significant interest groups/press commentary

Much of the commentary about the measures proposed here and in the accompanying Bills has been on the combined effect of the proposed measures. For details of commentary on the combined effect of these measures refer to the Bills Digest for the Fairer Private Health Insurance Incentives Bill 2009.

Changes to the income thresholds for the MLS that were introduced in 2008, generated considerable public debate. At the time much of the discussion focused on arguments over whether or not large numbers of people would abandon their private health insurance, as a result of the higher income thresholds, and the possible effect on private health insurance premiums and the public hospital system.⁹ It is notable that many of these arguments have again been raised in the context of the current proposals.

ALP/Australian Democrat/Greens/Family First policy position/commitments

Refer to the Bills Digest for the Fairer Private Health Insurance Incentives Bill 2009.

Financial implications

The Government estimates that the combined effect of the measures proposed in this and the two accompanying Bills will result in net savings of \$1.9 billion over four years.¹⁰ The

8 W Swan (Treasurer), N Roxon (Minister for Health and Ageing), *Rebalancing support for private health insurance*, media release, Canberra, 12 May 2009, viewed 28 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2009-hmedia13.htm>

9 Quarterly data from the Private Health Insurance Administration Council shows that private health insurance membership has remained stable at 44.6 per cent since the income thresholds were changed. PHIAC, 'Membership statistics'.

10 N Roxon, 'Second reading speech: Fairer Private Health Insurance Incentives Bill 2009', House of Representatives, *Debates*, 27 May 2009, p. 2, viewed 28 May 2009 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2F2009-05-27%2F0009%22>

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financial implications of this measure are dealt with in the Bills Digest for the Fairer Private Health Insurance Incentives Bill 2009.

Main provisions

Schedule 1—Amendments to the *Medicare Levy Act 1986*

Items 1, 3, 4 and 5 propose new definitions under subsection 3(1) for singles and family tier 1 threshold, as well as definitions for tiers 2 and 3 earners, so that they have the same meaning as in the *Income Tax Assessment Act 1997* (ITAA 1997). No definition for tier 1 earner is required as this category is already covered by existing provisions.

Item 6 proposes to replace sections 3AA and 3A with new meanings for ‘tier 2 earner’ and ‘tier 3 earner’ so they are consistent with the meanings given to them in the ITAA 1997. This item also proposes to replace references to the way a ‘dependant child’ is defined. Instead of referring to the meaning of a ‘dependant child’ as given in the ITAA 1997, the meaning of ‘dependant’ is broadened to that which is defined in the *A New Tax System (Medicare Levy Surcharge—Fringe Benefits) Act 1999* (ANTS (MLS) Act 1999), in order to make the definition consistent with other legislation.

Items 2 and 6 propose to repeal definitions at subsections 3(1), 3AA and 3A of ‘singles surcharge threshold’ and ‘family surcharge threshold’.

Items 7 and 15 proposes to replace ‘singles surcharge threshold’ at subsection 8B(2) and 8E(2) with the new ‘singles tier 1 threshold’.

Items 9, 11–13, 17, 19–21 propose to replace all references to ‘family surcharge threshold’ at subsections 8C(3), 8D(3)(b), 8D(4)(a)(i), 8D(4)(b), 8F(2), 8G(2)(b), 8G(3)(a)(i), 8G(3)(b) with ‘family tier 1 threshold’.

Items 8, 10, 14, 16, 18 and 22 propose new provisions at sections 8B, 8C, 8D(4), 8E, 8F, and 8G(3), that will increase the Medicare levy surcharge by 0.25 per cent for those assessed as being in tier 2 for the year of income, and 0.5 per cent for those assessed as being in tier 3 for the year of income.

Item 23 proposes that the amendments made to the Schedule apply to the 2010–11 year of income and later years of income.

Concluding comments

This Bill is one of three seeking to give effect to a 2009–10 Budget announcement intended to ‘rebalance’ private health insurance arrangements. This specific Bill proposes amendments to the *Medicare Levy Act 1986* that will establish 3 new tiers of income for the purposes of assessing liability for the Medicare levy surcharge. Those in the two

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higher tiers—tiers 2 and 3—who do not take out appropriate private health insurance will be liable for a higher Medicare levy surcharge of 1.25 per cent and 1.5 per cent respectively. As the Opposition has indicated it opposes the measure, it will require the support of the Greens and the Independents to pass the Senate.

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