



## Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2009

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## Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2009

**Date introduced:** 28 May 2009

**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. The increases are to ensure that low-income individuals and families will continue not being required to pay the Medicare levy or surcharge. The increases are in line with movements in the Consumer Price Index.

The amendments will apply to the 2008–09 year of income and later income years.

### 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. The Bill also 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 in the thresholds and ‘phase-in’ limits are in line with increases in the CPI.<sup>1</sup>

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1. C Bowen, ‘Second reading speech: Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2009’, House of Representatives, *Debates*, 28 May 2009, p. 13. In line with CPI movements since 2008 when the thresholds and phase in limits were last changed.

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## The Medicare levy and surcharge

Medicare is partly funded by a levy on taxable income. When Medicare was introduced in 1984, this levy was set at one per cent of taxable income, with a set low income threshold amount 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 higher income earners who do not have private patient hospital insurance. The current taxable income thresholds above which the Medicare levy surcharge is payable are \$70 000 for singles and \$140 000 for couples and families.<sup>2</sup>

The Medicare levy and surcharge only contribute to part of the total cost of Medicare. In 2007–08, Medicare levy revenue was around \$8 billion while the cost of Medicare for the same period was around \$18.9 billion.<sup>3</sup>

## Exemptions

Low income earners are exempted from paying the Medicare levy and the Medicare levy surcharge. There are also phase-in limits which apply only to the Medicare levy and not to the surcharge.

### Medicare levy low income thresholds and phase-in limits

The taxable income levels below which no Medicare levy is payable (the low income thresholds) are specified in the MLA 1986. These levels are regularly adjusted via legislation in line with movements in the CPI with different low income thresholds 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 individuals with taxable incomes above the low income threshold but below what is known as the ‘phase-in limit’, the Medicare levy is payable at a rate of 10 per cent of the amount over the low income threshold amount.

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2. Private Health Insurance Administration Council, ‘Insure? Not sure? – Medicare levy surcharge’, viewed 1 June 2009,

[Hhttp://www.phiac.gov.au/insurenotsure/surchargesincentives/levy.htm](http://www.phiac.gov.au/insurenotsure/surchargesincentives/levy.htm)H

3. W Swan (Treasurer), *Final budget outcome 2007–08*, Australian Government, September 2008, pp. 3, 82, viewed 1 June 2009, [Hhttp://www.budget.gov.au/2007-08/fbo/html/index.htm](http://www.budget.gov.au/2007-08/fbo/html/index.htm)H

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

The Bill proposes to raise the low income thresholds and phase-in limits for the 2008–09 taxation year as set out in Table 1.1 of the Explanatory Memorandum to the Bill (reproduced below as Table 1).

#### Medicare levy surcharge low income thresholds

The Medicare levy surcharge is a one per cent surcharge on higher income earners who do not hold private patient hospital insurance. It 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 patient hospital insurance. For individuals, the surcharge currently applies when taxable income exceeds \$70 000. For families, the surcharge applies when their combined taxable income exceeds \$140 000. There are no ‘phasing-in’ or ‘shading-out’ ranges for the Medicare levy surcharge.

Separate bills, the Fairer Private Health Insurance Incentives Bill 2009, Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009 and Fairer Private Health Insurance Incentives (Medicare Levy Surcharge - Fringe Benefits) Bill 2009, propose to introduce a tiered system of higher income levels for which the Medicare levy surcharge will be payable, to introduce increased surcharge rates for the top two income level tiers, and to expand the definition of income that is assessed for the purpose of determining whether the surcharge should be paid.<sup>4</sup> These proposed measures would be applied to income years starting on or after 1 July 2010.

An individual family member may be exempt from paying the surcharge if their individual income falls below the Medicare levy low income threshold, even though the family’s total taxable income exceeds the threshold at which the surcharge applies (the partner or spouse may still be eligible for the surcharge).

The Bill proposes to increase the Medicare levy surcharge low income exemption threshold to \$17 794, in line with the increase in the Medicare levy low income threshold (see Table 1).

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4. For further information on these measures see the Bills Digests for the Fairer Private Health Insurance Incentives Bill 2009, Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009 and Fairer Private Health Insurance Incentives (Medicare Levy Surcharge - Fringe Benefits) Bill 2009.

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Table 1: 2008–09 Medicare levy low income threshold amounts and phasing-in ranges

Category of taxpayer	No levy payable if taxable income or family income does not exceed (figure for 2007–08)	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 2007–08)
Individual taxpayer	\$17,794 (\$17,309)	\$17,795 – \$20,933	\$20,934 (\$20,363)
Pensioner under age pension age	\$25,299 (\$22,922)	\$25,300 – \$29,762	\$29,763 (\$26,967)
Families <sup>(a)</sup> with the following children and/or students	(family income)	(family income)	(family income)
0	\$30,025 (\$29,207)	\$30,026 – \$35,322	\$35,323 (\$34,361)
1	\$32,782 (\$31,889)	\$32,783 – \$38,566	\$38,567 (\$37,516)
2	\$35,539 (\$34,571)	\$35,540 – \$41,809	\$41,810 (\$40,671)
3	\$38,296 (\$37,253)	\$38,297 – \$45,053	\$45,054 (\$43,827)
4	\$41,053 (\$39,935)	\$41,054 – \$48,296	\$48,297 (\$46,982)
5	\$43,810 (\$42,617)	\$43,811 – \$51,540	\$51,541 (\$50,137)
6	\$46,567 <sup>(b)</sup> (\$45,299)	\$46,568 <sup>(c)</sup> – \$54,783 <sup>(d)</sup>	\$54,784 <sup>(e)</sup> (\$53,292)

(a) 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.

(b) Where there are more than six dependent children or students, add \$2757 for each extra child or student.

(c) See note (b).

(d) Where there are more than six dependent children or students, add \$3243 for each extra child or student.

(e) See note (d).

Source: Explanatory Memorandum, Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2009, p. 8.

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## Basis of policy commitment

This measure was announced in the 2009–10 Budget.<sup>5</sup>

## Committee consideration

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

## Financial implications

### Standing appropriations

The estimated cost to the government in foregone revenue over four years is \$205 million, as shown in Table 2.

Table 2: Revenue implications

<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Nil	–\$85m	–\$40m	–\$40m	–\$40m

Source: Explanatory Memorandum, Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2009, p. 3.

## Main provisions

### Schedule 1: Medicare levy and Medicare levy surcharge 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 \$17 794.

**Items 2 and 3** propose to amend the definitions of ‘phase-in’ limits in the MLA 1986<sup>6</sup> so that for certain pensioners under age pension age<sup>7</sup> the phase-in limit would be increased to \$29 763, and for certain other individuals, that limit would be increased to \$20 934.<sup>8</sup>

5. Australian Government, ‘Part 1: Revenue measures’, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 27.

6. *Medicare Levy Act 1986* paragraphs 3(1)(b) and (c) (definition of ‘phase-in’ limit).

7. See *Income Tax Assessment 1936* subsection 160AAA(2).

8. That are not covered by *Income Tax Assessment 1936* subsection 160AAA(2).

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**Items 4 and 5** propose to amend the definitions of ‘threshold amount’ in the MLA 1986,<sup>9</sup> so that for certain pensioners who are under the age pension age,<sup>10</sup> the threshold amount would be increased to \$25 299, and for certain other individuals,<sup>11</sup> that amount would be increased to \$17 794.

**Items 6, 7 and 8** propose to amend the level of ‘family income threshold’ in the MLA 1986,<sup>12</sup> so that the threshold amount for a person with a spouse or dependents would be increased to \$30 025, and that amount would be increased by \$2757 (currently \$2682) for each dependant child or student of that person.<sup>13</sup>

**Items 9, 10, 11 and 12** propose to amend the MLA 1986<sup>14</sup> so that the surcharge level threshold on taxable income would be increased to \$17 794 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 2008–09 financial year and later years.

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9. Medicare Levy Act 1986 paragraphs 3(1)(b) and (c) (definition of ‘threshold amount’).

10. See *Income Tax Assessment 1936* subsection 160AAA(2).

11. That are not covered by *Income Tax Assessment 1936* subsection 160AAA(2).

12. Medicare Levy Act 1986 subsections 8(5), (6) and (7).

13. See *Income Tax Assessment Act 1936* subsection 159J(2).

14. Medicare Levy Act 1986 paragraphs 8(D)(3)(c) and 8G(2)(c); subparagraphs 8D(4)(a)(ii) and 8G(3)(a)(ii).

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