



Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2010

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Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2010

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House: House of Representatives

Portfolio: Treasury

Commencement: On Royal Assent

Links: The [links](#) to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bills page, 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 proposes amendments to the *Medicare Levy Act 1986* (Medicare Levy Act) and the *A New Tax system (Medicare Levy Surcharge–Fringe Benefits) Act 1999* (Medicare Levy Surcharge Fringe Benefits Act), so that low-income families and individuals will continue not being required to pay the Medicare levy or surcharge. The amendments propose increases to the Medicare levy and Medicare levy surcharge low-income thresholds for individuals, families and pensioners below age pension age, and increase the phase-in limits that apply. The proposed increases are in line with movements in the Consumer Price Index (CPI).

The amendments will apply to the 2009–10 income year and later income years.

Background

Australia's national health insurance scheme, Medicare is partly funded by a levy on taxable income, with low-income threshold amounts below which no levy is payable. Since 1995, the levy has been set at 1.5 per cent of taxable income. Higher income earners who forego private hospital insurance have an additional 1 per cent surcharge imposed—the Medicare levy surcharge.

Revenue from the combined Medicare levy and surcharge partly meet the cost of Medicare. In 2008–09, revenue generated by the Medicare levy and surcharge totalled nearly \$8.3 billion.¹ However, the cost of funding medical services on the Medicare

1. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2010–11*, Commonwealth of Australia, Canberra, 2010, p. 5-28.

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Benefits Schedule (MBS) is significantly higher; for 2009–10 the cost of the MBS is forecast to be \$15.7 billion.²

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. Different low-income threshold levels are set for individuals, families (including couples with no children) and pensioners below age pension age.

The Medicare Levy Act allows for a ‘phase-in’ 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 Medicare Levy Act 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.

The Bill proposes to raise these low-income thresholds and phase-in limits for the 2009–10 taxation year. For individuals, the proposed low-income threshold will be \$18 488; for pensioners under pension age, it will be \$27 697, and for families it will be \$31 196 (without children). For more detail, refer to Table 1.1 of the Explanatory Memorandum.³

Medicare levy surcharge low-income thresholds

As noted previously, the surcharge is an additional 1 per cent levy applied to high income earners where they do not hold private hospital insurance.⁴ 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 the 2009–10 taxation year, the surcharge for individuals applies when their taxable income exceeds \$73 000, and for families, when

2. Ibid, p. 6-19.

3. Explanatory Memorandum, Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2010, p. 8.

4. The Government is seeking to pass legislation that would introduce a tiered system of higher income levels at which the Medicare levy surcharge would be payable; increase the surcharge rates for the top two income level tiers; and expand the definition of income that is assessed for the purpose of determining whether the surcharge should be paid. The legislation also includes a proposal to ‘means test’ the private health insurance rebate. These proposed measures have been twice rejected by the Senate.

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their combined taxable income exceeds \$146 000.⁵ The ‘phase-in’ range does not apply to the Medicare levy surcharge.

An individual family member may be exempt from paying the surcharge if his or her 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).⁶

This Bill proposes to raise the Medicare levy surcharge individual low-income exemption threshold to \$18 488, which keeps it in line with the increase to the Medicare levy low-income threshold as shown in Table 1.1 of the Explanatory Memorandum.

Basis of policy commitment

This measure was announced in the 2010–11 Budget.⁷

Committee consideration

The Selection of Bills Committee has recommended against the Bill being referred to a committee for inquiry.⁸

Financial implications

The estimated cost to the Government in foregone revenue over the four years to 2013–14, is \$225.0 million.⁹

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5. Plus \$1500 for each dependent child after the first.
 6. Australian Taxation Office (ATO), ‘Medicare levy surcharge’, ATO webpage, viewed 19 May 2010, <http://www.ato.gov.au/individuals/content.asp?doc=/content/7128.htm&page=4&H4=&pc=001/002/030/004/002&mnu=44720&mfp=001/002&st=&cy=1>
 7. Australian Government, *Budget measures: budget paper no. 2: 2010–11*, Commonwealth of Australia, Canberra, 2010, p. 36.
 8. Senate Selection of Bills Committee, *Report no. 7 2010*, the Committee, 2010, viewed 19 May 2010, http://www.aph.gov.au/Senate/committee/selectionbills_ctte/reports/2010/report0710.pdf
 9. Explanatory Memorandum, op. cit., p. 3.

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Main provisions

Schedule 1—Medicare levy and Medicare levy surcharge income thresholds

Item 1 proposes to amend the Medicare levy surcharge provisions in the Medicare Levy Surcharge Fringe Benefits Act, so that the individual low-income threshold amount would be increased from \$17 794 to \$18 488.

Items 2 and 3 propose to amend the definitions of ‘*phase-in limit*’ in the Medicare Levy Act¹⁰ so that for certain pensioners below age pension age,¹¹ the phase-in limit would be increased from \$29 763 to \$32 584, and for certain other individuals, that limit would be increased from \$20 934 to \$21 750.¹²

Items 4 and 5 propose to amend the definition of ‘*threshold amount*’ in the Medicare Levy Act,¹³ so that for certain pensioners who are below the age pension age¹⁴ the threshold amount would be increased from \$25 299 to \$27 697, and for certain other individuals,¹⁵ that amount would be increased from \$17 794 to \$18 488.

Items 6, 7 and 8 propose to amend the definition of ‘*family income threshold*’ in the Medicare Levy Act,¹⁶ so that the threshold amount for a person with a spouse or dependants would be increased from \$30 025 to \$31 196, which would be increased by \$2865 for each dependent child or student of that person.¹⁷

Items 9, 10, 11 and 12 propose to amend the Medicare Levy Act¹⁸ so that the surcharge level threshold on taxable income would be increased from \$17 794 to \$18 488 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 2009–10 income year and later income years.

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

11. See *Income Tax Assessment Act 1936*, subsection 160AAA(2).

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

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

14. See *Income Tax Assessment Act 1936*, subsection 160AAA(2).

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

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

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

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

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