



Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2011

Amanda Biggs
Social Policy Section

Contents

Purpose	2
Background	2
Medicare levy low-income thresholds and phase-in limits	3
Medicare levy surcharge low-income thresholds.....	3
Committee consideration	4
Basis of policy commitment.....	4
Financial implications.....	4
Key provisions	4
Schedule 1—Medicare levy and Medicare levy surcharge income thresholds.....	4

Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2011

Date introduced: 12 May 2011

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 Bill's home page, or through <http://www.aph.gov.au/bills/>. When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website 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 continue to not be liable to pay the Medicare levy or Medicare levy surcharge. The amendments propose to increase the Medicare levy and Medicare levy surcharge low-income thresholds for individuals, families and pensioners below age pension age (for the latter so that it will be in line with their income tax liability), and to 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 assessments for the 2010–11 income year and later income years.

Background

Australia's national health insurance scheme, Medicare—which provides free or subsidised health services to the Australian population—is partly funded by a 1.5 per cent levy on taxable income. Exemptions to paying the levy apply to individuals and families on low-incomes. High income earners who forego purchasing private hospital insurance are also liable for an additional 1 per cent Medicare levy surcharge.

Revenue from the combined Medicare levy and surcharge raised around \$8.3 billion in 2010–11, which is around half the cost of Medicare at \$16.4 billion.¹

1. These expenses are for listed medical benefits provided through the Medical Benefits Schedule (MBS). See Australian Government, *Budget strategy and outlook: budget paper no. 1: 2011–12*, Commonwealth of Australia, Canberra,

Medicare levy low-income thresholds and phase-in limits

The low-income threshold amounts, below which no levy is payable, are regularly adjusted in line with movements in the CPI. The low-income threshold levels differ for individuals; families (including couples with no children); and pensioners below age pension age.

The Medicare Levy Act allows for a 'phase-in' income range whereby the Medicare levy applies, but at a reduced rate. The phase-in limits for individuals, families and pensioners below pension age are set at different rates.² For individuals 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 will 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 the low-income thresholds and phase-in limits for the 2010–11 taxation year. For individuals, the proposed low-income threshold will be increased to \$18 839; for pensioners under pension age, it will be \$30 439, and for families it will be \$31 789 (without children). The additional amount of threshold for each dependent child will rise to \$2919. For more detail, refer to Table 1.1 of the Explanatory Memorandum.³

Medicare levy surcharge low-income thresholds

As noted above, the 1 per cent Medicare levy surcharge applies to high income earners who do not hold private hospital insurance.⁴ The surcharge also applies to reportable fringe benefits in certain cases.

For the 2010–11 taxation year, the surcharge for individuals applies when their taxable income exceeds \$77 000, while for families, the surcharge applies when their combined taxable income

2011, pp. 5-35 and 6-22, viewed 20 May 2011, <http://www.aph.gov.au/budget/2011-12/content/bp1/html/index.htm>

2. See Table 1.1, Explanatory Memorandum, Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2011, p. 8.
3. Ibid.
4. The Government is seeking to pass legislation that would introduce a 3 tiered system of higher income levels at which the Medicare levy surcharge would be payable. The legislation would also apply a 'means test' to the private health insurance rebate, so that the amount of the rebate would decrease as the income level increases. Those in the highest income tier would not be eligible for the rebate. These proposed measures have been previously rejected by the Senate. See: A Biggs, 'Means testing the private health insurance rebate—one more attempt in a changed Parliamentary environment?', *Parliamentary Library Flagpost*, 6 May 2011, viewed 16 May 2011, <http://parliamentflagpost.blogspot.com/2011/05/means-testing-private-health-insurance.html>

exceeds \$154 000.⁵ The 'phase-in' range that applies to the Medicare levy does not apply to the Medicare levy surcharge.

An individual family member, however, 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 \$18 839, 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.

Committee consideration

The Senate Selection of Bills Committee has deferred consideration of the Bill until its next meeting.⁷

Basis of policy commitment

This measure was announced in the 2011–12 Budget.⁸

Financial implications

The estimated cost to the Government in foregone revenue over the forward estimates to 2014–15, is \$125 million.⁹

Key provisions

Schedule 1—Medicare levy and Medicare levy surcharge income thresholds

Item 1 proposes to amend the Medicare Levy Surcharge Fringe Benefits Act, so that the individual low-income threshold amount would be increased from \$18 488 to \$18 839.

-
5. The family income threshold increases by \$1500 for each dependent child after the first. See: Private Health Insurance Ombudsman, 'Medicare levy surcharge', PrivateHealth.gov.au webpage, viewed 16 May 2011, <http://www.privatehealth.gov.au/healthinsurance/incentivessurcharges/mls.htm>
 6. Australian Taxation Office, 'M2 – Medicare Levy Surcharge', webpage, viewed 16 May 2011, <http://www.ato.gov.au/individuals/content.aspx?doc=/content/00216873.htm>
 7. Senate Selection of Bills Committee, *Report no. 6 2011*, the Committee, 2011, viewed 16 May 2011, http://www.aph.gov.au/Senate/committee/selectionbills_ctte/reports/2011/rep0611.pdf
 8. Australian Government, *Budget measures: budget paper no. 2: 2011–12*, Commonwealth of Australia, Canberra, 2011, p. 39.

Warning: All viewers of this digest are advised to visit the disclaimer appearing at the end of this document. The disclaimer sets out the status and purpose of the digest.

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 age¹¹ the phase-in limit would be increased from \$32 584 to \$35 810, and for certain other individuals, that limit would be increased from \$21 750 to \$22 163.¹²

Items 4 and 5 propose to amend the definition of ‘*threshold amount*’ in the Medicare Levy Act¹³, so that for certain pensioners who are below the age pension age¹⁴ the threshold amount would be increased from \$27 697 to \$30 439, and for certain other individuals¹⁵, that amount would be increased from \$18 488 to \$18 839.

Items 6, 7 and 8 propose amendments relating to the definition of ‘*family income threshold*’ in the Medicare Levy Act¹⁶, so that the threshold amount for a person with a spouse or dependants would be increased from \$31 196 to \$31 789, and increased by \$2 919 for each dependent 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 \$18 488 to \$18 839 for certain individuals who are either married or are trustees of a trust estate.

Item 13 specifies that these amendments would apply to income tax assessments for the 2010–11 income year and later income years.

9. Explanatory Memorandum, op. cit., p. 3.

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).

© Commonwealth of Australia 2011

This work is copyright. Except to the extent of uses permitted by the Copyright Act 1968, no person may reproduce or transmit any part of this work by any process without the prior written consent of the Parliamentary Librarian. This requirement does not apply to members of the Parliament of Australia acting in the course of their official duties.

Disclaimer: Bills Digests are prepared to support the work of the Australian Parliament. They are produced under time and resource constraints and aim to be available in time for debate in the Chambers. The views expressed in Bills Digests do not reflect an official position of the Australian Parliamentary Library, nor do they constitute professional legal opinion. Bills Digests reflect the relevant legislation as introduced and do not canvass subsequent amendments or developments. Other sources should be consulted to determine the official status of the Bill.

Feedback is welcome and may be provided to: web.library@aph.gov.au. Any concerns or complaints should be directed to the Parliamentary Librarian. Parliamentary Library staff are available to discuss the contents of publications with Senators and Members and their staff. To access this service, clients may contact the author or the Library's Central Enquiry Point for referral.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2514.