Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2012

Amanda Biggs
Social Policy Section

Contents

Purpose ................................................................................................................................. 2
Background .......................................................................................................................... 2
  Low-income thresholds and phase-in limits ................................................................. 3
Basis of policy commitment ............................................................................................. 3
Financial implications ....................................................................................................... 4
Key provisions .................................................................................................................. 4
Concluding comments ..................................................................................................... 4
Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2012

Date introduced: 10 May 2012
House: House of Representatives
Portfolio: Treasury

Commencement: Sections 1 to 3 commence on the day the Act receives Royal Assent. Schedule 1 commences either on Royal Assent or immediately before the commencement of Schedule 2 of the Clean Energy (Tax Laws Amendment) Act 2011, whichever occurs first.

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/Parliamentary_Business/Bills_Legislation. 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

The purpose of the Bill is to propose amendments to the Medicare Levy Act 1986, the A New Tax System (Medicare Levy Surcharge—Fringe Benefits) Act 1999 and the Clean Energy (Tax Laws Amendments) Act 2011, so that low-income individuals and families continue to be exempt from paying the Medicare levy or Medicare levy surcharge. Specifically, 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 as to be in line with their income tax liability), and to increase the phase-in limits that apply. The amendments to the Clean Energy (Tax Laws Amendments) Act 2011 are consequential and minor in nature.

The increases to the low-income thresholds reflect increases in the consumer price index (CPI), and will apply to the 2011–12 income tax year.

Background

Medicare provides free or subsidised health services to the Australian population. It is partly funded by a 1.5 per cent levy on taxable income. High income earners who forego purchasing private hospital insurance are also liable to pay an additional Medicare levy surcharge, currently set at one per cent of taxable income.1 From 1 July 2012, the surcharge payable will be means tested so that

---
1. For the 2011–12 year, the surcharge of one per cent applies to individuals with income that exceeds $80 000 and to families with combined income that exceeds $160 000 (the threshold increases by $1500 for each dependent after the first).

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.
those on higher incomes incur a higher liability. Exemptions to the Medicare levy and surcharge apply to individuals and families on low-incomes, as well as pensioners under age pension age.

Revenue from the combined Medicare levy and surcharge raised around $9.1 billion in 2011–12. This represents just over half the cost of the Medicare program, estimated to be $17.8 billion in 2012–13.

**Low-income thresholds and phase-in limits**

The low-income threshold amounts, below which no Medicare levy or surcharge is payable, are regularly adjusted in line with movements in the CPI. These threshold amounts vary for individuals, families and pensioners below age pension age.

In addition, phase-in limits apply so that those low-income earners falling within the phase-in range pay the levy at a reduced rate. Individuals with incomes above the low-income threshold, but below the phase-in upper limit, pay the Medicare levy at a reduced rate. The rate is set at 10 per cent of the excess over the low-income threshold amount. These phase-in limits vary for individuals, families and pensioners below pension age.

For individuals, the low income threshold below which no Medicare levy is payable is set at $19,404 for the 2011–12 financial year. For families, the low-income threshold is set at $32,743 (for those without children) for the year. This amount increases by $3,007 for each dependent child or student. For pensioners under age pension age, the low-income threshold is set at $30,451.

Full details of the low-income thresholds and the phase-in limits that will apply for the 2011–12 financial year are detailed in Table 1.1 of the Explanatory Memorandum, which accompanies the Bill.

**Basis of policy commitment**

The Bill implements a measure announced in the 2012–13 Budget.

---

2. For individuals with incomes above $97,000 and families with incomes above $194,000, the surcharge will increase to 1.25 per cent of taxable income; for individuals with incomes above $130,000 and families with incomes above $260,000, the surcharge will increase to 1.5 per cent of taxable income. See Department of Health and Ageing, ‘Private health insurance’, webpage, viewed 15 May 2012, [http://www.health.gov.au/internet/main/publishing.nsf/Content/phi-rebate&medicarelevysurcharge](http://www.health.gov.au/internet/main/publishing.nsf/Content/phi-rebate&medicarelevysurcharge)


4. Ibid., p. 6-10.

5. The phase-in limits do not apply to the Medicare levy surcharge.


**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.
Financial implications

The cost of the measures proposed in this Bill is $85 million over four years.\(^7\)

Key provisions


The provisions are adequately explained in the Explanatory Memorandum. Table 1.1, at page 8 of the Explanatory Memorandum, provides details of the proposed Medicare levy low-income threshold amounts and phase-in ranges.

Concluding comments

The Bill proposes to increase the low-income threshold amounts that exempt low-income earners from paying the Medicare levy and Medicare levy surcharge. These amounts are to be adjusted in line with increases to the CPI, to ensure that low-income earners continue to not be liable for the levy and surcharge. The proposed low-income thresholds vary for individuals, families, and pensioners below pension age. The Bill also proposes increases to phase-in limits that apply so that those with incomes that fall within a low-income range, but exceed the low-income thresholds, pay a reduced levy. The proposed threshold amounts apply to the 2011–12 financial year.

The proposed adjustments to the threshold amounts are routine and each year are given effect through the passage of legislation. Given these adjustments are linked to changes in the CPI, it could be argued that in line with the other benefits which are linked to CPI\(^8\), these adjustments might appropriately be made through subordinate legislation.

---


**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.
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.