



RESEARCH NOTE

Number 42, 6 June 1995
ISSN 1323-5664

The Medicare Levy: Rationale and Revenue

Background

The Medicare levy is imposed on the taxable incomes of people who are residents of Australia for income tax purposes and is collected in association with income tax. The levy is also payable by some trustees.

When Medicare began on 1 February 1984, the Medicare levy was set at 1 per cent of taxable income and a ceiling was placed on the maximum amount of levy payable. This ceiling was removed from 1 July 1985. The Medicare levy has been increased on three occasions: to 1.25 per cent of taxable income from 1 December 1986, to 1.4 per cent of taxable income from 1 July 1993 and to 1.5 per cent of taxable income from 1 July 1995. The Medicare levy is not payable

below certain income levels and 'shade-in' ranges also apply. In 1995-96, the low income thresholds will be \$12 870 for individuals and \$21 718 for couples and sole parents. The additional threshold for each child will be \$2 100. This means, for example, that a family with three children and a taxable income below \$28 018 will not pay the Medicare levy in 1995-96.

Rationale

The rationale for the Medicare levy has been much misunderstood. The levy was originally intended to offset outlays by the Commonwealth government on Medicare (i.e. medical services and hospital services), by imposing a levy on taxpayers through the income tax system. It was never intended to meet all of the

Commonwealth's outlays on health which also include pharmaceutical benefits, nursing home subsidies and health services for veterans and their dependents.

In a December 1982 Press Release, the then Shadow Minister for Health Dr Blewett, described the role of the Medicare levy in Labor's proposal for Medicare thus:

this levy would provide cover for medical and specialist services outside hospitals, and accommodation and treatment without direct charge in public hospitals by salaried or sessional doctors.

He further described it as 'simply a much fairer way of funding health cover so that people pay according to their income'. The Medicare levy is progressive - individuals on higher incomes pay more than people on lower

Table 1. Taxable Income and Medicare Levy, 1992-93

Decile	Taxable income (\$ p.a.)	Cumulative number of taxpayers (a)	Medicare levy paid	
			Average per taxpayer (\$)	Total (\$m.)
1st	Under 15 194	598 445	152.06	91
2nd	15 194 — 18 473	1 196 890	217.23	130
3rd	18 474 — 21 420	1 795 335	248.98	149
4th	21 421 — 24 080	2 393 780	277.39	166
5th	24 081 — 27 313	2 992 225	334.20	200
6th	27 314 — 30 849	3 590 669	367.05	220
7th	30 850 — 34 384	4 189 114	369.29	221
8th	34 385 — 41 414	4 787 559	477.90	286
9th	41 415 — 49 180	5 386 004	507.95	304
10th	49 181 and over	5 984 449	882.29	528
All		5 984 449	383.49	2295

(a) Each decile contains 598 444.9 taxpayers.

Note:

- i. The lowest 70 % of taxable income recipients who pay the Medicare levy pay 51 % of total revenue from the levy.
- ii. The highest 30 % of taxable income recipients who pay the Medicare levy pay 49 % of total revenue from the levy.
- iii. All figures are estimates only.

Source: *Taxation Statistics*, 1992-93, Australian Taxation Office.

incomes. Table 1 illustrates this point, providing a breakdown of revenue raised by the Medicare levy in 1992-93 (the latest year for which taxation statistics are available) in different deciles, as well as an average levy paid per taxpayer in each decile. As Table 1 indicates, an individual with a taxable income above \$49 180 per annum paid an average Medicare levy of \$882.29 in 1992-93 while an individual with a taxable income in the range \$30 850 - \$34 384 paid an average Medicare levy of \$369.29.

Revenue

Although the Medicare levy can be described as just another means of raising revenue, the fact that it is earmarked for Medicare tends to give people the impression that they are paying for their health costs. However, the levy

raises only a minor portion of the funds the Commonwealth government spends on Medicare. Table 2 below indicates the revenue raised by the Medicare levy for each year since Medicare began in 1984 as well as Medicare outlays and outlays by the Commonwealth government on health. The revenue raised by the Medicare levy is expressed both as a percentage of Medicare outlays and also as a percentage of Commonwealth health outlays.

Table 2 illustrates that revenue from the Medicare levy has consistently failed to match spending by the Commonwealth on Medicare. The highest proportion (but still less than 35 per cent) was achieved in 1989-90.

Even allowing for the latest increase to 1.5 per cent of taxable income from 1 July 1995, the Medicare levy will raise less than

one-third of the Commonwealth's outlays on Medicare in 1995-96 and less than one-fifth of its outlays on health.

**Paul Mackey & Geoff Winter
Social Policy Group
Parliamentary Research
Service**

Phone: 06 277 2412
Fax: 06 277 2407

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Parliamentary Research Service and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues.

© Commonwealth of Australia

Table 2. Medicare Levy and Commonwealth Health Outlays

Year	Medicare levy (\$m.) (1)	Medicare outlays (\$m.) (2)	Commonwealth health outlays (\$m.) (3)	Medicare levy as prop. of Medicare outlays (1/2,%) (4)	Medicare levy as prop. of Commonwealth health outlays (1/3,%) (5)
1983-84	(a)365	(b)3 282	5 575	(c)	(c)
1984-85	1 223	4 941	7 481	24.8	16.3
1985-86	1 335	5 537	8 341	24.1	16.0
1986-87	1 715	5 917	9 138	29.0	18.8
1987-88	2 080	6 390	10 062	32.6	20.7
1988-89	2 320	6 825	10 767	34.0	21.5
1989-90	2 545	7 467	11 905	34.1	21.4
1990-91	2 480	8 178	12 939	30.3	19.2
1991-92	2 385	8 657	13 842	27.5	17.2
1992-93	(d)2 415	9 321	14 830	25.9	16.3
1993-94	2 870	10 088	16 116	28.4	17.8
1994-95(e)	3 040	10 812	17 228	28.1	17.6
1995-96(e)	3 600	11 340	18 420	31.7	19.5

- (a) Medicare was introduced on 1 February 1984.
- (b) Full-year outlays on items included under the Medicare arrangements.
- (c) Not applicable.
- (d) Includes collections from sources not included in Table 1.
- (e) Estimates.

Source: Budget Paper No. 1, Budget Statements, various years.