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No. 163 2003–04

## Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2004

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Tax Laws Amendment (Medicare Levy and Medicare Levy  
Surcharge) Bill 2004

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18 June 2004

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# Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2004

**Date Introduced:** 27 May 2004

**House:** House of Representatives

**Portfolio:** Treasury

**Commencement:** On the date of Royal Assent

## Purpose

This Bill proposes to ensure that low income individuals and families will not continue to have to pay the Medicare levy or surcharge by increasing the low income thresholds above which each of these must be paid.

## Background<sup>1</sup>

This Bill amends the *Medicare Levy Act 1986 (MLA 1986)* and the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999 (MLS-FBA 1999)* to increase the Medicare levy low income threshold amounts for individuals, families and pensioners below age pension age. It also increases the phase-in limits as a result of the increased threshold amounts.

## Changes to Medicare levy and phase-in limits

This Bill will increase both the low income exemption thresholds and the phase-in limits that apply to individuals, married people, single parents and pensioners below age pension age, for the 2003-04 year of income and subsequent years. The increases are set out in Table 1.1 of the [Explanatory Memorandum](#) to the Bill (reproduced below). The current figures for 2002-03 are shown in parentheses in the table.

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**Table 1.1: 2003-2004 Medicare levy low income threshold amounts and shading-in ranges**

| <i>Category of taxpayer</i>                                       | <i>No levy payable if taxable income or family income does not exceed (figure for 2002-2003)</i> | <i>Reduced levy if taxable income or family income is within range (inclusive)</i> | <i>Ordinary rate of levy payable where taxable income or family income exceeds (figure for 2002-2003)</i> |
|---|--|--|---|
| Individual taxpayer   | \$15,529 (\$15,062)  | \$15,530-\$16,788  | \$16,788 (\$16,283)   |
| Pensioner under age pension age                                   | \$18,141 (\$17,164)  | \$18,142-\$19,611  | \$19,611 (\$18,555)   |
| Families <sup>2</sup> with the following children and/or students | (family income)  | (family income)  | (family income)   |
| 0   | \$26,205 (\$25,417)  | \$26,206-\$28,329  | \$28,329 (\$27,477)   |
| 1   | \$28,611 (\$27,751)  | \$28,612-\$30,930  | \$30,930 (\$30,001)   |
| 2   | \$31,017 (\$30,085)  | \$31,018-\$33,531  | \$33,531 (\$32,524)   |
| 3   | \$33,423 (\$32,419)  | \$33,424-\$36,132  | \$36,132 (\$35,047)   |
| 4   | \$35,829 (\$34,753)  | \$35,830-\$38,734  | \$38,734 (\$37,570)   |
| 5   | \$38,235 (\$37,087)  | \$38,236-\$41,335  | \$41,335 (\$40,094)   |
| 6   | \$40,641 <sup>3</sup> (\$39,421)   | \$40,642 <sup>4</sup> -\$43,936 <sup>5</sup>                                       | \$43,936 <sup>6</sup> (\$42,617)  |

### Medicare levy low income threshold

Since 1984, Australian residents have been liable to pay a Medicare levy based on the amount of their individual taxable income for the income year. The rate of the Medicare levy for the 2003-2004 income year is 1.5% of taxable income.

The *MLA 1986* exempts low income individuals and families from payment of the Medicare levy where taxable income or combined family taxable income does not exceed stated threshold amounts.

The taxable income levels below which the exemptions apply (the low income exemption threshold) is regularly adjusted in line with movements in the CPI.<sup>7</sup> Different low income exemption thresholds apply for individuals, married people and single parents. The threshold for people with dependant children increases by a set amount per child.

### Phase-in limits

Where an individual, married person or single parent's taxable income is within a certain range above the low income exemption threshold, the Medicare levy applies, but at a reduced rate. This is known as 'shading-out' the exemption. Above the low income

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exemption threshold, but below what is termed the ‘phase-in’ limit, the Medicare levy is payable at a maximum rate of 20 cents in every dollar where the taxable income exceeds the low income exemption threshold. The phase-in limit varies according to whether the taxpayer is single or married, and increases by a specified amount according to the number of dependant children. The phase-in limit is also regularly adjusted in line with movements in the CPI.

### Changes to Medicare levy surcharge low income thresholds

Since 1997, a Medicare levy surcharge of one percent has been applied to taxable income in certain cases where taxpayers do not have private patient hospital insurance. This surcharge also applies to reportable fringe benefits in certain cases where taxpayers do not have private patient hospital insurance.

Unlike the Medicare levy, which is calculated on the taxable income of individuals, the surcharge applies to both individual and family taxable income (in the case of families, the surcharge applies to families with a combined taxable income above a threshold of \$100 000 plus \$1 500 for each child after the first). For example, in the case of a two-income family with two children not covered by private health insurance, where one parent earns a taxable income of \$88 500 and the other parent a taxable income of \$15 000, a one percent Medicare levy surcharge is levied on both taxable incomes, because the family's taxable income is above the threshold of \$101 500 which applies to a family with two dependant children.

An exemption from the surcharge applies in the case of an individual family member earning below the low income Medicare levy threshold but whose family taxable income is above the threshold at which the Medicare levy surcharge applies.

This Bill proposes that the Medicare levy surcharge exemption threshold be increased in line with the individual low income exemption threshold for the Medicare levy. Continuing the example above, if one parent earns a taxable income of \$88 500 and the other parent a taxable income of \$15 520 (i.e. below the proposed low income threshold of \$15 529) the Medicare levy surcharge does not apply to the parent earning \$15 520 despite the combined taxable income of the family being above the surcharge threshold of \$101 500.

The income thresholds above which the Medicare levy surcharge applies are not indexed to movements in the consumer price index, nor do shade-out ranges apply.

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## Main Provisions

### Increases in Medicare levy low income thresholds

Subsection 7(1) of the *MLA 1986* provides that no Medicare levy is payable where a taxpayer has a taxable income at, or below, the applicable threshold amount as specified in subsection 3(1) of the Act:

- **Item 6** of the Bill raises the threshold amount applicable to **individual taxpayers** by changing the threshold amount specified in paragraph (c) of that subsection 3(1) definition, increasing it from \$15 062 to \$15 529.
- **Item 5** raises the threshold amount applicable to **pensioners who are under age pension age** by changing the threshold amount specified in paragraph (b) of that subsection 3(1) definition, increasing it from \$17 164 to \$18 141.

Subsections 8(5)-(7) of the *MLA 1986* establish the low income threshold at, or below, which married people and those with dependants are not liable to pay the Medicare levy:

- **Items 7, 9 and 10** will increase this ‘family income threshold’ from \$25 417 to \$26 205.
- **Item 8** will increase the ‘family income threshold’ by a further \$2 406 for each dependent child or student, instead of the current \$2 334 per dependant.

### Increases in phase-in limits

Subsection 7(2) of the *MLA 1986* provides that the Medicare levy is payable at a reduced rate where a taxpayer has a taxable income above the threshold amount, but not more than the phase-in limit specified in subsection 3(1):

- **Item 4** of the Bill changes the phase-in limit for **individual taxpayers** to whom paragraph (c) of that subsection 3(1) definition applies, increasing the phase-in limit from \$16 283 to \$16 788.
- **Item 3** changes the phase-in limit for **pensioners who are under age pension age** to whom paragraph (b) of the subsection 3(1) definition applies, increasing the phase-in limit from \$18 555 to \$19 611.

### Increases in Medicare levy surcharge thresholds

- Items 11 to 14 of the Bill increase the individual low income threshold amount in the Medicare levy surcharge provisions, in relation to the surcharge payable in respect of **taxable income**. The relevant provisions are paragraph 8D(3)(c), subparagraph

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8D(4)(a)(ii) and paragraph 8G(2)(c) of the *MLA 1986*. The threshold amount will increase from \$15 062 to \$15 529.

- Items 1 and 2 increase the individual low income threshold amount in the Medicare levy surcharge provisions, in relation to the surcharge payable in respect of **reportable fringe benefits**. The relevant provisions are paragraphs 15(1)(c) and 16(2)(c) of the *MLS – FBA 1999*. This threshold amount will also increase from \$15 062 to \$15 529.

## Endnotes

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- 1 The Background and Main Provisions sections of this Digest draw on Bills Digests by Natasha Cica on the *Taxation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2002* ([Bills Digest No 153 of 2001-02](#)); and Lee Jones and Paul Mackey on the *Medicare Levy Amendment Bill* (No.2) 1997 ([Bills Digest No 117 of 1997-98](#)).
- 2 According to Footnote 1 of Table 1.1 of the [Explanatory Memorandum](#) to the Bill, 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.
- 3 According to Footnote 1 of Table 1.1 of the [Explanatory Memorandum](#) to the Bill, where there are more than six dependent children or students, add \$2,406 for each extra child or student.
- 4 See note 3.
- 5 According to Footnote 1 of Table 1.1 of the [Explanatory Memorandum](#) to the Bill, where there are more than six dependent children or students, add \$2,601 for each extra child or student.
- 6 See note 5.
- 7 See *Medicare Levy Amendment Bill (No 2) 1997*, *Medicare Levy Amendment (CPI Indexation) Bill 1999*, *Medicare Levy Amendment (CPI Indexation) Bill (No 2) 2000*, *Taxation Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Bill 2002*.

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