

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 2 June – 4 June 2009

**Question: bet 45**

**Topic: Private Health Insurance Rebate Legislation**

**Hansard Page: E114**

**Senator Cormann asked:**

**Senator CORMANN**—Let us just assume that the law says that, if you earn more than \$75,000 per annum, you will no longer be eligible for the 30 per cent rebate but you will be eligible for the 20 per cent rebate. That is the legislation that is in front of us. That is in the budget and we are asked to assess the budget and whether what is in it will work. How will you know whether somebody will be eligible for the 20 per cent rebate, the 10 per cent rebate or no rebate at all?

**Mr D'Ascenzo**—Again, I could take that on notice and come back and provide you with what we have available at this point in time.

**Senator CORMANN**—That would be very much appreciated. In your information on notice could you also tell me how you will be dealing with one-off income events, such as capital gains, eligible termination payments on loss of jobs, and final entitlements on retirements? These are all things that could take you over and above a particular income bracket.

**Mr D'Ascenzo**—I understand.

**Senator CORMANN**—Do you understand the problem?

**Mr D'Ascenzo**—I understand the issues.

**Senator CORMANN**—How is that going to be assessed?

**Mr D'Ascenzo**—These are the sorts of issues that we have to work out ultimately to make the legislation work.

**Senator CORMANN**—At this point in time these are not things that you have sorted out yet?

**Mr D'Ascenzo**—We have preliminary designs. This is why I am saying that perhaps there is some material that I can provide you of what we have in mind. But that is going to be based, at the end of the day, on what the legislation says.

**Senator CORMANN**—Thank you very much.

**Answer:**

When the taxpayer lodges their tax return the Australian Tax Office (ATO) will be able to determine their *income for surcharge purposes* and so assess their applicable private health insurance incentive tier. The ATO will also receive information from Medicare Australia detailing the amount of any premium reduction a taxpayer has obtained from their health insurer.

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The ATO will use the information to reconcile the taxpayer's private health insurance incentive tier to the appropriate allowable rebate to determine whether the taxpayer is entitled to a rebate or whether the taxpayer has an excess premium reduction liability.

If the taxpayer is single the income test is their *income for surcharge purposes*. In contrast, if the taxpayer is a member of a couple the income test is their combined *income for surcharge purposes*. *Income for surcharge purposes* includes the following components:

- taxable income
- reportable fringe benefits
- total net investment loss
- reportable super contributions.

A taxpayer's taxable income for *income for surcharge purposes* is the total of their taxable income and the net amount on which family trust distribution has been taxed, less any taxable component of a superannuation lump sum where the maximum tax rate is zero.

#### **Treatment of capital gains, eligible termination payments on loss of jobs, and final entitlements**

A range of tax concessions already apply in relation to the tax treatment of these one-off income events which will reduce the amount of income included as taxable income and, therefore, the amount included as *income for surcharge purposes*.