



**Australian Government**

**The Treasury**

## **Treasury submission to**

# **The Senate Standing Committee on Economics**

**Inquiry into the Tax Laws Amendment (Medicare levy  
surcharge thresholds) Bill 2008**

**July 2008**

### ***Operation of the Medicare Levy Surcharge***

The Medicare levy surcharge (MLS) came into effect from 1 July 1997 and was introduced as part of a package of measures that were designed to address the decline in the number of Australians taking out private health insurance.

The other key element of the package was the Private Health Insurance Incentive Scheme which provided a means tested rebate on private health insurance premiums. This scheme was later replaced by the Private Health Insurance Rebate (hereafter, rebate) in January 1999, which provided a universally available rebate on private health insurance premiums. Since that time further measures have been introduced to encourage individuals to take out private health insurance including a higher rate of rebate for individuals over 65 years of age and Lifetime Health Cover.

As originally enacted, the MLS imposed an additional one per cent Medicare levy on single people with taxable incomes greater than \$50,000 and couples/families with combined taxable incomes greater than \$100,000 (plus \$1,500 per child after the first child) who did not have a appropriate level of private patient hospital cover for themselves and all family members.

The thresholds for the MLS have remained the same since that time, while average weekly earnings have increased significantly.

The *Tax Laws Amendment (Medicare levy surcharge thresholds) Bill 2008* proposes to increase the thresholds for individuals to \$100,000 and to \$150,000 for couples/families from 1 July 2008. This measure implements the Government's policy of supporting a universal system of health insurance funded through a combination of general taxation and a Medicare levy based on ability to pay.

When the MLS was introduced it is estimated that around eight per cent of single taxpayers exceeded the singles threshold of \$50,000. Around nine per cent of single taxpayers are projected to exceed the new singles threshold of \$100,000 in 2011-12. Around 45 per cent of single taxpayers are projected to exceed the singles threshold if it remains at \$50,000.

### ***Impact on private health insurance***

The measure will result in a net cost saving to the Government of around \$300 million over the forward estimates period. There are two direct cost impacts:

- an estimated revenue loss of \$660 million over the forward estimates period arising from a reduction in the number of people liable for the MLS; and
- an estimated fall in expense of \$959.7 million arising from a reduction in the number of people who receive the Private Health Insurance Rebate.

Consistent with the Charter of Budget Honesty costing guidelines, the costings do not take account of second round effects of the change. The basis for the costing of the revenue and expense impacts are outlined below

### ***Costing methodology***

The costing methodology is comprised of two parts: the revenue impact from the increase in the thresholds; and the expense side impact, which relates to a reduction in private health rebate outlays as a result of lower private health insurance coverage.

The revenue costing is based on Treasury's personal income tax micro-simulation model, which uses confidentialised sample personal income tax data provided by the Australian Tax

Office (ATO). The model estimates that around 400,000 taxpayers will no longer be liable for MLS. After allowing for timing of revenue collections, it is estimated that the measure will lead to a decrease to revenue of \$660 million over the forward estimates period (2008-09 to 2011-12).

The expense costing uses confidentialised sample personal income tax data provided by the ATO to estimate the number of tax-filers who are either single or part of a family in 2008-09 who have Private Health Insurance (PHI) cover and also have incomes that fall between the existing MLS threshold and the new MLS threshold.

Data from a number of sources, including the 2004-05 ABS National Health Survey and Ipsos Health Care & Insurance Australia 2007 report data, was used to estimate the proportion of these people who will opt out of private health insurance as a result of the policy change.

The most recent data on PHI premiums was used to inform the estimate of the average rebate amount for those who opt out of PHI. These estimates also had regard to the high proportion of people who have combined hospital and extras cover. Private Health Insurance Administration Council (PHIAC) data from 2006-07 indicates that over 84 per cent of people with private hospital cover also have extras cover. As PHIAC themselves note, this figure is likely to be even higher in reality, as individuals or families who purchase hospital and extras cover from separate PHI providers are included in this estimate.

The financial impact of premium growth on the forward estimates for the private health insurance rebate is currently allocated to the Contingency Reserve. The savings from this measure relating to the projected premium growth has also been allocated to the Contingency Reserve.

#### ***Impact of the proposed change on PHI coverage***

Using the data and assumptions above, it is estimated that around 186,000 singles and around 149,000 families (or around 484,000 adults in total) will opt out of PHI cover as a result of the changes to the MLS thresholds.

#### ***Impact of the proposed change on PHI premiums***

The modelling takes account of the direct impact of the change in surcharge thresholds on the decision of individuals to retain private health cover. The modelling does not include any assumptions over possible effects of a one-off reduction in membership on future premiums as a result of this policy. Any effects on future premiums are deemed to be second round effects from the policy, entail a great degree of uncertainty and would be difficult to quantify. The exclusion of such second round effects from the costing is in accordance with Charter of Budget Honesty costing guidelines.

#### ***Government initiatives for the public hospital system***

The Government is providing additional support to the public hospital system. The Government's \$3.2 billion for the *National Health and Hospitals Reform Plan* includes \$600 million to reduce effective surgery waiting lists in public hospitals. The Budget also provides an immediate injection of \$1 billion to relieve pressure on public hospitals. In addition, the Government will establish a Health and Hospitals Fund with an initial allocation of \$10 billion, to ensure long-term funding for hospitals, medical technology and research facilities.

### ***Financial Implications***

The financial implications of this increase in the MLS thresholds is as outlined on page 33 of Budget Paper 2 in the 2008-09 budget. These impacts are shown in the table below:

Revenue (\$m)	2007-08	2008-09	2009-10	2010-11	2011-12
Australian Tax Office	-	-	-195.0	-235.0	-230.0
Related expense (\$m)	-	-232.0	-236.5	-245.6	-245.6
Department of Health and Ageing					
Related capital (\$m)	-	0.4	0.1	0.1	0.1
Department of Health and Ageing					