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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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MEDICARE LEVY AMENDMENT BILL 1995

FRINGE BENEFITS TAX AMENDMENT BILL 1995

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EXPLANATORY MEMORANDUM

(Circulated by authority of the  
Treasurer, the Hon Ralph Willis, MP)







## ***General outline and financial impact***

### **AMENDMENT OF THE MEDICARE LEVY ACT 1986**

#### **Medicare levy rate increase and increases in low income thresholds**

The Medicare Levy Amendment Bill 1995:

- increases the rate of Medicare levy from 1.4% to 1.5%
- raises the low income thresholds for individuals, married couples and sole parents. Persons with a taxable income (or family income) below the Medicare levy low income thresholds are not required to pay the levy.

***Date of effect:*** 1 July 1995

***Proposal announced:*** 1995-96 Budget, 9 May 1995

***Financial impact:*** The benefit to revenue of the increase in the Medicare levy is estimated to be \$230 million in 1995-96, \$240 million in 1996-97, \$260 million in 1997-98 and \$280 million in 1998-1999. The estimated cost of raising the low income thresholds will be \$10 million in each of the years 1995-96, 1996-97, 1997-98 and 1998-99.

***Compliance cost impact:*** There are no additional compliance costs for taxpayers generally. Additional up front compliance costs will be incurred by employers when they adjust their payroll systems to take into account the new rates for PAYE purposes.

#### **Technical amendment**

Makes a minor technical amendment to the Act to correct a consequential amendment which had been overlooked when the Medicare levy rate was

increased from 1.25% to 1.4% from 1 July 1993. The amendment reduces liability for the levy by increasing the upper threshold amount for the payment of the Medicare levy by trustees of certain trust estates for the period 1 July 1993 to 30 June 1995.

***Date of effect:*** 1 July 1993 until 30 June 1995

***Proposal announced:*** Not previously announced

***Financial impact:*** Nil

***Compliance cost impact:*** The measure will have no impact on compliance costs.

## **AMENDMENT OF THE FRINGE BENEFITS TAX ACT 1986**

### **Fringe benefits tax rate increase**

The Fringe Benefits Tax Amendment Bill 1995 increases the fringe benefits tax rate from 48.4% to 48.475% effective from 1 April 1995 with a subsequent increase in the rate from 48.475% to 48.5% effective from 1 April 1996.

***Date of effect:*** 1 April 1995 (for increase to 48.475%) and 1 April 1996 (for increase to 48.5%)

***Proposal announced:*** 1995-96 Budget, 9 May 1995

***Financial impact:*** The benefit to revenue is estimated to be \$5 million in each of the fringe benefits tax years 1995-96, 1996-97, 1997-98 and 1998-99.

***Compliance cost impact:*** The compliance costs impacts of this measure will be negligible.

## ***Medicare levy rate increase and increases in low income thresholds***

### **Overview**

1.1 The Medicare Levy Amendment Bill 1995 will amend the *Medicare Levy Act 1986* (the Act) to increase the rate of the Medicare levy and raise the low income thresholds for individuals, married couples and sole parents. It will also make a minor technical amendment to the Act to make a consequential amendment which was overlooked when the rate was changed from 1 July 1993.

### **Summary of the amendments**

#### **Purpose of the amendments**

- 1.2 The amendments will :
- amend section 6 of the Act to increase the Medicare levy rate from 1.4% to 1.5%;
  - amend sections 7 and 8 of the Act to raise the low income thresholds for individuals, married couples and sole parents;
  - amend subsection 7(4) of the Act to increase from \$443 to \$447 the upper limit threshold for trustees of certain trust estates liable to pay the Medicare levy for the period 1 July 1993 to 30 June 1995.

#### **Date of effect**

1.3 The amendment to the Medicare levy rate and the low income thresholds will apply from 1 July 1995. The minor technical amendment will have effect for the period 1 July 1993 to 30 June 1995.

## **Background to the legislation**

### **Medicare levy rate**

1.4 Under existing law the Medicare levy is assessed at a rate prescribed in the Act. There is provision for separate prescription of the rate of levy payable by:

- individual taxpayers;
- the trustee of a trust estate on trust income assessable under section 98 of the *Income Tax Assessment Act 1936* (ITAA). Trustees are liable to be assessed under section 98 where a beneficiary is presently entitled to the income but under a legal disability, for example infancy.
- the trustee of a trust estate on trust income assessable under section 99 or 99A of the ITAA. Under those sections a trustee is assessable on trust income to which no beneficiary is presently entitled.

### **Low income threshold and shading-in of full levy rate**

1.5 The Act makes provision for individuals and couples below certain levels of taxable income (or family income) to be exempt from the levy. The thresholds, based on pension levels, associated income test free areas and income limits, have the objective of exempting from liability for the Medicare levy persons who would have been entitled to free medical care prior to the introduction of Medicare. Except for trustees assessed under section 99A of the ITAA, the full rate of levy is shaded-in for a limited range above the low income thresholds.

### **Technical amendment**

1.6 Subsection 6(3) of the Act specifies the rate of Medicare levy payable by the trustee of a trust estate upon the net income of the trust assessed under section 99 or 99A of the ITAA. Subsection 7(3) of the Act specifies a lower threshold of \$416 for the net income assessed under section 99 for which no Medicare levy is payable. Subsection 7(4) of the Act provides an upper shading-in threshold for the payment of the full rate of the levy by the trustee assessed under section 99. The upper limit of the threshold is calculated with reference to the shading-in rate of 20% of the excess over the levy threshold and the rate of the levy payable by a trustee pursuant to section 6 of the Act.

1.7 The *Medicare Levy Amendment Act (No. 2) 1992* amended section 6 of the Act to provide that the rate of the Medicare levy would be increased to 1.4% in respect of the financial year commencing on 1 July 1993 and subsequent financial years. However the consequential

amendment to the upper threshold amount in subsection 7(4) was overlooked at that time.

## Explanation of the amendments

### Medicare levy rate

1.8 The Bill proposes to amend the three subsections of section 6 of the Act, corresponding to the three groups of taxpayers liable to pay the levy, by omitting '1.4%' and substituting '1.5%'. This will increase the rate of Medicare levy payable by those taxpayers from 1.4% to 1.5% [*Item 1 of Schedule 2*]. This amendment and the other amendments in the Bill are contained in *clause 3* of the Bill, with details contained in *Schedules* to the Bill.

### Low income thresholds and shading-in of full levy rate

1.9 The threshold for individuals and couples will be increased for 1995-96 and subsequent financial years.

1.10 Section 7 of the Act exempts individuals on incomes at or below the low income threshold from any liability for the Medicare levy. It also shades in the levy for those individual taxpayers with taxable incomes within a certain range over the threshold.

1.11 The level of this threshold (subsection 7(1) of the Act) is to be increased from \$12,688 to \$12,870. [*Item 2 of Schedule 2*]

1.12 The shading-in range will be amended for individual taxpayers so that a reduced levy will be payable if the taxable income exceeds \$12,870 but does not exceed \$13,913. [*Items 3 and 4 of Schedule 2*]

1.13 *Item 5 of Schedule 2* increases the upper shading-in threshold amount from \$447 to \$450 for the payment of the Medicare levy by a trustee of a trust estate assessed under section 99.

1.14 Section 8 of the Act exempts from the Medicare levy a person who has a family if two conditions are satisfied, namely:

- the person is married or in a de facto relationship on the last day of the year of income; or
- the person is entitled to a sole parent rebate or a rebate for a housekeeper in his or her assessment in respect of a year of income and the family income (that is, the taxable income of the person plus that of his or her spouse, if any) in relation to the person does not exceed the family income threshold in relation to that person.

1.15 The level of the 'family income threshold' for a taxpayer is to be increased from \$21,366 to \$21,718 **[item 8 of Schedule 2]**. The level of that threshold for a year of income will continue to be increased by a further \$2,100 for each dependent child or student. (The child or student must be one in respect of whom the taxpayer or spouse would have been entitled to a dependant rebate in that year had those rebates been continued.)

1.16 Subsection 8(2) 'shades in' the full rate of the levy payable by a couple, or a sole parent, where the couple or sole parent is not entitled to exemption from the levy because the family income exceeds the family income threshold by a small or moderate amount. In such circumstances the amount of levy otherwise payable by the taxpayer is to be reduced in accordance with the formula specified in the subsection. The effect of the subsection is to limit the levy payable by the taxpayer to 20 per cent of the amount of family income which exceeds the family income threshold.

1.17 The increase in the rate of levy makes necessary the amendment of figures used in the formula to ensure that the formula continues to give the intended result. This will be achieved by omitting from the formula in subsection 8(2) '0.186' and substituting '0.185' and omitting '1.4%' from the definition of component A of the formula and substituting '1.5%'.  
**[Items 6 and 7 of Schedule 2]**

1.18 Subsection 8(6) of the Act places a restriction on increasing the 'family income threshold' on account of certain dependants in respect of a year of income. The restriction applies only where the taxpayer was not a married person on the last day of the year of income. In these circumstances the 'family income threshold' is not increased on account of a dependant unless a family allowance was payable to the taxpayer in respect of the dependant. The 'family income threshold' is to be increased in this subsection from \$21,366 to \$21,718. **[Item 9 of Schedule 2]**



1.19 The 1995-96 low income thresholds and shading-in ranges will therefore be as shown in the following table:

Category of taxpayer	No levy payable if taxable income (or family income) does not exceed (Previous figures)	Reduced levy if taxable income (or family income) is within the range (inclusive)	Ordinary rate of levy payable where taxable income (or family income) exceeds (Previous figures)
Individual taxpayer	\$12,870 (\$12,688)	\$12,871 - \$13,913	\$13,913 (\$13,643)
Married taxpayer* with the following number of children	(family income)	(family income)	(family income)
None	\$21,718 (\$21,366)	\$21,719 - \$23,478	\$23,478 (\$22,974)
1	\$23,818 (\$23,466)	\$23,819 - \$25,749	\$25,749 (\$25,232)
2	\$25,918 (\$25,566)	\$25,919 - \$28,019	\$28,019 (\$27,490)
3	\$28,018 (\$27,666)	\$28,019 - \$30,289	\$30,289 (\$29,748)
4	\$30,118 (\$29,766)	\$30,119 - \$32,560	\$32,560 (\$32,006)
5	\$32,218 (\$31,866)	\$32,219 - \$34,830	\$34,830 (\$34,264)
6	\$34,318** (\$33,966**)	\$34,319** - \$37,100***	\$37,100*** (\$36,522)***

\* or taxpayer entitled to a sole parent, child/housekeeper or housekeeper rebate.

\*\* add \$2,100 for each extra child

\*\*\* add \$2,270 for each extra child previously \$2,258.

1.20 The amendments will apply for the financial year commencing on 1 July 1995 and all later years. *[Item 10 of Schedule 2]*

## Technical amendment

1.21 The Bill proposes to amend the Act to increase the upper limit of the shading-in threshold for the payment of the levy by the trustee of a trust estate assessed under section 99 for the 1993-94 and 1994-95 financial years.

1.22 This amendment was overlooked when the rate changed from 1 July 1993. Because of this and because the intention of the law was clear, the Commissioner of Taxation has been applying the increased threshold of \$447 in relevant assessments to the benefit of those taxpayers. Consequently neither taxpayers nor the revenue should in fact be affected by this amendment.

1.23 *Item 1 of Schedule 1* increases the upper limit of the phasing-in threshold from \$443 to \$447. The amendment will apply for the financial years commencing on 1 July 1993 and 1 July 1994 *[item 2 of Schedule 1]*.



## **Fringe benefits tax rate increase**

### **Overview**

2.1 The Fringe Benefits Tax Amendment Bill 1995 will amend the *Fringe Benefits Tax Act 1986* (the Act) to increase the rate of fringe benefits tax (FBT).

### **Summary of the amendments**

#### **Purpose of the amendments**

2.2 The amendments will amend section 6 of the Act to increase the rate of tax from 48.4% to 48.475% for the FBT year commencing 1 April 1995. From 1 April 1996 and all later FBT years the rate will be 48.5%.

#### **Date of effect**

2.3 The amendment to increase the rate to 48.475% will apply from 1 April 1995. The amendment to increase the rate to 48.5% will apply from 1 April 1996.

### **Background to the legislation**

2.4 The rate of FBT is set by section 6 of the Act. It imposes tax in respect of the value of certain fringe benefits provided in respect of the employment of employees.

2.5 The FBT rate is to be adjusted in line with the change from 1.4% to 1.5% in the Medicare levy rate from 1 July 1995. However, to avoid two different rates in the 1995-96 FBT year of tax, the rate to apply to the year commencing 1 April 1995 will be a composite rate of 48.475%. From 1 April 1996 and all later FBT years the rate will be increased to 48.5%.

## **Explanation of the amendment**

2.6 The amendments in the Bill are contained in **clause 3**. Details of the amendments are in the **Schedules** to the Bill.

2.7 The Bill proposes to amend section 6 of the Act by increasing the FBT rate from '48.4%' to '48.475%' **[item 1 of Schedule 1]**. This amendment will apply to the FBT year of tax beginning on 1 April 1995 **[item 2 of Schedule 1]**.

2.8 The Bill further amends section 6 of the Act by increasing the FBT rate from '48.475%' to '48.5%' **[item 1 of Schedule 2]**. This amendment will apply to the FBT year of tax beginning on 1 April 1996 and all later FBT years **[item 2 of Schedule 2]**.







