

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

MEDICARE LEVY AMENDMENT BILL 1996

INCOME TAX ASSESSMENT AMENDMENT BILL 1996

EXPLANATORY MEMORANDUM

(Circulated by authority of the
Treasurer, the Hon Peter Costello, MP)





General outline and financial impact

MEDICARE LEVY AMENDMENT BILL 1996

The Medicare Levy Amendment Bill 1996 will:

- increase the rate of Medicare levy from 1.5% to 1.7% for the 1996-97 income year only
- make members of the Defence Force liable to a proportion of the full Medicare levy, equivalent to a rate of 0.2%, for the 1996-97 income year only.

Date of effect: 1 July 1996, applying for the 1996-97 year of income only.

Proposal announced: The increase in rate from 1.5% to 1.7% was announced in the Prime Minister's press release dated 14 May 1996. The Prime Minister announced in Parliament on 20 May 1996 that Defence Force members would also pay a proportion of the Medicare levy.

Financial Impact: The benefit to the revenue of the one-off increase in Medicare levy will be in the order of \$500 million.

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 and again when the rate decreases.

INCOME TAX ASSESSMENT AMENDMENT BILL 1996

The Income Tax Assessment Amendment Bill 1996 will make consequential amendments to the *Income Tax Assessment Act 1936*, in relation to the payment of a proportion of the Medicare levy by Defence Force personnel.

Date of effect: 1 July 1996, applying for the 1996-97 year of income only.

Proposal announced: The Prime Minister announced in Parliament on 20 May 1996 that Defence Force members would be subject to a proportion of the Medicare levy.

Financial Impact: The combined financial impact of this Bill with the Medicare Levy Amendment Bill 1996 will be a benefit to the revenue in the order of \$500 million.

Compliance cost impact: There are no additional compliance costs for taxpayers generally. Additional up front compliance costs will be incurred by the Defence Force when they adjust their payroll systems to take into account the new rate for PAYE purposes, and again when the levy ceases to apply to Defence Force personnel.

MEDICARE LEVY AMENDMENT BILL 1996

INCOME TAX ASSESSMENT AMENDMENT BILL 1996

Overview

1.1 The Medicare Levy Amendment Bill 1996 (the Bill) will amend the *Medicare Levy Act 1986* (the Act) to increase the rate of the Medicare levy for the 1996-97 income year only. In conjunction with amendments to be made by the Income Tax Assessment Amendment Bill 1996 (the ITAA Bill), the Bill will also make members of the Defence Force liable to a proportion of the full Medicare levy for the 1996-97 income year only.

Summary of the amendments

Purpose of the amendments

1.2 The amendments will raise revenue in connection with an agreed scheme between the Commonwealth and the States and Territories to remove certain guns from the community. In particular, the amendments will:

- amend section 6 of the Act to increase the Medicare levy rate from 1.5% to 1.7% for the 1996-97 income year only;
- make members of the Defence Force liable to pay a proportion of the full Medicare levy, equivalent to a rate of 0.2%, for the 1996-97 income year only.

Date of effect

1.3 The amendments to the Medicare levy rate and in respect of members of the Defence Force will apply from 1 July 1996, for the 1996-97 income year only.

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.
- a 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.

1.5 The Act makes provision for individuals and couples with taxable income (or family income) below certain levels to be exempt from the levy. The full rate of levy is shaded-in at 20 cents in the dollar for income above the low income thresholds. For a married person or a sole parent whose family income is just above the exemption level, the amount of levy payable is calculated in accordance with a formula, based on the Medicare rate, which gives effect to the shading-in arrangements.

Exemptions from Medicare levy

1.6 Some people are exempt from the Medicare levy for the period during which they meet certain conditions. This includes a person who is entitled to free medical treatment because the person is a member of the Defence Force, or is a relative of, or otherwise associated with, a member of the Defence Force.

1.7 Where, for a period, a person otherwise exempt from the Medicare levy has a dependant who is not exempt from the levy, the person is required to pay half of the normal levy.

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 "1.5%" and substituting "1.7%". This will increase the rate of Medicare levy payable by those taxpayers from 1.5% to 1.7%.

[Item 1 of Schedule 1] The amendments only apply for the 1996-97 income year **[Item 6 of Schedule 1 and Items 1 and 6 of Schedule 2]**

1.9 The increase in the rate of levy makes necessary the amendment of figures used in the formula referred to in paragraph 1.5, to ensure that the formula continues to give the intended result. This will be achieved by omitting from the formula in subsection 8(2) '0.185' and substituting '0.183' and omitting '1.5%' from the definition of component A of the formula and substituting '1.7%'. **[Items 2 and 3 of Schedule 1]**. These changes apply only for the 1996-97 income year **[Item 6 of Schedule 1]**. The figures revert to their previous levels for subsequent years consistent with the rate of Medicare levy reducing to 1.5% for those years **[Items 2, 3, 4 and 6 of Schedule 2]**

Members of the Defence Force

1.10 The ITAA Bill repeals paragraph 251U(1)(a) of the ITAA which makes certain Defence Force members and certain of their relatives and associates "prescribed persons", and so not subject to the levy. **[Item 3 of Schedule 1, ITAA Bill]** The persons covered are those who are entitled to free medical treatment because they are Defence Force members or relatives or associates of Defence Force members.

1.11 References to these Defence Force people as prescribed persons in subsection 251R(6A) and paragraph 251U(3)(b) of the ITAA are also omitted by the ITAA Bill. **[Items 1 and 5 of Schedule 1, ITAA Bill]**

1.12 The Bill inserts a new section 8A into the Act to provide for the amount of Medicare levy to be paid by certain members of the Defence Force and certain of their relatives and associates. **[Item 4 of Schedule 1]** The new section covers those persons who were previously prescribed persons under the ITAA - see new subsection 8A(1).

1.13 New subsection 8A(2) prescribes the amount of levy payable by a person to whom section 8A applies for the whole of the year, or to whom section 8A applies for only part of the year and the person is a prescribed person for the remainder of the year. The amount of levy payable by such a person is two-seventeenths of the levy otherwise payable under the Act. The amount calculated under this subsection is subject to section 9 of the Act, to take account of periods during which the person may have been a prescribed person, and in respect of which no levy is payable.

1.14 New subsection 8A(3) prescribes the amount of levy payable in circumstances where new subsection 8A(2) does not apply. The formula in the section tallies the days in respect of which either the reduced rate of levy (that is, two-seventeenths of the levy otherwise payable under the Act) or the normal rate of levy apply, to calculate the final levy payable.

The reduced levy calculated under the formula is referred to as the "defence component", and the amount of levy at the normal rate is referred to as the "ordinary component". Because the formula excludes the number of days on which the person is a prescribed person (so that no levy is payable in respect of those days), the amount calculated under this subsection is not subject to section 9 of the Act. **[Item 5 of Schedule 1]**

1.15 It may be noted that members of the Defence Force to whom the above calculations apply are subject to the same low income thresholds and phasing-in arrangements as other taxpayers.

1.16 New subsections 8A(4) and 8A(5) apply to certain Defence Force members who have dependants, to make them liable to pay half the normal levy, as well as half the reduced levy, in certain circumstances. The new subsections effectively mirror the existing arrangements for prescribed persons who have dependants who are not also prescribed persons.

1.17 A person to whom section 8A would otherwise apply during a period will be treated as a person to whom section 8A applies during only one half of that period, where the person has dependants who are not also covered by section 8A, and who are not prescribed persons. New subsections 8A(4) and 8A(5) will reduce by one half the number of days in respect of which the lower rate of Medicare levy is applicable for the purposes of calculations under subsections 8A(2) and 8A(3). The normal rate of levy would generally apply for those days.

1.18 To ensure that the existing rules relating to dependants, contained in subsections 251R(6A) - (6J) of the ITAA, apply for the purposes of new subsections 8A(4) and 8A(5), a new subsection 251R(6AA) will be inserted by the ITAA Bill 1996. **[Item 2 of Schedule 1, ITAA Bill]** This includes in the definition of an "eligible prescribed person" a person to whom new section 8A of the Act applies.

1.19 The amendments made in respect of certain Defence Force persons apply in respect of the 1996-97 income year only. **[Item 6 of Schedule 1 and Items 4, 5 and 6 of Schedule 2 of the Bill; Schedule 2 of the ITAA Bill]**

Example 1:

Vanessa is in the Navy for the whole of the 1996-97 income year and is entitled to free medical treatment. Her taxable income is \$40,000 and she has no dependants.

Vanessa's Medicare levy is calculated under new subsection 8A(2) as follows:

$$1.7\% \times \$40,000 \times \frac{2}{17} = \$80.$$

Example 2:

Vanessa is in the Navy until 31 December 1996 and, as a result, is entitled to free medical treatment during that period. From 1 January 1997, Vanessa becomes a prescribed person by reason of receipt of a Veteran's entitlement. Vanessa's taxable income for the year is \$40,000, and she has no dependants.

Vanessa's Medicare levy is calculated under subsection 8A(2) and section 9 as follows:

$$1.7\% \times \$40,000 \times \frac{2}{17} \times \frac{184}{365} = \$40.32$$

(There are 184 days between 1 July and 31 December inclusive.)

Example 3:

As for example 1, except that Vanessa has a dependant who does not derive any income, is not entitled to free medical treatment under Defence Force arrangements and is not a prescribed person.

Vanessa's Medicare levy is calculated under new subsection 8A(3) as follows:

- Defence Component
 $(182.5 \text{ days} \times (1.7\% \times 40,000)) \times \frac{2}{17} = 14,600$
- Ordinary Component
 $(182.5 \text{ days} \times (1.7\% \times 40,000)) = 124,100$

$$\frac{14,600 + 124,100}{365} = \$380 \text{ levy payable}$$

Example 4:

As for example 2, except that Vanessa has a dependant as outlined in example 3.

Vanessa's Medicare levy is calculated under new subsection 8A(3) as follows:

- Defence Component

$$(92 \text{ days} \times 1.7\% \times 40,000 \times \frac{2}{17}) = 7,360$$

(92 days is half of Vanessa's time in the Defence Force during the year, i.e. half of 184 days.)

- Ordinary Component

$$(182.5 \text{ days} \times 1.7\% \times 40,000) = 124,100$$

(182.5 days is half of Vanessa's time in the Defence Force during the year (92 days) plus half of her time as a prescribed person (90.5 days.)

$$\frac{7360 + 124,100}{365} = \$360.16 \text{ levy payable}$$

