

1998-99

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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MEDICARE LEVY AMENDMENT (CPI INDEXATION) BILL 1999

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EXPLANATORY MEMORANDUM

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

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## ***Table of contents***

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General outline and financial impact.....	1
Chapter 1 Indexing thresholds.....	3

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## **General outline and financial impact**

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### **Indexing thresholds**

This Bill will amend the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999*. This Bill will increase the Medicare levy low income thresholds for individuals, married couples and sole parents. It will also increase the Medicare levy surcharge low income threshold. The thresholds will increase in line with increases in the Consumer Price Index. This Bill will also increase the upper level of the shading-in of the Medicare levy for individuals as a result of the increased low income threshold.

***Date of effect:*** The increased Medicare levy low income thresholds will apply from the 1999-2000 year of income and later years of income.

***Proposal announced:*** The measure was announced in the Assistant Treasurer's Press Release No. 57 of 17 November 1999.

***Financial impact:*** The measure will cost the revenue \$1 million in 1999-2000, \$20 million in 2000-2001 and \$10 million in 2001-2002.

***Compliance cost impact:*** Compliance costs will be negligible.

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# Chapter 1

## Indexing thresholds

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### Outline of Chapter

1.1 This Bill will amend the *Medicare Levy Act 1986* (MLA 1986) and the *A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999* (ANTS (MLS-FB) 1999) to increase the Medicare levy low income exemption thresholds ('low income thresholds') for individuals, married couples and sole parents in line with Consumer Price Index (CPI) movements. It will also increase the Medicare levy shading-in thresholds as a result of the increased low income thresholds.

### Background to the legislation

1.2 The MLA 1986 provides an exemption from the Medicare levy for low income individuals and families. It does this by setting exemption thresholds for taxable and family income. A person whose income does not exceed the threshold is exempt from the levy. For couples and single parents, the threshold increases by \$2,100 for each dependent child or student. The levy shades in above the thresholds at a rate of 20 cents in the dollar.

1.3 A Medicare levy surcharge on taxable income and reportable fringe benefits of 1% applies in certain cases where taxpayers do not have adequate private hospital cover (sections 8B – 8G of the MLA 1986 and sections 12-16 of the ANTS (MLS-FB) 1999). However, a married person with a family income in excess of the family surcharge threshold is exempt from the surcharge where the sum of that person's taxable income and reportable fringe benefits does not exceed the individual low income threshold. Unlike the Medicare levy, there is no shading-in of the surcharge above this threshold.

### Summary of new law

1.4 The Medicare levy low income threshold to exempt individual taxpayers from the levy will be increased to \$13,550 for the 1999-2000 year of income. Individual taxpayers whose taxable income is above \$13,550 but does not exceed \$14,648 will be subject to a shading-in of the Medicare levy at the rate of 20% of the amount that their taxable income exceeds \$13,550.

1.5 The Medicare levy family income threshold exemption for the 1999-2000 year of income will increase to \$22,865 for a family with no children. Shading-in of the levy will occur for these families where family income does not exceed \$24,718. This threshold will increase by \$2,100 for each dependent child or student.

1.6 The threshold used to exempt family members with low income from the Medicare levy surcharge on their taxable income and reportable fringe benefits will also be increased to \$13,550.

## **Comparison of key features of new law and current law**

1.7 The level of the individual low income threshold (subsection 7(1) of the MLA 1986) will increase from \$13,389 to \$13,550. *[Item 3]*

1.8 The Medicare levy shading-in threshold for individuals contained in subsection 7(2) of the MLA 1986 will increase from \$14,474 to \$14,648. *[Item 4]*

1.9 The level of the family income threshold in subsections 8(5) and 8(6) of the MLA 1986 will increase from \$22,594 to \$22,865 *[items 5 and 6]*. The threshold will continue to be increased by a further \$2,100 for each dependent child or student.

1.10 References to the individual low income threshold of \$13,389 in the Medicare levy surcharge provisions (in sections 8D and 8G of the MLA 1986) in respect of the surcharge on taxable income will also increase to \$13,550. *[Items 7 to 9]*

1.11 References to the individual low income threshold of \$13,389 in the Medicare levy surcharge provisions (in sections 15 and 16 of the ANTS (MLS-FB) 1999) in respect of the surcharge on reportable fringe benefits will also increase to \$13,550. *[Item 1]*

## **Detailed explanation of new law**

### **Medicare levy**

1.12 This Bill proposes to increase the low income thresholds for individuals, married couples and certain sole parents for the 1999-2000 year of income and subsequent years of income. The increases are in line with movements in the CPI.

1.13 The increases reflect a 1.2% increase in the CPI for the 4 quarters for the year ending 31 March 1999.

### ***Individual taxpayers***

1.14 Section 7 of the MLA 1986 exempts individuals with taxable incomes equal to or below the low income threshold from any liability for the Medicare levy. It also applies the levy at a reduced rate for individual taxpayers with taxable incomes within a range of income above the exemption threshold (refer to paragraph 1.16).

1.15 This Bill will increase the Medicare levy low income threshold for individuals of \$13,389 in subsection 7(1) by 1.2% to \$13,550 for the 1999-2000 and later years of income.

1.16 Subsection 7(2) provides for a shading-in of the Medicare levy at the rate of 20 cents for each dollar in excess of the low income threshold of \$13,550. The full 1.5% of Medicare levy will be payable when the amount calculated using the shading-in rate of 20 cents for each dollar in excess of \$13,550 equals or exceeds the amount calculated on 1.5% of taxable income. This will occur when taxable income is \$14,649. Accordingly, the upper threshold for individuals contained in subsection 7(2) of the MLA 1986 will increase to \$14,648.

### ***Taxpayers with families***

1.17 Section 8 of the MLA 1986 exempts a person whose family income is below the family income threshold from the Medicare levy if:

- the person is married or in a defacto 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 for the relevant year of income.

1.18 If a person was married or in a defacto relationship on the last day of the year of income, family income is the taxable income of both the person and the person's spouse or defacto spouse. For a person who was not married or in a defacto relationship on the last day of the year of income and who is entitled to the relevant rebate, family income is the person's taxable income.

1.19 The level of the family income threshold in subsections 8(5) and 8(6) of the MLA 1986 will increase by the CPI increase of 1.2% to \$22,865 for a family without children. The threshold will continue to be increased by a further \$2,100 for each dependent child or student.

1.20 There is no shade-in threshold in the MLA 1986 for families as the threshold changes with the number of dependants. Instead subsection 8(2) of the MLA 1986 contains a formula that limits the levy payable by persons with families to 20% of the amount of family income that exceeds their family income threshold. Effectively, the formula will be relevant

only where family income is in the range \$22,866 to \$24,718 (families without dependent children or students). This range is increased for dependants as indicated in Table 1.1.

1.21 Table 1.1 shows the increased low income exemption thresholds and levy shading-in ranges that will apply for the 1999-2000 year of income and subsequent years of income.

**Table 1.1: 1999-2000 Medicare levy low income exemption thresholds and levy shading-in ranges**

<i>Category of taxpayer</i>	<i>No levy payable if taxable income or family income does not exceed (figure for 1998-1999)</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 1998-1999)</i>
Individual taxpayer	\$13,550 (\$13,389)	\$13,551 – \$14,648	\$14,648 (\$14,474)
Married taxpayer* with the following children and/or students	(family income)	(family income)	(family income)
0	\$22,865 (\$22,594)	\$22,866 – \$24,718	\$24,718 (\$24,425)
1	\$24,965 (\$24,694)	\$24,966 – \$26,989	\$26,989 (\$26,696)
2	\$27,065 (\$26,794)	\$27,066 – \$29,259	\$29,259 (\$28,966)
3	\$29,165 (\$28,894)	\$29,166 – \$31,529	\$31,529 (\$31,236)
4	\$31,265 (\$30,994)	\$31,266 – \$33,799	\$33,799 (\$33,507)
5	\$33,365 (\$33,094)	\$33,366 – \$36,070	\$36,070 (\$35,777)
6	\$35,465 (\$35,194)	\$35,466** – \$38,340***	\$38,340*** (\$38,047)

\* see paragraph 1.17

\*\* Where there are more than 6 dependent children or students, add \$2,100 for each extra child or student

\*\*\* Where there are more than 6 dependent children or students, add \$2,270 for each extra child or student

## **Medicare levy surcharge**

1.22 The individual Medicare levy low income threshold is also used for the purpose of raising Medicare levy surcharge on taxpayers' assessments for both taxable income and reportable fringe benefits. To be consistent with changes in the Medicare levy low income thresholds, the thresholds for the Medicare levy surcharge will also be increased to \$13,550.

## **Application**

1.23 The amendments will apply for the 1999-2000 year of income and all later years of income. *[Items 2 and 10]*