2010-2011-2012

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

tax laws amendment (medicare levy and medicare levy surcharge) bill 2012

EXPLANATORY MEMORANDUM

(Circulated by the authority of the
Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP)

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Glossary

The following abbreviations and acronyms are used throughout this explanatory memorandum.

|  |  |
| --- | --- |
| Abbreviation | Definition |
| the surcharge | Medicare levy surcharge |
| threshold amount | Medicare levy and Medicare levy surcharge low-income threshold amount |

General outline and financial impact

## Medicare levy and Medicare levy surcharge low-income thresholds

This bill amends:

* the *Medicare Levy Act 1986* to:
	+ increase the Medicare levy low‑income thresholds for individuals and families. The dependent child/student component of the family threshold will also be increased. These increases are in line with movements in the consumer price index; and
	+ increase the Medicare levy low‑income threshold for pensioners below age pension age so that they do not have a Medicare levy liability where they do not have an income tax liability; and
* the *A New Tax System (Medicare Levy Surcharge‑Fringe Benefits) Act 1999* to:
	+ increase the Medicare levy surcharge low‑income threshold in line with movements in the consumer price index; and
* the *Clean Energy (Tax Laws Amendments) Act 2011* to:
	+ reflect minor consequential amendments.

Date of effect: The increased Medicare levy and Medicare levy surcharge low-income thresholds apply for the 2011‑12 income year. The increased thresholds, which reflect changes in the consumer price index, ensure that relevant taxpayers do not incur a liability to the Medicare levy or Medicare levy surcharge. There are no adverse effects on taxpayers.

Proposal announced: This measure was announced in the 2012‑13 Budget.

Financial impact: This measure will have these revenue implications:

|  |  |  |  |
| --- | --- | --- | --- |
| 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| –$50m | –$12m | –$12m | –$11m |

Human rights implications: This Bill does not raise any human rights issue. See *Statement of Compatibility with Human Rights* — Chapter 1, paragraphs 1.24 to 1.27.

Compliance cost impact: Negligible.

1. Medicare levy and Medicare levy surcharge low‑income thresholds

## Outline of chapter

* 1. This Bill amends the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999* to increase the Medicare levy and Medicare levy surcharge low‑income threshold amounts (threshold amounts) for individuals, families and pensioners below Age Pension age. It also increases the phase‑in limits as a result of the increased threshold amounts.
	2. This Bill also makes minor consequential amendments to the *Clean Energy (Tax Laws Amendments) Act 2011*, to reflect the amendments to the threshold amounts for 2011‑12. These consequential amendments do not have any operative effect.

## Context of amendments

### Medicare levy low‑income thresholds

* 1. The *Medicare Levy Act 1986* provides that no Medicare levy is payable by low‑income individuals and families where their taxable income or combined family taxable income does not exceed the stated threshold amounts. The family income threshold increases by a set amount per child. The Medicare levy phases in at a rate of 10 cents in the dollar where the taxable income or combined family taxable income exceeds the threshold amounts (section 7 of the *Medicare Levy Act 1986*).

### Medicare levy surcharge low‑income threshold

* 1. A Medicare levy surcharge (the surcharge) of 1 per cent applies on taxable income in certain cases where taxpayers do not have appropriate private patient hospital cover (sections 8B to 8G of the *Medicare Levy Act 1986*). The surcharge of 1 per cent also applies to reportable fringe benefits in certain cases where taxpayers do not have appropriate private patient hospital cover (sections 12 to 16 of the *A New Tax System (Medicare Levy Surcharge‑Fringe Benefits) Act 1999*).
	2. A family member who would otherwise be liable for the surcharge is not required to pay the surcharge where the total of that person’s income for surcharge purposes does not exceed the individual low‑income threshold amount. Unlike the Medicare levy, there is no phasing-in of the surcharge above the threshold amount.

## Summary of new law

* 1. This Bill amends:
* subsections 3(1) and 8(5) to (7) of the *Medicare Levy Act 1986* to raise the threshold amounts and phase‑in limits for individuals, families and pensioners who are under Age Pension age;
* paragraphs 8D(3)(c) and 8G(2)(c) and subparagraphs 8D(4)(a)(ii) and 8G(3)(a)(ii) of the *Medicare Levy Act 1986* to raise the threshold below which a family member is not required to pay the surcharge on taxable income; and
* paragraphs 15(1)(c) and 16(2)(c) of the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999* to raise the threshold below which a family member is not required to pay the surcharge on reportable fringe benefits.

## Detailed explanation of new law

### Medicare levy low-income thresholds

* 1. This Bill increases the low‑income thresholds for individuals and families for the 2011‑12 year of income. The increases are in line with movements in the consumer price index.
	2. Section 7 of the *Medicare Levy Act 1986* states that no levy is payable where a taxpayer has a taxable income at or below the applicable threshold amount as specified in subsection 3(1).
	3. The individual threshold amount specified in paragraph (c) of the definition of the ‘threshold amount’ in subsection 3(1) of the *Medicare Levy Act 1986* is to be increased from $18,839 to $19,404. ***[Schedule 1, item 5]***
	4. The level of the ‘family income threshold’ referred to in subsections 8(5) to (7) of the *Medicare Levy Act 1986* is to be increased from $31,789 to $32,743. The family income threshold is to be increased by a further $3,007 instead of the previous figure of $2,919 for each dependent child or student. ***[Schedule 1, items 6 to 8]***
	5. This Bill also proposes to increase the threshold amount for pensioners below age pension age for the 2011‑12 income year. The increase ensures that such pensioners do not have a Medicare levy liability where they face no income tax liability.
	6. The threshold amount for pensioners who are under Age Pension age specified in paragraph (b) of the definition of the ‘threshold amount’ in subsection 3(1) of the *Medicare Levy Act 1986* is to be increased from $30,439 to $30,451. ***[Schedule 1, item 4]***

### Phase‑in limit

* 1. Section 7 of the *Medicare Levy Act 1986* also provides that the Medicare levy applies at a reduced rate to taxpayers with taxable incomes above the threshold amount but not more than the ‘phase‑in limit’ specified in subsection 3(1). The rate of the Medicare levy payable in these circumstances is limited to 10 per cent of the excess over the threshold amount that is relevant to the particular person.
	2. The phase-in limit for individuals contained in paragraph (c) of the definition of ‘phase-in limit’ in subsection 3(1) of the *Medicare Levy Act 1986* is increased from $22,163 to $22,828. ***[Schedule 1, item 3]***
	3. The phase‑in limit for pensioners who are under age pension age specified in paragraph (b) of the definition of ‘phase-in limit’ in subsection 3(1) of the *Medicare Levy Act 1986* is increased from $35,810 to $35,824. ***[Schedule 1, item 2]***
	4. There is no phase‑in limit stated in the *Medicare Levy Act 1986* for families as the figure changes with the number of dependants. Instead, subsection 8(2) of the *Medicare Levy Act 1986* contains a formula that limits the levy payable by persons with families to 10 per cent of the amount of family income that exceeds their family income threshold. This range is increased for dependants as indicated in Table 1.1.
	5. The increased threshold amounts and phase‑in ranges for the 2011‑12 income year as shown in Table 1.1.
		+ - 1. : 2011‑12 Medicare levy low‑income threshold amounts and phasing‑in ranges

|  |  |  |  |
| --- | --- | --- | --- |
| Category of taxpayer | No levy payable if taxable income or family income does not exceed (figure for 2010‑11) | Reduced levy if taxable income or family income is within range (inclusive) | Ordinary rate of levy payable where taxable income or family income is equal to or exceeds (figure for 2010‑11) |
| Individual taxpayer | $19,404 ($18,839) | $19,405 – $22,828 | $22,829 ($22,164) |
| Pensioner under age pension age | $30,451 ($30,439) | $30,452 – $35,824 | $35,825 ($35,811) |
| Families[[1]](#footnote-1) with the following children and/or students | (family income) | (family income) | (family income) |
| 0 | $32,743 ($31,789) | $32,744 – $38,521 | $38,522 ($37,399) |
| 1 | $35,750 ($34,708) | $35,751 – $42,058 | $42,059 ($40,833) |
| 2 | $38,757 ($37,627) | $38,758 – $45,596 | $45,597 ($44,268) |
| 3 | $41,764 ($40,546) | $41,765 – $49,134 | $49,135 ($47,702) |
| 4 | $44,771 ($43,465) | $44,772 – $52,671 | $52,672 ($51,136) |
| 5 | $47,778 ($46,384) | $47,779 – $56,209 | $56,210 ($54,570) |
| 6 | $50,785[[2]](#footnote-2) ($49,303) | $50,786[[3]](#footnote-3) – $59,747[[4]](#footnote-4) | $59,748[[5]](#footnote-5) ($58,004) |

### Medicare levy surcharge low‑income threshold

* 1. References to the individual low‑income threshold amount of $18,839 in the Medicare levy surcharge provisions (in sections 8D and 8G of the *Medicare Levy Act 1986*) in respect of the surcharge payable on taxable income are also being increased to $19,404. ***[Schedule 1, items 9 to 12]***
	2. References to the individual low‑income threshold amount of $18,839 in the Medicare levy surcharge provisions (in sections 15 and 16 of the *A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Act 1999)* in respect of the surcharge on reportable fringe benefits are also being increased to $19,404. ***[Schedule 1, item 1]***

### Consequential amendments

* 1. The *Clean Energy (Tax Laws Amendments) Act 2011* will amend certain 2010‑11 low‑income thresholds with effect from 1 July 2012. As some of these thresholds are also being amended by the *Tax Laws Amendment (Medicare levy and Medicare levy surcharge) Bill 2012* with effect from 1 July 2011, consequential amendments are needed for the *Clean Energy (Tax Laws Amendments) Act 2011*.
	2. References to the individual low‑income threshold amount of $18,839 in the Medicare levy surcharge provisions in items 1, 5 and 7 to 10 of Schedule 2 of the *Clean Energy (Tax Laws Amendments) Act 2011* will be amended to $19,404. ***[Schedule 1, items 14 and 16]***
	3. The phase-in limit for individuals contained in item 3 of Schedule 2 of the *Clean Energy (Tax Laws Amendments) Act 2011* will be amended from $22,163 to $22,828. ***[Schedule 1, item 15]***

## Application and transitional provisions

* 1. These amendments are to apply for the 2011‑12 income year. The increased thresholds, which reflect changes in the consumer price index, ensure the relevant taxpayers do not incur a liability to the Medicare levy or Medicare levy surcharge. There are no adverse effects on taxpayers. ***[Schedule 1, item 13]***

## Statement of Compatibility with Human Rights

### Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

### *Tax Laws Amendment (Medicare levy and Medicare levy Surcharge) Bill 2012*

* 1. This Bill is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### Overview

* 1. This Bill amends the *Medicare Levy Act 1986,* the *A New Tax System (Medicare Levy Surcharge‑Fringe Benefits) Act 1999,* and the *Clean Energy (Tax Laws Amendments) Act 2011* to raise the Medicare levy and Medicare levy surcharge low-income thresholds. Raising these thresholds will ensure that the low-income individuals and families who were exempt from the levy and surcharge in 2010‑11 will continue to be exempt in 2011‑12, if their incomes have increased in line with the consumer price index.

### Human rights implications

* 1. This Bill does not engage any of the applicable rights or freedoms.

### Conclusion

* 1. This Bill is compatible with human rights as it does not raise any human rights issues.

## Assistant Treasurer, the Hon David Bradbury

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Schedule 1: Medicare levy and Medicare levy surcharge income thresholds

| Bill reference | Paragraph number |
| --- | --- |
| Item 1 | 1.19 |
| Item 2 | 1.15 |
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| Item 4 | 1.12 |
| Item 5 | 1.9 |
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| Items 9 to 12 | 1.18 |
| Item 13 | 1.23 |
| Items 14 and 16 | 1.21 |
| Item 15 | 1.22 |

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1. These figures also apply to taxpayers who are entitled (or would have been entitled had the laws applicable to rebates not been amended with effect from 1 July 2000) to a sole parent, child‑housekeeper or housekeeper rebate. [↑](#footnote-ref-1)
2. Where there are more than six dependent children or students, add $3,007 for each extra child or student. [↑](#footnote-ref-2)
3. See note 2. [↑](#footnote-ref-3)
4. Where there are more than six dependent children or students, add $3,538 for each extra child or student. [↑](#footnote-ref-4)
5. See note 4. [↑](#footnote-ref-5)