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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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TAX AND SUPERANNUATION LAWS AMENDMENT (MEDICARE LEVY AND  
MEDICARE LEVY SURCHARGE) BILL 2016

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EXPLANATORY MEMORANDUM

(Circulated by authority of the  
Treasurer, the Hon Scott Morrison MP)



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## ***Glossary***

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

<i>Abbreviation</i>	<i>Definition</i>
CPI	Consumer price index
SAPTO	Seniors and pensioners tax offset
Surcharge	Medicare levy surcharge
Threshold amount	Medicare levy and Medicare levy surcharge low-income threshold amount



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

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

The 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 low-income thresholds for individuals and families (along with the dependent child/student component of the family threshold) in line with movements in the consumer price index (CPI);
- increase the Medicare levy low-income threshold for individual taxpayers and families eligible for the seniors and pensioners tax offset, in line with movements in the CPI; and
- increase the Medicare levy surcharge low-income threshold in line with movements in the CPI.

***Date of effect:*** This measure applies to the 2015-16 income year and later income years.

***Proposal announced:*** This measure will be announced in the 2016-17 Budget on 3 May 2016.

***Financial impact:*** This measure has the following revenue impact (\$m):

<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>
0	-100	-60	-60	-60

***Human rights implications:*** This Bill does not raise any human rights issue. See *Statement of Compatibility with Human Rights* — Chapter 2, paragraphs 2.1 to 2.5.

***Compliance cost impact:*** This measure will not have any ongoing compliance cost or additional impact on regulatory burden.





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# **Chapter 1**

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

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### **Outline of chapter**

1.1 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 low-income thresholds for individuals and families (along with the dependent child/student component of the family threshold) in line with movements in the consumer price index (CPI);
- increase the Medicare levy low-income threshold for individual taxpayers and families eligible for the seniors and pensioners tax offset (SAPTO), in line with movements in the CPI; and
- increase the Medicare levy surcharge low-income threshold in line with movements in the CPI.

### **Context of amendments**

#### **Medicare levy low-income thresholds**

1.2 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.

1.3 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**

1.4 A Medicare levy surcharge (surcharge) of between one and one and a half 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 one 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*).

1.5 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

1.6 This Bill amends:

- subsections 3(1) and 8(5) to 8(7) of the *Medicare Levy Act 1986* to increase the threshold amounts and phase-in limits for individuals, families and individual taxpayers and families eligible for the SAPTO;
- 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.

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

<i>New law</i>	<i>Current law</i>
<b>Medicare levy low-income thresholds</b>	
The individual income threshold for the 2015-16 income year is \$21,335.	The individual income threshold for the 2014-15 income year is \$20,896.
The family income threshold for the 2015-16 income year is \$36,001.	The family income threshold for the 2014-15 income year is \$35,261.
The threshold for individual taxpayers eligible for the SAPTO for the 2015-16 income year is \$33,738.	The threshold for individual taxpayers eligible for the SAPTO for the 2014-15 income year is \$33,044.

<i>New law</i>	<i>Current law</i>
The threshold for families eligible for the SAPTO for the 2015-16 income year is \$46,966.	The threshold for families eligible for the SAPTO for the 2014-15 income year is \$46,000.
The child-student component of the income threshold for families (whether eligible for SAPTO or not) for the 2015-16 income year is \$3,306.	The child-student component of the income threshold for families (whether eligible for SAPTO or not) for the 2014-15 income year is \$3,238.
<b>Phase-in limit</b>	
The individual phase-in limit for the 2015-16 income year is \$26,668.	The individual phase-in limit for the 2014-15 income year is \$26,120.
The phase-in limit for taxpayers eligible for the SAPTO for the 2015-16 income year is \$42,172.	The phase-in limit for taxpayers eligible for the SAPTO for the 2014-15 income year is \$41,305.

## Detailed explanation of new law

### Medicare levy low-income thresholds

1.7 This Bill increases the low-income thresholds for individuals and families (including the dependent child-student component of the family threshold) in line with movements in the CPI for the 2015-16 income year.

1.8 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) of the *Medicare Levy Act 1986*.

1.9 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*) increases from \$20,896 to \$21,335. [*Schedule 1, item 5, paragraph 3(1)(c) of the Medicare Levy Act 1986*]

1.10 The level of the ‘family income threshold’ referred to in subsection 8(5) to 8(7) of the *Medicare Levy Act 1986* increases from \$35,261 to \$36,001. For each dependent child or student, the family income threshold increases by a further \$3,306, instead of the previous figure of \$3,238. [*Schedule 1, items 6-8, subsections 8(5) to 8(7) of the Medicare Levy Act 1986*]

1.11 This Bill also increases the threshold amount for individual taxpayers eligible for the SAPTO for the 2015-16 income year. The increase ensures that these people do not have a Medicare levy liability where they face no income tax liability.

1.12 The threshold amount for individual taxpayers eligible for the SAPTO (specified in paragraph (a) of the definition of the 'threshold amount' in subsection 3(1) of the *Medicare Levy Act 1986*) increases from \$33,044 to \$33,738. [*Schedule 1, item 4, paragraph 3(1)(a) of the Medicare Levy Act 1986*]

1.13 The threshold amount for families eligible for SAPTO is increased from \$46,000 to \$46,966. For each dependent child or student, the income threshold increases by a further \$3,306, instead of the previous figure of \$3,238. [*Schedule 1, item 9, subsection 8(7) of the Medicare Levy Act 1986*]

### **Phase-in limits**

1.14 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 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.

1.15 The phase-in limit for individuals (specified in paragraph (c) of the definition of 'phase-in limit' in subsection 3(1) of the *Medicare Levy Act 1986* increases from \$26,120 to \$26,668. [*Schedule 1, item 3, paragraph 3(1)(a) of the Medicare Levy Act 1986*]

1.16 The phase-in limit for individual taxpayers eligible for SAPTO (specified in paragraph (a) of the definition of 'phase-in limit' in subsection 3(1) of the *Medicare Levy Act 1986*) increases from \$41,305 to \$42,172. [*Schedule 1, item 2, paragraph 3(1)(c) of the Medicare Levy Act 1986*]

1.17 There is no phase-in limit for families stated in the *Medicare Levy Act 1986*, as the figure changes with the number of dependents. 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.

1.18 The increased threshold amounts and phase-in ranges for the 2015-16 income year are as shown in Table 1.1.

**Table 1.1: 2015-16 Medicare levy low-income threshold amounts and phasing-in ranges**

<i>Category of taxpayer</i>	<i>No levy payable if taxable income or family income does not exceed (figure for 2014-15)</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 is equal to or exceeds (figure for 2014-15)</i>
Individual taxpayer	\$21,335 (\$20,896)	\$21,336-\$26,668	\$26,669 (\$26,121)
Individual taxpayers eligible for the SAPTO	\$33,738 (\$33,044)	\$33,739-\$42,172	\$42,173 (\$41,306)
Families eligible for the SAPTO	\$46,966 (\$46,000)	\$46,967-\$58,707	\$58,708 (\$57,500)
Families with the following children and/or students	(family income)	(family income)	(family income)
0	\$36,001 (\$35,261)	\$36,002-\$45,001	\$45,002 (\$44,077)
1	\$39,307 (\$38,499)	\$39,308-\$49,133	\$49,134 (\$48,124)
2	\$42,613 (\$41,737)	\$42,614-\$53,266	\$53,267 (\$52,172)
3	\$45,919 (\$44,975)	\$45,920-\$57,398	\$57,399 (\$56,219)
4	\$49,225 (\$48,213)	\$49,226-\$61,531	\$61,532 (\$60,267)
5	\$52,531 (\$51,451)	\$52,532-\$65,663	\$65,664 (\$64,314)
6	\$55,837 (\$54,689)	\$55,838-\$69,796	\$69,797 (\$68,362)

**Medicare levy surcharge low-income threshold**

1.19 References to the individual low-income threshold amount of \$20,896 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 for a person who is married (or both married and a beneficiary of a trust) are also increased to \$21,335. *[Schedule 1, items 10-13, 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]*

1.20 References to the individual low-income threshold amount of \$20,896 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 increased to \$21,335. *[Schedule 1, item 1, paragraphs 15(1)(c) and 16(2)(c) of the A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999]*

## **Application and transitional provisions**

1.21 This Bill applies to assessments for the 2015-16 income year and later income years. *[Schedule 1, item 14]*

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## **Chapter 2**

# **Statement of Compatibility with Human Rights**

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

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

2.1 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**

2.2 The 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 low-income thresholds for individuals and families (along with the dependent child/student component of the family threshold) in line with movements in the consumer price index (CPI);
- increase the Medicare levy low-income threshold for individual taxpayers and families eligible for the seniors and pensioners tax offset, in line with movements in the CPI; and
- increase the Medicare levy surcharge low-income threshold in line with movements in the CPI.

2.3 This will ensure that low-income individuals, families, seniors and pensioners who were exempt from the Medicare levy in the 2014-15 income year will continue to be exempt in the 2015-16 income year if their income has increased in line with, or less than, the CPI.

#### **Human rights implications**

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

**Conclusion**

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



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### **Schedule 1: Medicare levy and Medicare levy surcharge income thresholds**

<i>Bill reference</i>	<i>Paragraph number</i>
Item 1, paragraphs 15(1)(c) and 16(2)(c) of the A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999	1.20
Item 2, paragraph 3(1)(c) of the Medicare Levy Act 1986	1.16
Item 3, paragraph 3(1)(a) of the Medicare Levy Act 1986	1.15
Item 4, paragraph 3(1)(a) of the Medicare Levy Act 1986	1.12
Item 5, paragraph 3(1)(c) of the Medicare Levy Act 1986	1.9
Items 6-8, subsections 8(5) to 8(7) of the Medicare Levy Act 1986	1.10
Item 9, subsection 8(7) of the Medicare Levy Act 1986	1.13
Items 10-13, 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	1.19
Item 14	1.21