

Understanding the Medicare Levy

Ever wondered why your tax bill was higher than you expected? It could be because of the Medicare Levy. So what does the levy pay for – and how is it calculated?

What is the Medicare Levy?

Medicare is Australia's publicly funded national healthcare system. The federal government partially funds the system by charging taxpayers a levy on top of their annual income tax. Thanks to this levy, all Australians can enjoy access to quality health care.

What does it cover?

Medicare provides access to a wide range of health care and hospital services, including:

- free or subsidised treatment when you visit a medical professional such as a doctor, optometrist or specialist
- free treatment and accommodation when you're a public patient in a public hospital
- 75% of your treatment and procedure costs when you're a private patient in a public or private hospital (not including accommodation fees and other costs)
- reduced costs for prescription medications in some cases.

How much is it?

For most eligible taxpayers, the Medicare Levy is currently charged at 2% of their taxable income. While the government had previously proposed to increase this rate to 2.5%, it was confirmed in the 2018 Federal Budget that the levy will remain at 2% for now.

Also if you don't have private hospital insurance, you may have to pay the Medicare Levy surcharge (MLS) depending on your income amount for MLS purposes. The MLS can be as high as 1.5% depending on your family and personal income amounts.

When do you pay it?

If you're required to pay the Medicare Levy, it's automatically calculated against your taxable income when you lodge your yearly tax return.

You can use the [Medical Levy Calculator](#) on the Australian Taxation Office (ATO) website to work out how much you can expect to pay.

If you receive regular income throughout the financial year that is subject to pay as you go (PAYG) withholding (for example salary or wages), an estimate of the income tax and Medicare Levy liability relating to that income is withheld and paid to the ATO throughout the year. This prepaid tax and Medicare Levy is then taken into account when working out your tax bill when you do your tax return.



Is anyone exempt?

If your taxable income is below a certain level, you don't need to pay the Medicare Levy. Different thresholds apply for individuals, couples, sole parents, pensioners and seniors.

The government has proposed to increase these low-income thresholds, which means more Australians will be exempt from paying the levy. If legislated, these changes will apply from the 2017-18 tax year onwards.

	2016-17	2017-18
Taxpayers entitled to seniors and pensioners tax offset		
Individual	\$34,244	\$34,758
Married or sole parent	\$47,670	\$48,385
For each dependent child or student, add:	\$3,356	\$3,406
All other taxpayers		
Individual	\$21,655	\$21,980
Couple/sole parent (family income)	\$36,541	\$37,089

You may also be exempt if:

- you suffer certain medical conditions
- you're a foreign resident for tax purposes
- you're not entitled to Medicare benefits – for instance, you're an Australian citizen or permanent resident but have been residing overseas for more than certain timeframes.

Keep in mind that there are specific requirements for each category, so you may need to check whether you're eligible for an exemption.

Are some people charged a different rate?

There are instances when some people will only be charged a partial Medicare Levy. For instance, you'll pay a reduced rate if you're single without dependants and your taxable income for the 2016-17 financial year was above the exemption threshold but less than \$27,069 (or \$42,806 for single seniors and pensioners entitled to the seniors and pensioners tax offset).

Families (not eligible for the seniors and pensioners tax offset) may be charged a partial Medicare Levy if their household taxable income is below \$45,677 (plus \$4,195 for each dependent child).

To be eligible for a reduction, you also need to meet certain conditions.

What is the Medicare Levy Surcharge?

If you don't have the appropriate level of private hospital insurance, you may be charged an extra amount on top of the 2% levy. This is the Medical Levy Surcharge (MLS) and only applies if your 'income for surcharge purposes' is over \$90,000 for singles or \$180,000 for families.

The MLS can range from an additional 1% to 1.5% depending on your income level. You can see a full breakdown of thresholds and rates on the [ATO website](#).

What if you have private cover?

If you have an acceptable level of private hospital insurance, you won't be charged the MLS. But first, you'll need to provide information about your private health cover payments on your tax return.

For more information

If you'd like to know more about how the Medicare Levy might impact your financial situation, speak to your financial adviser.

Important information

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