

2022–2023–2024

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

TREASURY LAWS AMENDMENT (COST OF LIVING TAX CUTS)
BILL 2024
TREASURY LAWS AMENDMENT (COST OF LIVING—MEDICARE
LEVY) BILL 2024

EXPOSURE DRAFT EXPLANATORY MATERIALS

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Glossary

This Explanatory Memorandum uses the following abbreviations and acronyms.

<i>Abbreviation</i>	<i>Definition</i>
CPI	<i>Consumer price index</i>
Medicare Levy Bill	Treasury Laws Amendment (Cost of Living—Medicare Levy) Bill 2024
Cost of Living Tax Cuts Bill	Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024
Rates Act	<i>Income Tax Rates Act 1986</i>
SAPTO	<i>Seniors and pensioners tax offset</i>
Surcharge	<i>Medicare levy surcharge</i>
Threshold amount	<i>Medicare levy and Medicare levy surcharge low-income threshold amount</i>

General outline and financial impact

The amendments made by the Cost of Living Tax Cuts Bill and the Medicare Levy Bill deliver cost-of-living relief to all Australian taxpayers. They will deliver tax cuts for all taxpayers and ensure the Medicare Levy is imposed at higher thresholds for Australian taxpayers to help ease cost of living pressures.

Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024

Outline

Schedule 1 to Cost of Living Tax Cuts Bill amends the income tax law to modify income tax rate thresholds and tax rates for individuals for the 2024-25 and later income years.

Date of effect

Schedule 1 to Cost of Living Tax Cuts Bill commences on the first 1 January, 1 April, 1 July or 1 October to occur after the day Cost of Living Tax Cuts Bill receives Royal Assent. The amendments apply from the 2024-25 income year.

Proposal announced

Schedule 1 to Cost of Living Tax Cuts Bill was announced on 25 January 2024.

Financial impact

This measure is estimated to decrease tax receipts by \$1.3 billion over the forward estimates period comprising:

2023-24	2024-25	2025-26	2026-27	2027-28
-	1.3	-1.6	-0.9	0.0

All figures in this table represent amounts in \$ billions.

Human rights implications

Schedule 1 to Cost of Living Tax Cuts Bill does not raise any human rights issues. See Statement of Compatibility with Human Rights — Chapter 3.

Compliance cost impact

This measure is expected to have only a minor regulatory impact.

Treasury Laws Amendment (Cost of Living–Medicare Levy) Bill 2024

Outline

The Medicare Levy 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 CPI;
- the Medicare levy low-income thresholds for individuals and families eligible for SAPTO (along with the dependent child/student component of the family threshold), in line with movements in the CPI; and
- the surcharge low-income threshold in line with movements in the CPI.

Date of effect

This measure applies to the 2023-24 income year and later income years.

Proposal announced

Schedule 1 to the Medicare Levy Bill implements the increasing the Medicare levy low-income thresholds measure announced on Thursday, 25 January 2024.

Financial impact

Schedule 1 to the Medicare Levy Bill is estimated to decrease tax receipts by \$640 million over the five years to 2026-27 and was provisioned for in the 2023-24 Mid-Year Economic and Fiscal Outlook:

2022-23	2023-24	2024-25	2025-26	2026-27
-	-	-240.0	-200.0	-200.0

All figures in this table represent amounts in \$ millions.

Human rights implications

Schedule 1 to the Medicare Levy Bill does not raise any human rights issues. See Statement of Compatibility with Human Rights — Chapter 3.

Compliance cost impact

This measure is expected to have a low impact on compliance costs.

Chapter 1: Tax cuts to help with the cost of living

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Outline of chapter

- 1.1 Schedule 1 to the Cost of Living Tax Cuts Bill amends the income tax law to modify income tax rate thresholds and tax rates for individuals for the 2024-25 and later income years. These amendments deliver tax cuts for all Australian taxpayers.
- 1.2 Legislative references in this chapter are to the Rates Act unless otherwise specified.

Context of amendments

- 1.3 An entity's liability to pay income tax in Australia on a taxable income is calculated by reference to various rates and thresholds. As Australia has a progressive income tax system for individuals, higher rates of tax are payable by individuals as their income increases beyond particular thresholds.
- 1.4 Section 12 of the Rates Act provides that individuals and other entities not dealt with elsewhere in the Act must generally pay income tax at the rates set out in Schedule 7 to that Act.
- 1.5 Prior to the amendments, for the 2024-25 income year, Part I of Schedule 7 provides that Australian resident taxpayers are generally:

- not subject to tax on the part of their ordinary taxable income that does not exceed \$18,200 (the tax-free threshold);
- subject to tax at a rate of 19 per cent on the part of their taxable income that exceeds \$18,200 but does not exceed \$45,000;
- subject to tax at a rate of 30 per cent on the part of their taxable income that exceeds \$45,000 but does not exceed \$200,000; and
- subject to tax at a rate of 45 per cent on the part of their taxable income that exceeds \$200,000.

1.6 Part II of Schedule 7 provides that foreign resident taxpayers are generally subject to tax at a rate of:

- 30 per cent on the part of their taxable income that does not exceed \$200,000; and
- 45 per cent on the part of their taxable income that exceeds \$200,000.

1.7 Part III of Schedule 7 sets out special rules that apply to the income of working holiday makers in Australia. Taxable income from these activities (subsequently referred to as ‘working holiday taxable income’) is generally taxed at the tax rates for Australian residents. However, working holiday makers do not benefit from the tax-free threshold and the rate of tax that applies to income not exceeding \$45,000 is 15 per cent.

Comparison of key features of new law and current law

Table 1.1 Comparison of new law and current law

<i>New law</i>	<i>Current law</i>
<p>For 2024-25 and later income years the rate of tax on the amount of the taxable income of a resident individual taxpayer that:</p> <ul style="list-style-type: none"> • exceeds \$18,200 but does not exceed \$45,000 is 16 per cent; • exceeds \$45,000 but does not exceed \$135,000 is 30 per cent; • exceeds \$135,000 but does not exceed \$190,000 is 37 per cent; and • exceeds \$190,000 is 45 per cent. 	<p>For 2024-25 and later income years the rate of tax on the amount of the taxable income of a resident individual taxpayer that:</p> <ul style="list-style-type: none"> • exceeds \$18,200 but does not exceed \$45,000 is 19 per cent; • exceeds \$45,000 but does not exceed \$200,000 is 30 per cent; and • exceeds \$200,000 is 45 per cent.

New law	Current law
<p>For 2024-25 and later income years the rate of tax on the amount of the taxable income of a non-resident individual taxpayer that:</p> <ul style="list-style-type: none"> • does not exceed \$135,000 is 30 per cent; • exceeds \$135,000 but does not exceed \$190,000 is 37 per cent; • exceeds \$190,000 is 45 per cent. 	<p>For 2024-25 and later income years the rate of tax on the amount of the taxable income of a non-resident individual taxpayer that:</p> <ul style="list-style-type: none"> • does not exceed \$200,000 is 30 per cent; and • exceeds \$200,000 is 45 per cent.
<p>For 2024-25 and later income years the rate of tax on the amount of the working holiday taxable income that:</p> <ul style="list-style-type: none"> • does not exceed \$45,000 is 15 per cent; • exceeds \$45,000 but does not exceed \$135,000 is 30 per cent; • exceeds \$135,000 but does not exceed \$190,000 is 37 per cent; and • exceeds \$190,000 is 45 per cent. 	<p>For 2024-25 and later income years the rate of tax on the amount of the working holiday taxable income that:</p> <ul style="list-style-type: none"> • does not exceed \$45,000 is 15 per cent; • exceeds \$45,000 but does not exceed \$200,000 is 30 per cent; and • exceeds \$200,000 is 45 per cent.

Detailed explanation of new law

1.8 Schedule 1 to Cost of Living Tax Cuts Bill amends Schedule 7 for the 2024-25 and later income years as they apply to individuals and taxpayers taxed as individuals.

1.9 For residents, individual taxpayers are:

- not subject to tax on the part of their ordinary taxable income that does not exceed \$18,200;
- subject to tax at a rate of 16 per cent on the part of their taxable income that exceeds \$18,200 but does not exceed \$45,000;
- subject to tax at a rate of 30 per cent on the part of their taxable income that exceeds \$45,000 but does not exceed \$135,000;
- subject to tax at a rate of 37 per cent on the part of their taxable income that exceeds \$135,000 but does not exceed \$190,000; and
- subject to tax at a rate of 45 per cent on the part of their taxable income that exceeds \$190,000.

[Schedule 1 to the Cost of Living Tax Cuts Bill, item 2, table under clause 1 of Part I of Schedule 7]

- 1.10 For foreign residents, individual taxpayers are:
- subject to tax at a rate of 30 per cent on the part of their taxable income that does not exceed \$135,000;
 - subject to tax at a rate of 37 per cent on the part of their taxable income that exceeds \$135,000 but does not exceed \$190,000; and
 - subject to tax at a rate of 45 per cent on the part of their taxable income that exceeds \$190,000.

[Schedule 1 to the Cost of Living Tax Cuts Bill, item 3, table under clause 1 of Part II of Schedule 7]

- 1.11 For working holiday taxable income, individual taxpayers are:
- subject to tax at a rate of 15 per cent on the part of their working holiday taxable income that does not exceed \$45,000;
 - subject to tax at a rate of 30 per cent on the part of their working holiday taxable income that exceeds \$45,000 but does not exceed \$135,000;
 - subject to tax at a rate of 37 per cent on the part of their working holiday taxable income that exceeds \$135,000 but does not exceed \$190,000; and
 - subject to tax at a rate of 45 per cent on the part of their working holiday taxable income that exceeds \$190,000.

[Schedule 1 to the Cost of Living Tax Cuts Bill, item 4, table under clause 1 of Part III of Schedule 7]

- 1.12 To avoid doubt, the amendments do not impact the tax-free threshold of \$416 on eligible income (taxation of minors) under Schedule 11.

Consequential amendments

- 1.13 To support the amendments, a new definition is included in subsection 3(1) which aligns with the drafting convention prior to the amendments. The term ‘third resident personal tax rate’ refers to the rate mentioned in item 3 of table in clause 1 of Part I of Schedule 7 that is applicable to the year of income. In the context of the amendments, this refers to 37 per cent.

[Schedule 1 to the Cost of Living Tax Cuts Bill, item 1, definition of ‘third resident personal tax rate’ in subsection 3(1)]

Commencement, application, and transitional provisions

- 1.14 Cost of Living Tax Cuts Bill commences on the first 1 January, 1 April, 1 July or 1 October to occur after the day Cost of Living Tax Cuts Bill receives Royal Assent.
- 1.15 The amendments apply to the 2024-25 and later income years.

Chapter 2: Increasing the Medicare levy low-income thresholds

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Outline of chapter

- 2.1 Schedule 1 to the Medicare Levy 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 CPI;
 - the Medicare levy low-income thresholds for individuals and families eligible for SAPTO (along with the dependent child/student component of the family threshold), in line with movements in the CPI; and
 - the surcharge low-income threshold in line with movements in the CPI.

Context of amendments

Medicare levy low-income thresholds

- 2.2 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.
- 2.3 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 stated threshold amounts.

Medicare levy surcharge low-income threshold

- 2.4 A 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 and 8G of the *Medicare Levy Act 1986*). The surcharge also applies to reportable fringe benefits in certain cases where taxpayers do not have appropriate private hospital cover (sections 12 to 16 of the *A New Tax System (Medicare Levy Surcharge — Fringe Benefits) Act 1999*).
- 2.5 A family member who otherwise would 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 phase-in of the surcharge above the threshold amount.

Comparison of key features of new law and current law

Table 2.1 Comparison of new law and current law

<i>New law</i>	<i>Current law</i>
<i>Medicare levy low-income thresholds</i>	
The individual income threshold for the 2023-24 income year is \$26,000.	The individual income threshold for the 2022-23 income year is \$24,276.
The family income threshold for the 2023-24 income year is \$43,846.	The family income threshold for the 2022-23 income year is \$40,939.

New law	Current law
The income threshold for individual taxpayers eligible for the SAPTO for the 2023-24 income year is \$41,089.	The income threshold for individual taxpayers eligible for the SAPTO for the 2022-23 income year is \$38,365.
The income threshold for families eligible for the SAPTO for the 2023-24 income year is \$57,198.	The income threshold for families eligible for the SAPTO for the 2022-23 income year is \$53,406.
The child-student component of the income threshold for families (whether eligible for SAPTO or not) for the 2023-24 income year is \$4,027.	The child-student component of the income threshold for families (whether eligible for SAPTO or not) for the 2022-23 income year is \$3,760.
Phase-in limit	
The individual phase-in limit for the 2023-24 income year is \$32,500.	The individual phase-in limit for the 2022-23 income year is \$30,345.
The phase-in limit for individual taxpayers eligible for the SAPTO for the 2023-24 income year is \$51,361.	The phase-in limit for individual taxpayers eligible for the SAPTO for the 2022-23 income year is \$47,956.
The phase-in limit for families for the 2023-24 income year is \$54,807.	The phase-in limit for families for the 2022-23 income year is \$51,173.
The phase in limit for families eligible for the SAPTO for the 2023-24 income year is \$71,497.	The phase in limit for families eligible for the SAPTO for the 2022-23 income year is \$66,757.

Detailed explanation of new law

- 2.6 Schedule 1 to the Medicare Levy Bill increases the low-income threshold for individuals and families (including the dependent child-student component of the family threshold) in line with annual movements in the CPI.
- 2.7 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*.
- 2.8 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 \$24,276, to \$26,000.
[Schedule 1 to the Medicare Levy Bill, item 5, paragraph (c) of the definition of ‘threshold amount’ in subsection 3(1) of the Medicare Levy Act 1986]
- 2.9 The level of the ‘family income threshold’ referred to in subsections 8(5), 8(6) and 8(7) of the *Medicare Levy Act 1986* increases from \$40,939 to \$43,846. For each dependent child or student, the family income threshold increases by

a further \$4,027, instead of the previous amount of \$3,760.

[Schedule 1 to the Medicare Levy Bill, items 6, 7 and 8, the definition of ‘family income threshold’ in subsection 8(5), and subsections 8(6) and (7) of the Medicare Levy Act 1986]

- 2.10 Schedule 1 to the Medicare Levy Bill also increases the threshold amount for individual taxpayers eligible for the SAPTO for the 2023-24 income year.
- 2.11 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 \$38,365 to \$41,089.
[Schedule 1 to the Medicare Levy Bill, item 4, paragraph (a) of the definition of ‘threshold amount’ in subsection 3(1) of the Medicare Levy Act 1986]
- 2.12 The threshold amount for families eligible for SAPTO increases from \$53,406 to \$57,198. For each dependent child or student, the income threshold increases by a further \$4,027, instead of the previous figure of \$3,760.
[Schedule 1 to the Medicare Levy Bill, item 9, subsection 8(7) of the Medicare Levy Act 1986]

Phase-in limits

- 2.13 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) of the *Medicare Levy Act 1986*. 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.
- 2.14 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 \$30,345 to \$32,500.
[Schedule 1 to the Medicare Levy Bill, item 3, paragraph (c) of the definition of ‘phase-in limit’ in subsection 3(1) of the Medicare Levy Act 1986]
- 2.15 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 \$47,956 to \$51,361.
[Schedule 1 to the Medicare Levy Bill, item 2, paragraph (a) of the definition of ‘phase-in limit’ in subsection 3(1) of the Medicare Levy Act 1986]
- 2.16 There is no phase-in limit for families in the *Medicare Levy Act 1986*, as the limit 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.

2.17 The increased threshold amounts and phase-in ranges for the 2023-24 income year are as shown in Table 1.2.

Table 2.2 2023-24 Medicare levy low-income thresholds amounts and phasing-in ranges

<i>Category of taxpayer</i>	<i>No levy payable in 2023-24 if taxable income or family income does not exceed (figure for 2022-23)</i>	<i>Reduced levy in 2023-24 (if taxable income or family income is within range (inclusive))</i>	<i>Ordinary rate of levy payable in 2023-24 where taxable income or family income is equal to or exceeds (figure for 2022-23)</i>
Individual taxpayer	\$26,000 (\$24,276)	\$26,001-\$32,500	\$32,501 (\$30,346)
Individual taxpayers eligible for the SAPTO	\$41,089 (\$38,365)	\$41,090-\$51,361	\$51,362 (\$47,957)
Families eligible for the SAPTO	\$57,198 (\$53,406)	\$57,199-\$71,497	\$71,498 (\$66,758)
Families not eligible for the SAPTO with the following number of children and/or students	(family income)	(family income)	(family income)
0	\$43,846 (\$40,939)	\$43,847-\$54,807	\$54,808 (\$51,174)
1	\$47,873 (\$44,699)	\$47,874 -\$59,841	\$59,842 (\$55,874)
2	\$51,900 (\$48,459)	\$51,901 -\$64,875	\$64,876 (\$60,574)
3	\$55,927 (\$52,219)	\$55,928-\$69,908	\$69,909 (\$65,274)
4	\$59,954 (\$55,979)	\$59,955-\$74,942	\$74,943 (\$69,974)
5	\$63,981 (\$59,739)	\$63,982-\$79,976	\$79,977 (\$74,674)

Medicare levy surcharge low-income threshold

2.18 References to the individual low-income threshold amount of \$24,276 in the 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 \$26,000.

[Schedule 1 to the Medicare Levy Bill, items 10 to 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]

- 2.19 References to the individual low-income threshold amount of \$24,276 in the 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 \$26,000.
[Schedule 1 to the Medicare Levy Bill, item 1, paragraphs 15(1)(c) and 16(2)(c) of the A New Tax System (Medicare Levy Surcharge — Fringe Benefits) Act 1999]

Commencement, application, and transitional provisions

- 2.20 Schedule 1 to the Medicare Levy Bill commences the day after Royal Assent.
- 2.21 Schedule 1 to the Medicare Levy Bill applies to assessments for the 2023-24 income year and year and later income years.
[Schedule 1 to the Medicare Levy Bill, item 14]
- 2.22 Although the amendments apply retrospectively from the start of the 2023-24 income year, they are beneficial to all affected taxpayers as they retrospectively reduce or remove liability for Medicare levy and the surcharge that would otherwise apply to affected taxpayers.

Chapter 3: Statement of Compatibility with Human Rights

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

Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024 Treasury Laws Amendment (Cost of Living—Medicare Levy) Bill 2024

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Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024

Overview

- 3.1 Schedule 1 to Cost of Living Tax Cuts Bill amends the income tax law to modify income tax rate thresholds and tax rates for individuals for the 2024-25 and later income years. These amendments deliver cost of living relief for all Australian taxpayers.
- 3.2 From the 2024-25 income year, income tax rates for individuals are updated.

Human rights implications

- 3.3 The Cost of Living Tax Cuts Bill does not engage any of the applicable rights or freedoms.

Conclusion

- 3.4 The Cost of Living Tax Cuts Bill is compatible with human rights as it does not raise any human rights issues.

Treasury Laws Amendment (Cost of Living—Medicare Levy) Bill 2024

Overview

- 3.5 Schedule 1 to the Medicare Levy 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*.
- 3.6 Schedule 1 to the Medicare Levy 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 CPI;
 - increase the Medicare levy low-income thresholds for individuals and families eligible for the SAPTO (along with the dependent child-student component of the family threshold), in line with movements in the CPI; and
 - increase the surcharge low-income threshold in line the movements in the CPI.
- 3.7 This will ensure that low-income individuals, families, seniors and pensioners who were exempt from the Medicare levy in the 2022-23 income year continue to be exempt in the 2023-24 income year if their income has increased in line with, or less than, movements in the CPI.

Human rights implications

- 3.8 Schedule 1 to the Medicare Levy Bill does not engage any of the applicable rights or freedoms.

Conclusion

- 3.9 Schedule 1 to the Medicare Levy Bill is compatible with human rights as it does not raise any human rights issues.