

# Fact Sheet

## Salary packaging and the Medicare Levy Surcharge and Private Health Rebate

### Introduction

This AccessPay Fact Sheet is intended to provide guidance regarding the potential impact of salary packaging on the Medicare Levy Surcharge and Private Health Insurance Rebate.

### Impact on salary packaging

Salary packaging reduces your taxable income and is then represented on your PAYG payment summary as a Reportable Fringe Benefit. Your Reportable Fringe Benefit amount can affect certain benefits these include:

- Centrelink payments
- **Medicare Levy Surcharge**
- **Private Health Insurance rebate**
- Child Support Payments
- Superannuation co contribution
- Tax offsets
- Education debts

### Medicare Levy Surcharge

Individuals and families on incomes above the Medicare levy surcharge thresholds, who do not have an appropriate level of private hospital cover for themselves and their dependents, may be required to pay the Medicare levy surcharge for any period during the financial year that they or their dependents did not have this cover.

The Medicare levy surcharge (MLS) is payable in addition to the Medicare levy.

Your income for MLS purposes is used by the ATO to determine whether you are liable to pay the Medicare levy surcharge, and if so the rate of MLS that you are liable to pay. If you have a spouse, your combined income is used for MLS purposes.

Your income for MLS purposes includes:

- Your taxable income
- Reportable Fringe Benefits
- Reportable Super Contributions
- Exempt Foreign Employment Income (if your taxable income is \$1 or more)
- Total Net Investment Losses (includes both net financial investment losses and net rental property losses)

For the 2017/2018 financial year, if your income for MLS purposes exceeds \$90,001 for a single person, or \$180,001 for a family, you will be liable to pay the Medicare levy surcharge.

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### Example 1:

Sally is a single person without private hospital cover, and for the 2017/2018 financial year, will have a taxable income of \$80,000. Sally does not salary package, and so her income for MLS purposes is \$80,000. As Sally's income for MLS purposes is below \$90,000, she is not liable to pay the Medicare levy surcharge.

### Example 2:

Harry is a single person without private hospital cover. Harry's gross wage is \$80,000, however he works for a PBI organisation and chooses to salary package. Because of this, Harry will have a taxable income of \$64,100 and a Reportable Fringe Benefit amount of \$30,000. Harry's income for MLS purposes is therefore \$94,100. As Harry's income for MLS purposes is above \$90,000, he is liable to pay the Medicare levy surcharge at 1%.

### Australian Government Private Health Insurance Rebate

If you have private health insurance cover, you may be eligible for the Private Health Insurance rebate. This rebate is an amount the government contributes towards the cost of your private health insurance premiums, and can be claimed either through a reduction in the cost of your health insurance premiums, or in the form of a refundable tax offset when you lodge your tax return. The Private Health Insurance rebate is income tested in the same way as the Medicare levy surcharge.

### What are the income thresholds?

The table below details the different rebate amounts and Medicare Levy Surcharge levels as at 1 April 2017. Both the private health insurance rebate and the Medicare levy surcharge will be income tested against the income thresholds in the table below.

	Base tier	Tier 1	Tier 2	Tier 3
Singles	\$90,000 or less	\$90,001-105,000	\$105,001-140,000	\$140,001 or more
Families*	\$180,000 or less	\$180,001-210,000	\$210,001-280,000	\$280,001 or more
Private Health Insurance Rebate				
Aged under 65	25.934%	17.289%	8.644%	0%
Aged 65-69	30.256%	21.612%	12.966%	0%
Aged 70 or over	34.579%	25.934%	17.289%	0%
Medicare Levy Surcharge rate				
All ages	0.0%	1.0%	1.25%	1.5%

\* The family income threshold is increased by \$1,500 for every child after the first child.

The Medicare Levy Surcharge is applied at 1%, 1.25% or 1.5%, depending on your income level. This is in addition to the 2.0% Medicare levy.

### Example 3:

For the 2017/2018 financial years, Jo has a taxable income of \$95,000 and Reportable Fringe Benefits amount of \$30,000. Lee, Jo's spouse, has a taxable income of \$45,000 and reportable employer superannuation contributions of \$15,000. As income for MSL purposes includes reportable fringe benefits and reportable superannuation contributions, their total family income for MSL purposes is \$185,000.

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Jo and Lee do not have private health cover. As their family income exceeds the surcharge threshold, they are both liable to pay the Medicare levy surcharge. This means:

- Jo has to pay a surcharge of \$1,250 - that is, 1% of \$125,000
- Lee has to pay a surcharge of \$450 - that is, 1% of \$45,000

*Although reportable employer superannuation contributions are included in calculating the Medicare levy surcharge threshold, the actual surcharge is only applied to taxable income, any applicable reportable fringe benefits and any amount on which family trust distribution tax has been paid.*

If Jo and Lee were to take out private hospital insurance for the 2017/2018 FBT year, they would not have to pay the Medicare levy surcharge. Based on their family income, they would receive a Private Health Insurance rebate of 17.289%.

**Please note:** Information, advice or guidance provided in this fact sheet, is general in nature and provided without reference to your organisation policies or your circumstances. It is not and should not be considered to be organisational or personal advice to you. Please contact your accountant, tax agent or legal adviser to determine how the information in this fact sheet may apply to your circumstances. Alternatively you can contact AccessPay with any queries about how the information in this fact sheet may apply to your circumstances.