Antipodean Advisory

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Making sense of Medicare and your tax obligations

To help pay for the public health system which we call Medicare, you're required to pay a 2 percent Medicare levy as part of your income tax. While the low-income tax offset can reduce your individual tax liability, sadly it does not reduce the Medicare levy per se, which can make it that little bit harder to get ahead with your savings.

However, if you're on a taxable income of over $90,000 as a single or $180,000 for families, and don't have private health insurance, you may also be subject to a surcharge of up to an extra 1.5 percent of your income, on top of the basic Medicare levy.

The surcharge was designed to encourage those who can afford it to take out private health cover and use the private hospital system, hence reducing demand on the public Medicare system. But you are exempt from paying the Medicare Levy Surcharge by having private health insurance with a sufficient level of hospital cover.

While taking out private health insurance can be cheaper than the additional surcharge, you need to do your homework beforehand. Private health cover has come under a lot of criticism for not offering value for money due to a myriad of shortcomings, none the least being exclusions and major out-of-pocket costs.

Rebates for private health insurance
However, if you do decide to take out private health insurance, you may also be eligible for a rebate depending on your income level.

While the private health insurance rebate is income tested, singles and families earning under $90,000 and $180,000 respectively, can expect the highest (base tier) rebate of 25.059 percent (under age 65).

Most people with private health insurance can claim the rebate as an upfront reduction on their private health insurance premium. However, if you don't claim the rebate as a reduction to your premium, you can still claim it as a tax offset in your annual income tax return.

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What exactly is the lifetime health initiative?
If you're under age 31 and still in two minds whether to take out private health cover or not, the Federal Government has provided an incentive to help you decide. Should you wish to buy health insurance after 1 July following your 31st birthday, you'll be required to pay an extra 2 percent for each subsequent year of cover due what's called a lifetime health cover loading (LHC).

For example, if you join at age 35, you'll pay 10 percent more for your hospital cover than if you'd joined five years earlier. Given that the cost of top hospital cover averages around $4,500 for families and $1,250 for singles, a 20 per cent loading means you'd be paying an additional $900 and $250, respectively.

If you take out private patient hospital cover when you are 40 years old, you could pay an extra 20 percent on the cost of this cover annually for 10 years. If you wait until you are 50 years old, you could pay 40 percent more annually.

However, it's important to note:

1. The maximum LHC loading that can be applied is 70 percent
2. The LHC loading applies to the cost of hospital cover only, not extras cover, and you will cease paying this loading after 10 years of continuous hospital cover.

For more information, please contact us.

Source: FPA Money and Life