



Tuesday, 23 April 2024

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Director
Personal Rates and Thresholds Unit
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Treasury
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By email: medicarelevylumpsums@treasury.gov.au

Dear ██████████

Exempting lump sum payments in arrears from the Medicare Levy

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to comment upon the exposure draft legislation and explanatory memorandum which implements the Government's announcement in the May 2023 budget to exempt eligible lump sum payments in arrears from the Medicare levy from 1 July 2024.

These provisions will help low-income earners who have received a lump sum for the underpayment of wages to them in previous years by reducing the amount of Medicare levy that is payable.

Utilising existing definitions reduces red tape

It is commendable that the exposure draft legislation utilises definitions used in existing provisions that reduce amounts payable in relation to income tax and the Medicare levy surcharge in similar situations. Doing so, assists with consistency and helps reduce red tape.

Pragmatic approach adopted

The exposure draft excludes lump sum payments from the assessment of Medicare if assuming the lump sum amount was accrued in the appropriate year a person during the relevant years was never liable for Medicare due to their low income or was liable for a reduced rate of Medicare.

Currently the Medicare levy for an individual phases in at 10% of every \$1 for income between \$24,276 and \$30,345 or \$28,365 and \$47,956 for an individual in receipt of a seniors and pensioners tax offset¹. The legislation as currently drafted does not try to recoup Medicare in respect of the lump sum that falls in this zone. The amount of Medicare lost

¹ <https://www.ato.gov.au/individuals-and-families/medicare-and-private-health-insurance/medicare-levy/medicare-levy-reduction/medicare-levy-reduction-for-low-income-earners>

could vary from \$0 to \$4,795.60 per a year per a person. From the budget announcement is not clear whether this was intended, although it is a practical solution to a difficult calculation.

Applying this measure

Low-income earners may not use an accountant and would generally have higher priorities to deal with than adjustments to their Medicare levy. It is unrealistic to think that low-income earners will know of or be able to utilise this measure themselves.

The employer who makes the payment, will however, be required to report via single touch payroll the lump sum payment and break it down by relevant year if the lump sum payment is for more than \$1,200 and relates to periods more than 12 months ago². The Australian Taxation Office currently determines the consequences of lump sums in arrears³. Continuation of this practice is appropriate to ensure those that are meant to benefit from this measure do so.

Should you have any queries please contact me on [REDACTED]

Sincerely,

Susan Franks

Senior Tax Advocate

² <https://www.ato.gov.au/businesses-and-organisations/hiring-and-paying-your-workers/single-touch-payroll/in-detail/single-touch-payroll-phase-2-employer-reporting-guidelines/reporting-the-amounts-you-have-paid/back-pays>

³ <https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/tax-offsets/lump-sum-payment-in-arrears-tax-offsets>