

Our clients commonly ask why they are paying the Medicare Levy when they hold appropriate level Private Health Insurance.

The confusion comes with the similar names however Medicare Levy and Medicare Levy Surcharge are different. **Medicare Levy Surcharge** is the one that is linked to holding Private Health Insurance (PHI).

## Medicare Levy

The Medicare levy helps fund some of the costs of Australia's public health system known as Medicare. The Medicare levy is **2% of your taxable income**, in addition to the tax you pay on your taxable income.

You may get a reduction or exemption from paying the Medicare levy, depending on you and your spouse's circumstances.

## Medicare Levy Surcharge

The Medicare Levy Surcharge (MLS) occurs if you, your spouse and all your dependent children **don't have an appropriate level of private patient hospital cover** and **you earn above an income threshold**.

The MLS is designed to encourage people to take out private patient hospital cover and use the private hospital system. This is aimed to reduce demand on the public Medicare system.

The ATO use a special definition of income (called Income for MLS Purposes) to work out if you have to pay the MLS and the percentage rate you will pay. This income is different from your taxable income.

The relevant threshold depends on your circumstances during the financial year. If you have a spouse and/or dependent children, then you are entitled to apply **the family threshold**. This increases the amount of income you and your spouse

Depending on how far over the threshold you are, your MLS rate could be 1%, 1.25% or 1.5% of your taxable income.

Once you cross your MLS threshold in an income year you are liable for the whole income year unless you have appropriate level Private Health Insurance for you and all your dependents (including children).

If you are covered by PHI for part of the year, then you will be exempt for that portion of the year.

If you believe you will cross an income threshold within a financial year it is worth investigating Private Health Insurance to make an informed decision on your coverage as soon as possible.

**NOTE:** In some cases, both the Medicare Levy and Medicare Levy Surcharge (MLS) may apply.



A great government website with lots of information and the opportunity to compare policies is [privatehealth.gov.au](https://privatehealth.gov.au).