



**Submission to the**

**Australian Treasury**

**Phase-out of the Net Medical Expenses Tax Offset**

**20 December 2013**

## Introduction

The Australian Healthcare & Hospitals Association (AHHA) welcomes the opportunity to provide a submission to the Australian Treasury's consultation on on draft legislation and explanatory materials to implement the 2013-14 Budget measure to phase-out the net medical expenses tax offset (NMETO).

The AHHA is Australia's national peak body for public hospitals and health care providers. Our membership includes state health departments, Local Hospital Networks and public hospitals, community health services, Medicare Locals and primary healthcare providers, universities, and individual health professionals and academics. We are uniquely placed to be an independent, national voice for universal high quality healthcare to benefit the whole community.

The AHHA strongly opposes the wholesale scrapping of the NMETO and believes that the justification proposed by the Government is flawed.

In its current form the NMETO provides financial relief for Australian's who incur net medical expenses in excess of \$2,120 for individuals with an adjusted taxable income (ATI) of \$84,000 or less and in excess of \$5,000 for individuals with an ATI of over \$84,000. Income thresholds are doubled for families.

The rationale for the scrapping of the NMETO is that it provides minimal benefit to those most in need of assistance, lower income Australians. This is due to the nature of tax-offsets which entails:

- The size of the benefit being limited by the claimants tax liability and
- The benefit not occurring at the time the expenses is incurred but on lodging of a tax return.

The AHHA acknowledges that these characteristics do limit the benefit provided but refute the argument that this justifies the scrapping of the entitlement.

According to the Australian Tax Office analysis of 2010-11 tax data over 800,000 tax returns were lodged that included a NMETO claim. The NMETO claims totalled \$567 million.

Of these around 550,000 (70%) were from individuals whose taxable income was below the threshold of \$84,000 entitling them to a 20% offset<sup>1</sup>.

Fifteen percent of claims (totaling \$64M) were submitted by individuals whose taxable income was below the median annual income level.

The thresholds for the NMETO are based on the thresholds used to determine the application of the Medicare levy surcharge. The surcharge is intended to apply to higher income Australians with the capacity to afford private health insurance. This mechanism to determine the NMETO threshold,

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<sup>1</sup> Variation between taxable income and adjusted taxable income will affect the exact number of individuals receiving/entitled to benefits

gives tacit acknowledgement that individuals with an ATI below \$84,000 have limited capacity to afford out-of-pocket health care expenses.

The scrapping of the NMETO will increase the out-of-pocket health costs of over half a million Australians who are already deemed to face financial challenges related to healthcare costs.

The AHHA recognises the Government's desire to contain expenditure but believes that this savings measure is poorly targeted and the attempt to reduce unnecessary benefits to higher income Australians will have a detrimental effect on those Australian already struggling to afford appropriate healthcare.

In summary the AHHA:

- refutes claims that the NMETO provides limited assistance to low-income Australians
- supports Government policies providing financial relief that are appropriately targeted
- recommends reviewing income thresholds and ceilings for medical expense rebates as a more appropriate budgetary measure than scrapping the NMETO completely
- believes that should the phase-out of the NMETO proceed, the savings generated must be returned to low-income Australians to reduce out-of pocket health care costs

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