

24 July 2007

Media release

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\$230 million Medicare Levy Surcharge tax scam

High income earners are using low-cost private health insurance products to avoid the Medicare Levy Surcharge according to a report released today by the Australia Institute.

The Institute's analysis uses unpublished ABS data to estimate that the practice is costing Australian taxpayers \$230 million a year in lost revenue.

The findings are made in *Using cheap private health insurance to avoid the Medicare Levy Surcharge: What is the cost to taxpayers?*, by the Institute's Deputy Director, Andrew Macintosh.

The report analyses the extent to which registered health funds are offering cheap policies to enable people to avoid the surcharge.

"An elaborate market has been created to service high income earners wanting to avoid the Medicare Levy Surcharge by obtaining substandard hospital insurance policies", Mr Macintosh said.

"Almost all registered health funds now offer low-cost products that provide very little in the way of health cover and seem to have been created primarily for the purpose of reducing people's tax burden."

The practice of purchasing cheap policies to avoid the surcharge lowers tax revenues without providing the offsetting benefit of reduced pressure on the public hospital system, which is the object of the surcharge policy.

"The evidence suggests the practice of using substandard policies to avoid the surcharge and gain a tax benefit is widespread, with almost 220,000 families and couples and 160,000 single taxpayers in the high income category obtaining private health insurance to avoid the Medicare Levy Surcharge or to gain some other government benefit in 2004/05," Mr Macintosh said.

The report estimates that the practice of using low-cost hospital insurance products to avoid the surcharge resulted in tax losses of between \$110 and \$250 million in 2004/05, with a best estimate of \$230 million.

"The Federal Government needs to reduce the scope for this tax rort by tightening the rules on the eligibility of private health insurance products and ensuring high-income earners with private health insurance use the policies when they obtain services in public hospitals," Mr Macintosh said.