



**Queensland Government**  
**Treasury**

Queensland Treasury Response to  
Commonwealth Grants Commission  
Position Paper 2008/08

**Insurance Tax**

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## **SUMMARY OF QUEENSLAND'S POSITION**

As with the majority of revenue assessments, Queensland believes that there is little to be gained by simplifying the insurance tax assessment. The current 2004 Review methodology is relatively robust, measures the revenue base and is based on reliable data. Any simplification is likely to be largely presentational.

Queensland believes that the most appropriate measure of state revenue raising capacity is the total premium revenue from the Australian Prudential Regulation Authority (APRA). The APRA data is currently used in the 2004 Review methodology and should continue to be used to measure revenue raising capacity for insurance revenue in the 2010 Review.

Queensland considers that Compulsory Third Party (CTP) premiums should continue to be assessed as a separate component, as in the 2004 methodology, to reflect the differences in tax rates and revenue raising capacities between states.

Queensland proposes assessing the fire services levy differentially in the insurance tax assessment category. The conceptual basis is strong and Queensland has several approaches for assessing fire services levies differentially.

### ***Key Issues***

- Separate components for general insurance and CTP; and
- A differential assessment of the fire services levy.

## **METHODOLOGICAL ISSUES**

The Commission proposes to assess an Insurance tax category:

- based on revenue raised from general and life insurance and CTP insurance in that category; and
- remove premium revenue from the forms of insurance not normally taxed by states (i.e. employer's liability insurance and reinsurance premiums) and fire insurance levies.

Queensland has consistently argued that, for the most part, revenue assessments are not in need of substantial change from the 2004 methodologies. In the majority of cases, these assessments are based on sound conceptual methodologies and reliably measure the differences in states' capacity to raise revenue.

Queensland considers that the proposed methodology for the insurance tax assessment is neither simpler nor improves the equalisation outcome. The proposal to combine CTP premiums with general and life insurance ignores the significant differences in tax rates between CTP and general insurance, resulting in an equalisation outcome that is less robust.

### ***Broad Indicator***

Queensland believes that the best measure of a state's capacity to raise revenue from insurance is the total value of general and life insurance premiums. Insurance tax is levied on the value of insurance premiums, and therefore if a reliable measure of these premiums is available it should be used.

Total premium data is available from APRA and this data is used in the current insurance assessment and forms the basis of a reliable assessment. The APRA data is fit for purpose, comparable and the most reliable data available to measure insurance premiums.

### ***Compulsory Third Party***

The Commission’s proposal to separately assess Compulsory Third Party (CTP) premiums on materiality grounds will result in a major difference in state revenue raising capacity being omitted from the assessment. The Australian average CTP is tax rate is much lower than general insurance.

Victoria, Western Australia and South Australia tax CTP premiums at the same rates as general insurance. New South Wales, the Australian Capital Territory and the Northern Territory do not levy tax on CTP premiums whilst Queensland and Tasmania use flat rates that are lower than general insurance.

**Table 1: Comparisons of Insurance Tax Rates**

	<b>NSW (%)</b>	<b>Vic (%)</b>	<b>QLD</b>	<b>WA (%)</b>	<b>SA</b>	<b>Tas</b>	<b>ACT (%)</b>	<b>NT (%)</b>
<b>General</b>	9	10	7.5%	10	\$11**	8%*	10	10
<b>CTP</b>	-	10	10c*	10	\$11**	\$6*	-	-

\*Flat rate

\*\* Rate per \$100 of premium

Source-NSW Treasury Interstate Comparison of Taxes 2007-08

Queensland believes that assessing CTP and general premiums as separate components of the insurance tax assessment will provide an accurate reflection of states revenue base and more closely align with ‘what states do’. Having components in the insurance tax assessment would be consistent with the methodology proposed other assessments, such as the Motor Vehicle Tax assessment.

A methodology with CTP and general premium components would also be consistent with the treatment of revenue exempt from insurance tax, where the Commission removes premiums that are exempt from insurance tax because it reflects ‘what states do’.

Queensland considers that consistency is a crucial aspect of the review process if the results are to be robust, reliable and comparable.

### ***Fire Services Levies***

The Commission has previously accepted the case for differential assessment of fire services levy (FSL) on the basis that states have significant differences in their capacities to raise revenue from this source. Queensland considers that this conceptual case is still valid and that to assess these revenues as EPC will ignore material differences and produces an assessment that will not reflect ‘what states do’.

Queensland proposes the Commission assess FSL on a differential basis in the insurance revenue assessment. The simplest approach to doing this would be to simply add the FSL revenue identified in states’ revenue data requests to the revenue base for insurance revenue assessment and apply the general insurance factor. This would eliminate the need to remove the FSL for those states that raise it through insurance premiums and ensure a transparent and robust assessment of FSL.

An alternative simple method for making a differential assessment of FSL would be to create a separate component and use the current data source, premium revenue for fire and industrial special risk and house owners, to develop an FSL factor.

### ***Non-Liable Premiums***

The proposal to remove premiums that are exempt from insurance tax from the revenue base is appropriate as it reflects 'what states do' and makes the proposed insurance tax assessment more robust.

## **CONCLUSION**

Queensland supports the Commission's proposal to assess insurance revenue using total premium revenue data from APRA. Queensland believes that to ensure consistency, and reflect 'what states do', the Commission should assess CTP premiums as a separate component within the Insurance tax assessment. Further, fire services levies should be assessed differentially in the insurance tax assessment.

Queensland supports the removal of non-liable premiums from the revenue base as this reflects how states raise revenue.