



Response to Commission Position Paper CGC 2008/08:

Insurance tax

Department of Treasury and Finance

January 2009

1. Tasmania supports the use of insurance premium data less premium revenue from employer's liability insurance, reinsurance premiums and fire insurance levies as a measure of the insurance tax base. This is, in effect, a direct and transparent measure of the actual tax base that states access.
2. Tasmania does not support the combined assessment of compulsory motor vehicle third party insurance and life insurance.
3. In its response to the Staff Discussion Paper in 2007, Tasmania asked the Commission staff to investigate the materiality of assessing the CTP base as a separate component rather than as a combined assessment with life insurance. Commission staff have provided the results of this investigation arguing that the difference between the two approaches is less than \$10 per capita for any state and hence does not produce a materially different outcome. Tasmania considers that the application of the \$10 per capita test for this purpose is not appropriate.
4. Tasmania has stated in other submissions that it generally considers a \$10 per capita test to be excessive in the case of revenue disabilities. Disabilities on the revenue side of the Commission's assessments are different in characteristics to those on the expenditure side. Adjustments for disabilities on the revenue side are generally very simple to make and are robust. In this context, their simplicity in terms of application resemble data adjustments, rather than the complexity of finding a new, suitable measure for a disability as might occur with an expenditure category.
5. In the case of insurance tax, the difference between a combined assessment and including a separate assessment for CTP insurance is one more of 'conceptual' rather than 'practical' simplicity. Insurance tax is already a very simple category that at the commencement of the 2010 Review was far from any jurisdictions priority in terms of needing simplification. In fact, it seems unnecessary to have undertaken little, if any, investigation of this category in the first place.
6. A separate assessment of CTP insurance would better reflect what states do, given the average rate of tax on CTP insurance differs to the average rate of tax on general and life insurance.
7. If a \$3 per capita test were applied to the Commission's proposed approach, then according to Table 2 in the Commission Position paper, the difference between the two approaches would produce a materially different outcome for Tasmania, ACT and Northern Territory.