

CHAPTER 6

INSURANCE TAX

WHAT IS INCLUDED IN THE INSURANCE TAX CATEGORY?

- 1 This category includes duties for various forms of insurance that are mostly levied on premiums. They are imposed on insurance companies, who pass the burden on to their customers.
- 2 Insurance taxes are narrowly based transaction taxes and are a comparatively small source of revenue (Table 6-1). They represented 3.4 per cent of own-source revenue in 2008-09 and that proportion has been relatively constant over recent years (see Table 6-2).

Table 6-1 Insurance tax category revenue, 2008-09

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|---------------------------------|--------|--------|--------|--------|--------|-------|--------|--------|---------|
| Category revenue (\$m) | 841.6 | 798.5 | 490.8 | 397.3 | 326.9 | 43.0 | 37.4 | 27.1 | 2 962.7 |
| Total (\$pc) | 119.52 | 148.84 | 112.83 | 180.26 | 202.82 | 85.95 | 107.61 | 122.38 | 136.90 |
| Proportion of State revenue (%) | 3.4 | 3.9 | 2.4 | 3.7 | 5.2 | 2.6 | 1.9 | 2.6 | 3.4 |

Source: Commission calculation using State data.

Table 6-2 Insurance tax as a proportion of State own-source revenue

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|--|----------|----------|----------|----------|
| Total for category (\$m) | 2 418.6 | 2 622.9 | 2 770.2 | 2 962.7 |
| Total own source revenue (\$m) | 78 043.0 | 86 408.3 | 87 598.6 | 87 173.8 |
| Proportion of total own source revenue (%) | 3.1 | 3.0 | 3.2 | 3.4 |

Source: Commission calculation using ABS GFS data and State data.

The average revenue raising policy

- 3 Duty is payable on the main forms of insurance in the following ways:
 - life insurance, where all States, except for South Australia and Western Australia, impose a single rate of duty on the sum insured. South Australia imposes the duty on annual premiums and Western Australia does not impose the duty;

- general insurance (such as private motor vehicles, occupational indemnity and home and contents), where all States impose a single rate of duty on premiums with that rate varying between 7.5 per cent and 11.0 per cent; and
 - compulsory third party (CTP) motor insurance, where three States (Western Australia, South Australia and Victoria) impose a single rate of duty on premiums; two States (Queensland and Tasmania) impose a flat fee; and three States (New South Wales, the ACT and the Northern Territory) do not tax CTP insurance.
- 4 Some forms of insurance (such as workers compensation insurance and reinsurance) are not dutiable.

ASSESSMENT APPROACH

Overview

- 5 The Commission considers a separate Insurance tax category is warranted because material amounts of revenue are collected from the tax and the interstate distribution of the revenue base differs from that of other turnover type taxes, such as stamp duty on conveyances.
- 6 Consistent with the terms of reference, the Commission has sought a broad measure of insurance tax revenue capacity. It has chosen premiums paid for the taxable types of insurance because most of the tax revenue is collected on the basis of premiums. It is a simple approach and reliable data on insurance premiums are available.
- 7 Most States support the use of premiums as the measure of the revenue base. However, some would have preferred the Commission to make a separate assessment of CTP insurance, as it had in the previous review. The Commission considered this option, but decided against it because a separate assessment would not have a material effect on State outcomes.
- 8 The Commission has calculated the average effective rate of duty as the ratio of the total duty collected to the total taxable insurance premiums.

The scope of taxable transactions

- 9 Reflecting the types of insurance subject to duty in most States, the Commission has defined the insurance tax revenue base as the value of premiums paid on general, life and CTP insurance but excluding premiums for workers compensation insurance and reinsurance. We also excluded revenue from fire and emergency services levies collected by insurance companies, because these levies are more in the nature of a user charge than a transactions tax. These levies are assessed in the Other revenue category.

ASSESSMENT METHOD

- 10 The insurance tax revenue base is measured using confidential insurance premium data obtained from the Australian Prudential Regulation Authority (APRA). APRA provides data

on total insurance premiums, as well as premiums for the two exempt forms of insurance (workers compensation insurance and reinsurance).

- 11 The revenue base is total premiums for general, life and CTP insurance less the exempt premiums and revenue collected from the fire and emergency services levies.
- 12 Due to a one year lag in the availability of premium data from APRA, the data for the most recent assessment year are estimated by the Commission. This is done by escalating each State's premiums from the previous year by movements in its insurance tax collections¹, adjusted for the effects of any changes in tax effort. Table 6-3 shows the revenue base for 2008-09. Its calculation is not shown, because the data are confidential.
- 13 Table 6-3 calculates assessed revenues for 2008-09 by applying each State's share of the revenue base to total insurance tax revenue. This is equivalent to applying the average effective rate of tax of 11.43 per cent² to each State's revenue base. Table 6-3 also sets out each State's revenue raising capacity (its assessed revenue per capita divided by the Australian average revenue per capita).

Table 6-3 Calculation of assessed revenue and revenue raising capacity, 2008-09

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Actual revenue (\$m) | 841.6 | 798.5 | 490.8 | 397.3 | 326.9 | 43.0 | 37.4 | 27.1 | 2 962.7 |
| Revenue base (\$m) | 9 258.5 | 6 203.5 | 4 919.6 | 2 580.9 | 1 905.5 | 453.6 | 379.6 | 215.8 | 25 916.9 |
| Average rate of tax (%) | | | | | | | | | 11.43 |
| Assessed revenue (\$m) | 1 058.4 | 709.1 | 562.4 | 295.0 | 217.8 | 51.9 | 43.4 | 24.7 | 2 962.7 |
| Population (million) | 7.0 | 5.4 | 4.3 | 2.2 | 1.6 | 0.5 | 0.3 | 0.2 | 21.6 |
| Assessed revenue (\$pc) | 150.31 | 132.19 | 129.30 | 133.86 | 135.12 | 103.65 | 124.74 | 111.28 | 136.90 |
| Revenue raising capacity | 1.09796 | 0.96558 | 0.94449 | 0.97780 | 0.98705 | 0.75711 | 0.91122 | 0.81287 | 1.00000 |

Note: The average tax rate is equal to total actual revenue divided by the total revenue base.

A State's assessed revenue is equal to total revenue multiplied by its share of the revenue base.

Source: Commission calculation using ABS GFS revenue data and APRA premium data.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

- 14 Table 6-4 shows the extent to which the Insurance tax assessment moves the recommended distribution of the GST for the 2010 Review away from an equal per capita distribution. New South Wales is assessed to have above average revenue raising capacity, reflecting the relatively high value of premiums paid in the State. The Insurance tax assessment redistributes GST revenue from it to the other States.

¹ The Commission assumes premium revenue data change in line with movements in States actual insurance revenues.

² The average effective rate of tax is the total revenue collected (\$2 962.7 million in Table 6-3) divided by the total revenue base (\$25 916.9 million in Table 6-3).

Table 6-4 Impact on the GST distribution of the Insurance tax assessment

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|--------------------|--------|------|------|------|------|-------|-------|-------|--------|
| Dollars million | -110.3 | 21.5 | 43.4 | 9.5 | 6.5 | 16.3 | 7.0 | 6.1 | 110.3 |
| Dollars per capita | -15.48 | 3.94 | 9.75 | 4.19 | 4.01 | 32.36 | 19.72 | 27.00 | 5.01 |

Note: The difference from an equal per capita assessment, derived using 2006-07 to 2008-09 assessed revenue and 2009-10 GST.

Source: Commission calculation.

- 15 Table 6-5 provides a summary of the main reasons for changes between the recommended and the 2009 Update distributions. The biggest change is the change in methods. The change mainly reflects the elimination of a separate assessment for CTP insurance.
- 16 Shortening the review period gives more weight to the more recent years when per capita premium revenues were comparatively higher in Queensland, Western Australia, Tasmania and the Northern Territory. Changes in State circumstances have the smallest impact. Growth in premium revenue per capita in New South Wales was below average between 2005-06 and 2008-09 (see Table 6-6), reducing its assessed revenue raising capacity and increasing its share of the GST revenue.

Table 6-5 Changes since the 2009 Update, Insurance tax

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|------------------------------|------|------|-------|------|------|------|------|------|--------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Shortening the review period | 10.9 | 5.5 | -6.9 | -9.1 | 1.2 | -1.4 | 0.0 | -0.3 | 17.7 |
| Method changes | 13.3 | -1.8 | -2.9 | 5.9 | -8.2 | -1.9 | -3.7 | -0.7 | 19.2 |
| State circumstances | 12.3 | 1.2 | -8.4 | -2.0 | -0.7 | -0.3 | -1.8 | -0.3 | 13.5 |
| Total | 36.5 | 4.9 | -18.2 | -5.1 | -7.7 | -3.6 | -5.5 | -1.3 | 41.5 |

Source: Commission calculation.

Table 6-6 Premium revenue per capita

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|--|----------|----------|----------|----------|----------|--------|----------|--------|----------|
| | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc |
| 2005-06 | 1 264.37 | 1 063.73 | 982.03 | 1 049.07 | 1 071.80 | 789.57 | 857.93 | 841.93 | 1 100.99 |
| 2008-09 | 1 314.87 | 1 156.34 | 1 131.07 | 1 170.97 | 1 182.04 | 906.68 | 1 091.24 | 973.46 | 1 197.55 |
| Percentage change 2005-06 to 2008-09 (%) | 3.99 | 8.71 | 15.18 | 11.62 | 10.29 | 14.83 | 27.19 | 15.62 | 8.77 |

Source: Data provided by the Australian Prudential Regulation Authority, except for 2008-09 which has been estimated by the Commission.

UPDATE PROCESS

- 17 We recommend that data used in these assessments be updated when new data become available to ensure the relativities remain contemporary and consistent with the circumstances of the States. On this basis we expect that all data used in the calculation of the revenue bases and assessed revenues for the latest year would be updated annually. This would cover any

new or revised data on insurance premium revenue from the APRA and the insurance tax revenue data from the States.

SIMPLIFICATION

- 18 The Insurance tax assessment has been simplified by removing a separate assessment of CTP insurance premiums. We did this because we found it was not material to have two assessments.

FURTHER INFORMATION

- 19 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:
- Commission issues paper *2005-01 Materiality and reliability*;
 - Staff discussion paper *2006-07 Disaggregating revenue*;
 - Staff discussion paper *2007-03 Proposed methods for Revenue Assessments*;
 - Commission position paper *2008-09 Insurance tax*; and
 - *2010 Review Draft Report*.