




Australian Government
Commonwealth Grants Commission

2025 Methodology Review

Insurance tax consultation paper

June 2023

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Submissions sought by	<p>13 October 2023</p> <p>Submissions should be placed in your private state or territory channel in CGC Engagement Teams, with a post notifying Katrina Baldock.</p> <p>Submissions should be in Word format and posted in the relevant state channel of the CGC engagement Team. Submissions more than 10 pages in length should include a summary section.</p>
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CONTENTS

Overview of category	4
Current assessment method – 2020 Review	4
Data used in the assessment	5
Category and component revenue	5
GST distribution in the 2023 Update	6
What has changed since the 2020 Review?	6
Proposed assessment	7
Differences from the 2020 Review approach	7
Proposed assessment structure	7
Consultation	7

Overview of category

- 1 The category consists of revenue from duties levied on the premiums paid for a range of insurance products. Insurance tax is generally collected from insurance companies but passed onto consumers.
- 2 The category excludes revenue from insurance-based fire and emergency services levies, which are offset against expenses in the other expenses category.
- 3 For the revenue included in this category, state capacity is assessed using the total value of general insurance premiums paid in each state.¹ Premiums relating to workers' compensation insurance and compulsory third-party motor vehicle insurance, as well as insurance-based fire and emergency levies are excluded. Premiums paid to publicly owned insurers are also excluded.

Current assessment method – 2020 Review

- 4 States' capacities to raise insurance tax are assessed using the total value of premiums paid to general insurers (known as gross earned premiums) for insured risks in each state.²
- 5 Under the 2020 Review assessment method, the Commission makes 3 adjustments to the total general insurance premiums data to remove premiums that are heavily policy influenced and to improve the comparability of the capacity measure across states.
 - Workers' compensation premiums are removed as they are only taxed by one state and represent a large proportion of total premiums across all states. Including these premiums would misrepresent states' capacities to raise insurance tax.
 - Compulsory third-party premiums are removed as they are significantly influenced by state policy choices, including whether schemes are publicly or privately underwritten.³
 - Insurance-based fire and emergency services levies are removed, so as not to overstate the capacities of states that impose them.⁴ Revenue from these levies is not assessed in the insurance tax category and is instead offset against emergency services in the other expenses category.

¹ General insurance includes home and contents, motor vehicle, fire, public and product liability, mortgage, and professional indemnity insurance.

² General insurers are private sector insurers (other than life insurers) that are regulated by the Australian Prudential Regulation Authority. They offer various types of general insurance.

³ The Commission removes privately underwritten Compulsory Third Party premiums. Publicly underwritten Compulsory Third Party premiums are already excluded from the data on total general insurance premiums.

⁴ New South Wales and Tasmania collect insurance-based fire and emergency services levies. Revenue from these levies is included in the total premiums data for those states and is removed by the Commission.

- 6 Insurance duty is imposed on life insurance in 4 states.⁵ Revenue from life insurance duty is not easily removed from the category. In the 2020 Review the Commission concluded that this meant a separate assessment was not practical. Available data suggested it represented less than 5% of insurance tax revenue. Further, data on life insurance premiums are not included in the Commission’s total premiums data and are not publicly available by state. On practicality grounds, the Commission left life insurance tax revenue in the category and assesses it using the general insurance premiums revenue base.
- 7 On practicality grounds, revenue from duty on workers’ compensation (imposed by one state) and compulsory third-party insurance (imposed by 4 states) is also left in the general insurance category and assessed using the adjusted general insurance premiums revenue base. These revenues are not reported consistently which means a separate assessment is not practical. Available data suggests they are small relative to total insurance tax revenue.

Data used in the assessment

- 8 Data on the revenue raised by states are sourced from the Australian Bureau of Statistics Government Finance Statistics and, for the last assessment year, from State Revenue Offices.⁶
- 9 Data on the total premiums paid for general insurance in each state are sourced from the Australian Prudential Regulation Authority.⁷

Category and component revenue

- 10 While insurance tax revenue increased between 2018–19 to 2021–22, it remained relatively stable as a share of total own-source revenue (Table 1).

Table 1 Insurance tax revenue, 2018–19 to 2021–22

	2018–19	2019–20	2020–21	2021–22
Total revenue (\$m)	5,542	5,802	6,137	6,728
Share of total own-source revenue (%)	4.2	4.6	4.4	4.1

Source: Commission calculation.

- 11 States raised \$6,728 million from insurance tax in 2021–22, representing 4.1% of total own-source revenue (Table 2).

⁵ New South Wales, Queensland and Tasmania impose life insurance duty on the sum insured. South Australia imposes life insurance duty on the annual premiums.

⁶ Unless otherwise stated, category and component revenue for the first two assessment years are sourced from GFS. States provide data for the most recent assessment year because GFS data are not available.

⁷ The APRA data are gross earned premiums of direct insurers, separated into different classes of insurance. Direct insurers are private sector insurers registered under the *Insurance Act 1973*. The data exclude premiums for reinsurance and private health insurance, which are not liable for insurance tax in any state. They also exclude premiums paid to public sector insurers.

Table 2 Insurance tax revenue, by state, 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total revenue (\$m)	2,120	1,724	1,263	845	564	120	27	65	6,728
Total revenue (\$pc)	262	263	240	306	312	210	59	260	261
Share of state own-source revenue (%)	4.2	4.7	3.7	3.1	6.3	4.2	0.8	3.9	4.1

Note: The ACT does not impose insurance tax. Its insurance-related revenue is from its Ambulance Levy and Safer Families Levy.
Source: Commission calculation.

12 Table 3 shows the capacity measure that applies to the insurance tax assessment.

Table 3 Structure of insurance tax assessment, 2021–22

Component	Component revenue	Driver	Influence measured by driver
	\$m		
Insurance tax	6,728	Value of premiums	Recognises states with greater value of property insured have a greater revenue capacity.

Source: Commission calculation.

GST distribution in the 2023 Update

13 Table 4 shows the extent to which the assessment results in a different distribution of GST compared with an equal per capita distribution. In the 2023 Update, the distribution of GST from the insurance tax assessment differed by \$300 million (\$11 per capita) compared to an equal per capita assessment. States assessed to have above-average capacity to raise insurance tax (New South Wales and South Australia) had lower GST needs. The remaining states were assessed to have below-average revenue capacity, and higher GST needs.

Table 4 GST impact of insurance tax assessment, 2023–24

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total (\$m)	-186	122	45	72	-114	36	21	4	300
Total (\$pc)	-23	18	8	25	-61	61	44	17	11

Source: Commission calculation, 2023 Update.

14 Further detail on the Insurance tax assessment, the scope of the adjusted budget and the underlying conceptual cases for assessment methods are explained in Volume 2 Chapter 9 – [Report on GST Revenue Sharing Relativities, 2020 Review](#).

What has changed since the 2020 Review?

15 The Commission’s preliminary view is that there have been no developments that warrant changing the method for the Insurance tax assessment.

Consultation question

Q1. Do states support the continuation of the insurance tax assessment in its current form?

Proposed assessment

Differences from the 2020 Review approach

16 Subject to state views, the Commission does not propose to make any changes to its 2020 Review approach.

Proposed assessment structure

17 Table 5 shows the proposed structure of the insurance tax assessment for the 2025 Review.

Table 5 Proposed assessment structure for Insurance tax assessment

Component	Driver	Influence measured by driver	Change since 2020 Review?
Insurance tax	Value of premiums	Recognises states with greater value of insurance premiums have a greater revenue capacity	No

Source: Commission calculation.

Consultation

18 The Commission welcomes state views on the consultation question identified in this paper (outlined below) and the proposed assessment. State views should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1. Do states support the continuation of the insurance tax assessment in its current form?