

# Insurance tax

## Overview

- 1 On 13 June 2023, the Commission issued a [consultation](#) paper on the insurance tax assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 The Commission proposed to retain the 2020 Review assessment method.
- 3 A summary of state and territory (state) responses to each consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed [here](#).

## Consultation questions

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

#### State views

- 5 Most states supported the continuation of insurance tax assessment in its current form. Victoria did not comment on this assessment.

#### Commission response

- 6 The Commission considers there have been no developments since the 2020 Review that warrant changing the method for the insurance tax assessment.

#### Commission draft position

- 7 The Commission proposes to continue to assess states' capacities to raise insurance tax using the value of general insurance premiums paid in each state, excluding workers' compensation premiums, compulsory third-party insurance premiums and insurance-based fire and emergency services levies.<sup>1</sup>

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<sup>1</sup> New South Wales and Tasmania collect insurance-based fire and emergency services levies (although New South Wales has announced an intention to abolish these levies). Revenue from these levies is included in the total premiums data for those states and is removed by the Commission.

## Other issues raised by states

### An elasticity adjustment

- 8 New South Wales said the Commission should consider an elasticity adjustment in the category. It noted that an elasticity adjustment based on the estimate produced by the Commission's consultants was not material at the \$10 per capita data materiality threshold in the 2020 Review. However, it said an adjustment would be material (at the \$12 per capita data adjustment threshold for the 2025 Review) if revenue from insurance-based fire and emergency levies was included with insurance tax revenue for the purposes of calculating an elasticity adjustment. It said including fire and emergency services levies for this purpose was appropriate since those levies reduce the total insurance premiums paid in the state.

### Commission response

- 9 Given the significant complexities and uncertainties involved in implementing an elasticity adjustment, the Commission proposes not to introduce an elasticity adjustment in any revenue assessment for the 2025 Review. Further discussion of the issues involved in implementing elasticity adjustments can be found in the chapter on stamp duty on conveyances.
- 10 The Commission does not consider there is a strong case for including revenue from the insurance-based fire and emergency services levies in the calculation of an elasticity adjustment for insurance tax. This is because this revenue is assessed elsewhere and states have announced that the levies are being abolished.<sup>2</sup> The insurance-based fire and emergency services levies collected by New South Wales and Tasmania are not assessed in this category. Instead, those levies are treated as user charges and the revenue raised is offset against emergency services in the other expenses category. New South Wales has announced an intention to cease collecting insurance-based levies, although the timing of the abolition is not yet clear.<sup>3</sup>

### Commission draft position

- 11 The Commission proposes not to introduce an elasticity adjustment in the category for the 2025 Review.

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<sup>2</sup> Tasmania has paused the reform of its Fire Services Levy. See Minister for Police, Fire and Emergency services press release, 14 February 2024, [https://www.premier.tas.gov.au/site\\_resources\\_2015/additional\\_releases/no-new-fire-levy](https://www.premier.tas.gov.au/site_resources_2015/additional_releases/no-new-fire-levy).

<sup>3</sup> [Consultation begins on reforming Emergency Services Levy | NSW Government](#)

## **Duty on workers' compensation premiums and compulsory third-party insurance premiums**

- 12 South Australia said that it does not support including duty on workers' compensation premiums and compulsory third-party insurance in the category. It said, for consistency purposes, if workers' compensation premiums and compulsory third-party premiums are removed from general insurance premiums, then the associated duty should also be removed.

### **Commission response**

- 13 The Commission removes workers' compensation premiums from the assessed revenue base as they are only taxed by one state (at a concessional rate) but represent a large proportion of total premiums across all states. Including them would misrepresent states' relative capacities to raise insurance tax.<sup>4</sup>
- 14 The Commission removes compulsory third-party premiums as they are significantly policy influenced. For example, they reflect whether the scheme is privately or publicly underwritten, the levels of coverage and benefits, and differences in the quality of claims management.
- 15 While it excludes workers' compensation and compulsory third-party premiums from its measure of the revenue base, the Commission does not remove the revenue raised from duty on these forms of insurance from the category. The revenue raised from the duties on these 2 forms of insurance cannot be reliably separated from other insurance duties in ABS Government Finance Statistics.<sup>5</sup> However, available data suggest that these revenues are likely to be small relative to total insurance tax revenue.<sup>6</sup> The Commission does not consider a separate state data request would be warranted for 2 relatively small data adjustments.

### **Commission draft position**

- 16 On practicality grounds, the Commission proposes to leave these revenues in the insurance tax category.

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<sup>4</sup> Only Queensland imposes duty on workers' compensation premiums.

<sup>5</sup> Revenue from workers' compensation duty is not separately reported in Government Finance Statistics. Revenue from compulsory third-party insurance duty is not reported consistently across states in Government Finance Statistics.

<sup>6</sup> Four states impose duty on compulsory third-party insurance.

## Draft 2025 Review assessment method

17 Following consideration of state views, the Commission proposes to retain the 2020 Review assessment method.

18 Table 1 shows the proposed structure of the 2025 Review insurance tax assessment.

**Table 1 Proposed structure of the 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

## Indicative distribution impacts

19 No method changes are proposed for this assessment.