# Insurance tax

## Review outcomes

* No changes were made to the assessment method for insurance tax.
* Duties on workers’ compensation premiums and compulsory third-party insurance premiums will continue to be included in the insurance tax category.
* As part of the Commission’s forward work program, it will consider how the complexities and uncertainties associated with elasticity adjustments in revenue assessments, including insurance tax, might potentially be addressed in preparation for the next review.

## Introduction

On 6 July 2024, the Commission published the [Draft Report](https://www.cgc.gov.au/reports-for-government/2025-methodology-review/consultation/draft-report) for the 2025 Methodology Review.

The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](https://www.cgc.gov.au/reports-for-government/2025-methodology-review/consultation/tranche-1-consultation-papers) on the Commission’s [consultation paper](https://www.cgc.gov.au/sites/default/files/2023-06/2025%20Methodology%20Review%20-%20Consultation%20paper%20-%20Insurance%20tax_Final.pdf).

State submissions on the Draft Report can be viewed [here](https://www.cgc.gov.au/reports-for-government/2025-methodology-review/consultation/draft-report).

This chapter includes:

* an overview of the issues considered throughout the review
* the Commission’s response and decision on each issue.

A description of the assessment method can be found in the insurance tax chapter of the *Commission’s Assessment Methodology*.

## Issues considered

### Elasticity adjustments

The Commission considered the case for elasticity adjustments in its revenue assessments, including the insurance tax assessment. Elasticity adjustments would recognise that a state’s tax rate can affect the size of the relevant tax base. A state with an above-average tax rate may have a smaller observed revenue base than if it were to apply the average tax rate, and vice versa. In theory, if the elasticity effects on an observed revenue base could be reliably measured and were material, applying an elasticity adjustment would improve the policy neutrality of the assessment. A more detailed discussion on elasticity adjustments can be found in the stamp duty on conveyances chapter of *Review Outcomes*.

#### State views

Most states supported retaining the 2020 Review assessment method and did not support introducing an elasticity adjustment in the insurance tax category.

New South Wales 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. New South Wales said, however, including revenue from insurance-based fire and emergency levies with insurance tax revenue, would make an adjustment material. It said including fire and emergency services for this purpose only was appropriate since those levies reduce the total insurance premiums paid in the state.

New South Wales said it disagreed with the Commission’s decision to not implement an elasticity adjustment for specific revenue assessments. It said the Commission should incorporate an elasticity adjustment into the insurance tax assessment, as well as more broadly.

#### Commission response

The Commission does not consider there is a strong conceptual case for including revenue from the insurance-based fire and emergency services levies in the calculation of an elasticity adjustment for insurance tax. This revenue is assessed elsewhere, and New South Wales has announced that its levies are being abolished.[[1]](#footnote-2)

The insurance-based fire and emergency services levies collected by New South Wales and Tasmania are not assessed in the insurance category. Instead, those levies are treated as user charges and the revenue raised is offset against emergency services in the other expenses category.

There are significant complexities and uncertainties involved in implementing an elasticity adjustment, and these need to be resolved before an elasticity adjustment could be reliably introduced in any revenue assessment.

#### Commission decision

The Commission will not introduce an elasticity adjustment in the insurance tax assessment in this review. The Commission’s forward work program will consider how the complexities and uncertainties associated with implementing elasticity adjustments in revenue assessments, including insurance tax, might potentially be addressed in preparation for the next review.

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

South Australia said the Commission should remove revenue from duty on workers’ compensation insurance and duty on compulsory third-party insurance from the category.

#### State views

Most states supported retaining the 2020 Review assessment method and leaving the revenue from duty on workers’ compensation insurance and compulsory third-party insurance in the insurance tax category.

South Australia said that it did not support including duty on workers’ compensation premiums and compulsory third-party insurance in the category. It said, for consistency purposes, if the premiums for these types of insurance were removed from general insurance premiums in the calculation of the revenue base, then the associated duty should also be removed.

#### Commission response

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.[[2]](#footnote-3)

The Commission removes compulsory third-party premiums as they are significantly policy influenced. For example, they reflect whether the relevant state scheme is privately or publicly underwritten, the levels of coverage and benefits, and differences in the quality of claims management.

While the Commission excludes workers’ compensation and compulsory third‑party premiums from its measure of the revenue base, it has not removed the revenue raised from duty on these forms of insurance from the category. The revenue raised from these duties could not be reliably separated from other insurance duties in ABS Government Finance Statistics.[[3]](#footnote-4)

Moreover, available data suggested that these revenues were likely to be small relative to total insurance tax revenue.[[4]](#footnote-5) The Commission did not consider a separate state data request would be warranted for 2 relatively small data adjustments.

#### Commission decision

The Commission will continue to include duties on workers’ compensation premiums and compulsory third-party insurance premiums in the insurance tax category.

## GST impacts of method changes

There are no method changes to this assessment.

1. New South Wales has begun consultations with key stakeholders regarding emergency services reform (see [NSW Emergency Services Funding Reform - Consultation Paper).](https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/3617/1271/3442/Emergency_Services_Funding_Reform_-_Consultation_Paper.pdf) Tasmania has paused the reform of its Fire Services Levy (see [Minister of Police, Fire and Emergency services press release](https://www.premier.tas.gov.au/latest-news/2024/february/no-new-fire-levy), 14 February 2024 [↑](#footnote-ref-2)
2. Only Queensland imposes duty on workers’ compensation premiums. [↑](#footnote-ref-3)
3. 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. [↑](#footnote-ref-4)
4. Four states impose duty on compulsory third‑party insurance. [↑](#footnote-ref-5)