



## Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 5

### **Insurance Tax**

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## **SUMMARY OF QUEENSLAND'S POSITION**

Queensland broadly supports the Commission's proposal for assessing insurance tax as contained in the Draft Report. The basis of the Draft Report proposal is similar to the 2004 Review approach, which used insurance premium revenue from the Australian Prudential Regulation Authority (APRA).

The Commission's proposal to combine compulsory third party (CTP) premiums and general insurance premiums is a variation from the 2004 Review methodology. Although Queensland has concerns regarding this change, in accordance with the Review guidelines it represents a suitable approach.

### ***Queensland's Position on Key Issues***

The insurance tax assessment to be finalised on the following basis:

- Insurance tax to be measured using APRA data on total premium revenue; and
- General insurance and CTP to be combined.

## **PROPOSED METHODOLOGY**

The Commission's proposal for assessing insurance revenue is to use the premium revenue from general and life insurance and CTP premiums as an indicator of revenue base. Premiums such as employer's liability and reinsurance not liable for tax will be removed from the revenue base. Fire services levies for those states that raise them via insurance premiums will also be removed from the revenue base.

The premium data will be provided by APRA and for the final assessment year will be estimated based on the growth in actual premiums.

## **ASSESSMENT APPROACH**

### ***Broad Indicator***

Queensland supports the Commission's proposal to assess the differences in revenue raising capacity for insurance revenue by using general insurance premiums as a revenue base. These premiums reflect the base on which taxes are imposed and represent the most appropriate basis for developing a robust assessment.

Queensland considers that insurance premiums can be comprehensively measured using data from the APRA. Premium data is comparable across states, directly measures the revenue base and is provided by an independent source, and is considered fit for purpose.

### ***Adjustments***

Queensland supports the Commission's proposal to remove workers compensation, reinsurance and fire and emergency services premiums from the revenue base. Workers compensation and reinsurance premiums are exempt from insurance tax and removing them results in an accurate reflection of the revenue base.

Fire and emergency services levies are removed from the revenue base because only NSW, Victoria and Tasmania raise them through insurance premiums. Removing these levies will ensure that the revenue base of these states is not overstated.

### ***Compulsory Third Party***

Queensland considers that there are significant differences in states capacities to raise revenue from compulsory third party (CTP) premiums. The rates of tax on CTP policies range from 10 cents per policy in Queensland to \$11 per \$100 premium value in South Australia while some states do not levy CTP.

Queensland believes that a separate CTP component within the insurance tax category is warranted to account for differences in revenue raising capacity. However, Queensland accepts the Commissions proposal to combine CTP with general premiums as a separate assessment would not meet the materiality threshold.

### ***APRA Data***

Queensland believes that the APRA data are the most appropriate data source that is available to measure the revenue base for insurance tax. The one shortcoming of the APRA data is that is not available in time to be used in the final assessment year. The Commission addresses this issue by estimating the final year premiums by applying the growth in actual insurance tax collections from states. In the absence of a sound alternative, Queensland supports the proposed adjustment process.