

INSURANCE TAX

- 1 This working paper describes how the Commission estimated the revenue each State would have raised from insurance taxes if it made the Australian average effort. The development of the assessment method is discussed in Volume 3 of the 2004 Review Working Papers.

INSURANCE TAXES

- 2 States levy insurance taxes on premiums for general and life insurance, including motor vehicle third party insurance. Insurance companies collect the stamp duty from customers when they pay their premiums.

WHY REVENUES RAISED FROM INSURANCE TAXES DIFFER BETWEEN STATES

- 3 Insurance tax averages about 4.4 per cent of total own-sourced revenue raised in recent years (Table 1).

Table 1 Insurance tax revenue as share of States' own-source revenue, 2001–02 to 2006–07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General and life insurance component						
Average revenues (\$pc)	81.16	86.29	91.10	92.52	99.52	106.05
% of total own-source revenues	4.22	4.19	4.08	4.01	3.94	3.88
Compulsory third party component						
Average revenues (\$pc)	6.34	8.27	9.25	9.62	9.66	9.86
% of total own-source revenues	0.33	0.40	0.41	0.42	0.38	0.36
Total category						
Average revenues (\$pc)	87.49	94.55	100.36	102.15	109.18	115.91
% of total own-source revenues	4.54	4.59	4.50	4.43	4.33	4.24

Source: Data collected by the Commission from the States.

- 4 Table 2 shows that per capita revenues raised from insurance taxes differ greatly for each State and from the Australian average. The Commission seeks to understand the reasons for the differences. If the reasons are to do with tax provisions, they are differences in revenue raising effort due to policy differences, and have no impact on State shares of the pool. If the reasons are due to circumstances beyond a State's control, they are revenue raising advantages/disadvantages, which are taken into account in the revenue assessment. They do affect State shares of the pool.

Table 2 Insurance tax revenues per capita, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2000-01	73.73	104.15	76.62	105.94	112.03	52.09	74.64	80.44	87.49
2001-02	66.50	120.82	85.46	123.07	131.41	61.05	84.52	94.26	94.55
2002-03	63.25	133.04	91.30	141.60	137.40	70.32	95.01	97.81	100.36
2003-04	62.76	135.26	90.15	149.50	146.84	69.26	95.97	105.02	102.15
2004-05	77.10	138.43	91.58	160.06	145.85	76.65	99.28	101.68	109.18
2005-06	87.28	140.60	101.09	161.11	154.54	77.26	102.45	108.56	115.91

Source: Data collected by the Commission from the States

Box 1: The Commission's concept of average

The Australian average revenue per capita is not a simple average of the revenue per capita for the eight States. It is a population weighted average, calculated by dividing the total revenues raised by all States by total population of all States. Population weighting gives equal weight to people irrespective of their State of residence. But, since more Australians live in New South Wales, that State carries more weight in the calculation of the average. For example, more than 32 per cent of Australians live in New South Wales and fewer than 3 per cent in Tasmania. Population weighting gives the experience of New South Wales (\$87.28 per capita in 2006-07) more than 3 times the weight of the experience of Western Australia (which has the highest insurance taxes per capita at \$161.11).

This concept of averaging also applies to the assessment of the average effective tax rate. In calculating the average effort to raise revenue, it divides the total revenue raised by all States by the total revenue bases of all States. This weights the revenue effort of each State according to its share of the total Australian revenue base.

- 5 The drivers of State revenues per capita are likely to include:
- policy influences on revenue effort such as:
 - rates of tax;
 - concessions — for instance, New South Wales has a 5% concessional rate for a range of products;
 - exemptions — for example, Western Australia has no duty on life insurance policies and New South Wales and the ACT exempt compulsory third party insurance on motor vehicles from duty; and

- non policy influences on taxable premiums, such as:
 - value or volume of assets and incomes at risk;
 - propensity of State populations to insure; and
 - perceived insurance risks, for example the potential effects of concentrations of population, industry or climatic conditions.

6 There were no changes in rates of duties imposed on insurance policies in 2006-07. Table 3 compares the effective tax rates for selected insurance products in each State.

Table 3 Rates of duty on insurance premiums, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
General insurance premiums (variable concessions apply)	9	10	7.5	10	11	8	10	10
Motor vehicle insurance	5	10	5	10	11	8	10	10
Compulsory third party insurance	0	10	\$0.10 flat	10	11	\$6 flat	0	10

Source: New South Wales Treasury, *Interstate comparison of taxes 2007-08*, Research & Information Paper 07-2.

ASSESSING STATE CAPACITIES TO RAISE INSURANCE TAXES

The equalisation task

7 The box below outlines the Commission's framework for measuring ability of States to raise revenues from their own bases. For each kind of tax, the Commission measures the revenue base available to each State, based on the average State policy of how the tax is levied, not that State's own policy. The assessed revenue base is policy neutral.

Box 2: Revenue assessment framework for each category of tax to be assessed

Aim: To measure the revenue base available to each State assuming it applied the average policy for levying the tax¹.

Step 1: Review States' legislation and provisions to establish how the tax is levied — who pays it, on what activities or assets it is levied, and what exclusions from taxable liability are allowed by the States.

Step 2: Establish the average policy. The average policy is the policy applied to the majority of the total tax base and by a majority of States.

Where policy differences between States are negligible, the actual revenues raised by each State would be an appropriate measure of each State's relative ability to raise revenues from their revenue bases. In this case, it would not be necessary to measure the revenue base itself. It is called the actual per capita (APC) method of assessment. It attributes differences in observed revenues per capita between States entirely to differences in abilities to raise revenues from their revenue bases.

Most often, observed differences in per capita revenues are due to both differences in revenue effort (policy) and to circumstances beyond the direct control of State governments (revenue raising advantages/disadvantages).

Step 3: Determine the best conceptual measure of the revenue base under the average policy. The preference is to measure revenue bases under average policy settings from the number and value of activities, transactions or assets subject to the tax.

A broader measure (such as household disposable income, or total private expenditure) is adopted if:

- the tax itself is broad and its incidence is not easily shifted across State boundaries;
- differences in State policies have large effects on the relative number and value of activities, transactions, or assets that are taxable in each State, and it is not possible to adjust the data to remove the effects of the policy differences — in this case, data from a third party, such as the Australian Bureau of Statistics (ABS), may be used to overcome some of the problems inherent in State-provided data; or
- data on the preferred conceptual measure of the revenue base are not available.

However, broad measures tend to be more distant from the States' actual tax bases, and there is a judgment to be made as to how well they reflect the ability to raise taxes.

Where differences between each State's policy and the average policy are very large, and a representative and policy neutral revenue base cannot be calculated with confidence, the Commission uses State mean resident populations as the revenue base. This implies equal ability to raise revenues per capita in each State. This is the equal per capita (EPC) assessment method. It attributes differences in observed per capita revenues between States to policy, and does not cause any redistribution of GST shares.

The revenue base

- 8 In assessing capacity to raise revenue from insurance tax, the aim was to measure a revenue base that reflected the value of premiums subject to insurance tax in all States, assuming the average policy was applied in all States.
- 9 Differences in State policies were significant, and ruled out the use of the actual per capita revenues as a measure of each State's ability to raise revenues.
- 10 The revenue base was assessed in two components:

¹ The aim is to adopt a revenue base that inherently reflects all revenue raising advantages/disadvantages, without measuring them separately. This approach differs from the approach used for expenses which starts from an assumption of equal costs per capita and makes allowances for each individual source of cost disability.

- a compulsory third party (CTP) component was assessed using CTP premium revenue as the revenue base; and
 - a general and life insurance component was assessed using premiums from general and life insurance, excluding CTP, as the revenue base, less:
 - premiums from employers' liability insurance;
 - premiums from reinsurance; and
 - revenue from fire insurance levies.²
- 11 The premium revenue data used in this assessment since 2003-04 has been supplied by the Australian Prudential Regulation Authority (APRA) as protected information. Under subsection 56(9) of the APRA Act, APRA requires that the protected information not be disclosed to any person, other than to an employee of the CGC for the performance of lawful duties, without the prior approval of APRA. If the CGC is required to disclose the protected information by subpoena, discovery order or other requirement of the law, the CGC must notify APRA without delay and prior to the information and/or documents being disclosed.
- 12 At the time the Update calculations are undertaken, data for the final assessment year are not available (2006-07 in this update). As a result, final year data is estimated by the Commission (see below for the method).

Calculating the revenue bases

- 13 Table 4 shows the calculation of the revenue bases for the general and life insurance component of the category for 2001-02 to 2005-06. Table 5 shows the revenue base for the compulsory third party component for 2001-02 to 2005-06.

² The Australian Prudential Regulation Authority (APRA) introduced a new prudential framework for authorised general insurance entities (insurers) on 1 July 2002. The new framework, amongst other things, changed the recognition and reporting of premium revenue. The changes related to private insurers only. Public sector insurers continue to report to the old framework. See CGC Working Papers, Volume 2, 2005 Update for a fuller discussion.

Table 4 Revenue base for general and life component of insurance taxation, 2001-2002 to 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
A. Premium revenue from general insurers less CTP and employer's liability premiums									
2001-02	7 784.6	3 387.0	1 905.6	1 042.3	866.4	199.7	185.6	85.6	15 456.9
2002-03	Data not shown but provided to the Commission by APRA								
2003-04	Data not shown but provided to the Commission by APRA								
2004-05	Data not shown but provided to the Commission by APRA								
2005-06	Data not shown but provided to the Commission by APRA								
2006-07	Estimated by the Commission using confidential APRA data ^a								
B. Reinsurance									
2001-02	2 305.2	34.4	19.1	28.5	2.4	5.2	60.3	2.3	2 457.2
2002-03	Data not shown but provided to the Commission by APRA								
2003-04	Data not shown but provided to the Commission by APRA								
2004-05	Data not shown but provided to the Commission by APRA								
2005-06	Data not shown but provided to the Commission by APRA								
2006-07	Estimated by the Commission using confidential APRA data ^a								
C Fire insurance levy									
2001-02	347.0	235.0	0.0	64.0	0.0	10.0	0.0	0.0	656.0
2002-03	Data not shown but provided to the Commission by APRA								
2003-04	Data not shown but provided to the Commission by APRA								
2004-05	Data not shown but provided to the Commission by APRA								
2005-06	Data not shown but provided to the Commission by APRA								
2006-07	Estimated by the Commission using confidential APRA data ^a								
D. Revenue base =A-B-C									
2001-02	5 132.4	3 117.6	1 886.4	949.8	864.1	184.5	125.3	83.4	12 343.6
2002-03	Data not shown but provided to the Commission by APRA								
2003-04	Data not shown but provided to the Commission by APRA								
2004-05	Data not shown but provided to the Commission by APRA								
2005-06	Data not shown but provided to the Commission by APRA								
2006-07	Estimated by the Commission using confidential APRA data ^a								

(a) See Table 6 for the process of calculation of the estimated revenue base for 2006-07.

Source: APRA data.

Table 5 Revenue base for CTP component of insurance taxation, 2001-2002 to 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Premium revenue from CTP policies on motor vehicles									
2001-02	1,272.0	894.3	550.2	298.2	268.6	84.9	74.1	41.3	3,483.6
2002-03	Data not shown but provided to the Commission by APRA								
2003-04	Data not shown but provided to the Commission by APRA								
2004-05	Data not shown but provided to the Commission by APRA								
2005-06	Data not shown but provided to the Commission by APRA								
2006-07	Estimated by the Commission using confidential APRA data ^a								

(a) See Table 7 for the process of calculation of the estimated revenue base for 2006-07.

Source: APRA data.

- 14 As premium data were not available for 2006-07, the revenue bases had to be estimated. Table 6 shows the estimation of the General and Life Insurance component and Table 7 shows the same for the CTP component. The revenue base for 2006-07 for each State is estimated by scaling the 2005-06 revenue base by the movement in the actual duty revenue for that State between 2005-06 and 2006-07, adjusted for any policy change that might have taken place.
- 15 The only adjustment required was for New South Wales. This affected the calculations for New South Wales. As from 1 September 2005, the tax rate on general insurance for contracts or renewals taking effect after that date was 9 per cent, compared with 5 per cent for contracts or renewals taking effect before 1 September 2005. Actual revenue for New South Wales for 2005-06 therefore comprised of three months at the old rate and nine months at the new rate. Actual revenue for 2006-07 comprised of transactions undertaken at the new rate.
- 16 It was therefore necessary to adjust the 2006-07 actual revenue so that it was on a comparable basis to the 2005-06 actual revenue. New South Wales provided an estimate of the additional revenue collected during 2006-07 flowing from the increase in the tax rate from 5 per cent to 9 per cent. A quarter of this additional revenue was then deducted from actual revenue collected in 2006-07, so that the adjusted revenue for 2006-07 was on a comparable basis to revenue collected in 2005-06, nine months at 9 per cent rate and three months at the 5 per cent rate.

Table 6 Calculation of the general and life insurance component revenue base, 2006-07

	2005-06 revenue base A	2005-06 actual revenue B	2006-07 adjusted revenue C	Adjustment factor D=C/B	2006-07 revenue base E=A*D
	\$m	\$m	\$m	\$m	\$m
New South Wales		523.4	557.1	1.0644	
Victoria		591.9	607.6	1.0265	
Queensland	Confidentiality required by APRA	370.4	417.7	1.1277	Confidentiality required by APRA
Western Australia		286.4	294.5	1.0281	
South Australia		185.6	201.5	1.0856	
Tasmania		33.8	34.7	1.0249	
ACT		33.0	34.5	1.0458	
Northern Territory		21.2	23.1	1.0885	

The 2006-07 revenue base for each State (E) was estimated using the rate of increase in actual revenue between 2005-06 and 2006-07 in that State (= C/B). This rate of increase (or adjustment factor - D) was applied to premium revenue for 2005-06 (A) to calculate the revenue base for 2006-07 (E). The actual revenue data used was first adjusted for the effect of tax rate changes between years.

Table 7 Calculation of the CTP component revenue base, 2006-07

	2005-06 revenue base A	2005-06 actual revenue B	2006-07 adjusted revenue C	Adjustment factor D=C/B	2006-07 revenue base E=A*D
	\$m	\$m	\$m	\$m	\$m
New South Wales		0.0	0.0	1.0358	
Victoria		112.8	118.9	1.0541	
Queensland	Confidentiality required by APRA	0.3	0.3	1.0000	Confidentiality required by APRA
Western Australia		39.8	41.0	1.0281	
South Australia		42.0	42.1	1.0044	
Tasmania		3.6	3.3	0.9179	
ACT		0.0	0.0	1.0358	
Northern Territory		0.0	0.0	1.0358	

The 2006-07 revenue bases for New South Wales, the ACT and Northern Territory were estimated using the average increases in actual revenue between 2005-06 and 2006-07 in those States that collected CTP in 2005-06 (Victoria, Queensland, Western Australia, South Australia and Tasmania) and applying the increase to the 2005-06 revenue bases of these States, that is, the assumption was made that their base would increase at the average rate.

Calculating assessed revenues per capita

- 17 Assessed revenues per capita are calculated by applying the Australian average effective rate of tax to the revenue base of each State and dividing by State population. Table 8 shows the calculations.

Table 8 Calculation of assessed revenue from effective rates of tax 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Total category									
Population (mill)	6.86	5.17	4.14	2.08	1.58	0.49	0.34	0.21	20.86
Actual revenue (\$m)	598.36	726.53	418.08	335.45	243.66	37.99	34.49	23.10	2417.66
Actual revenue (\$pc)	87.28	140.60	101.09	161.11	154.54	77.26	102.45	108.56	115.91
Revenue base (\$m)	Data not shown because of APRA confidentiality requirement								
Revenue base (\$pc)	Data not shown because of APRA confidentiality requirement								
Effective rate of tax %(a)	Data not shown because of APRA confidentiality requirement								
Assessed revenue \$m(b)	932.48	561.30	440.82	224.84	176.19	36.24	27.66	18.13	2417.66
Assessed revenue \$pc	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91

18 Assessed revenues per capita can also be calculated by calculating a capacity factor (similar to expense assessments) from the revenue base and applying that to the average per capita revenue.

Table 9 Calculation of assessed revenue from category capacity ratios 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Actual revenue \$pc	87.28	140.60	101.09	161.11	154.54	77.26	102.45	108.56	115.91
Revenue base \$pc	Data not shown because of APRA confidentiality requirement								
Revenue capacity ratio (a)	Data not shown because of APRA confidentiality requirement								
Assessed revenue \$pc (b)	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91

(a) Calculated for each State by dividing its Actual revenue by its Revenue base

(b) Calculated for each State by multiplying its revenue base by the Australian average effective tax rate.

Results for 2005-06

19 Table 19 at the end of the paper shows the average, actual and assessed revenues for each State for all years of the 2008 Update.

20 Table 10 shows, for 2005-06 (the latest year for which APRA data were available) average, actual and assessed per capita revenues and States' implied capacity and revenue effort ratios.

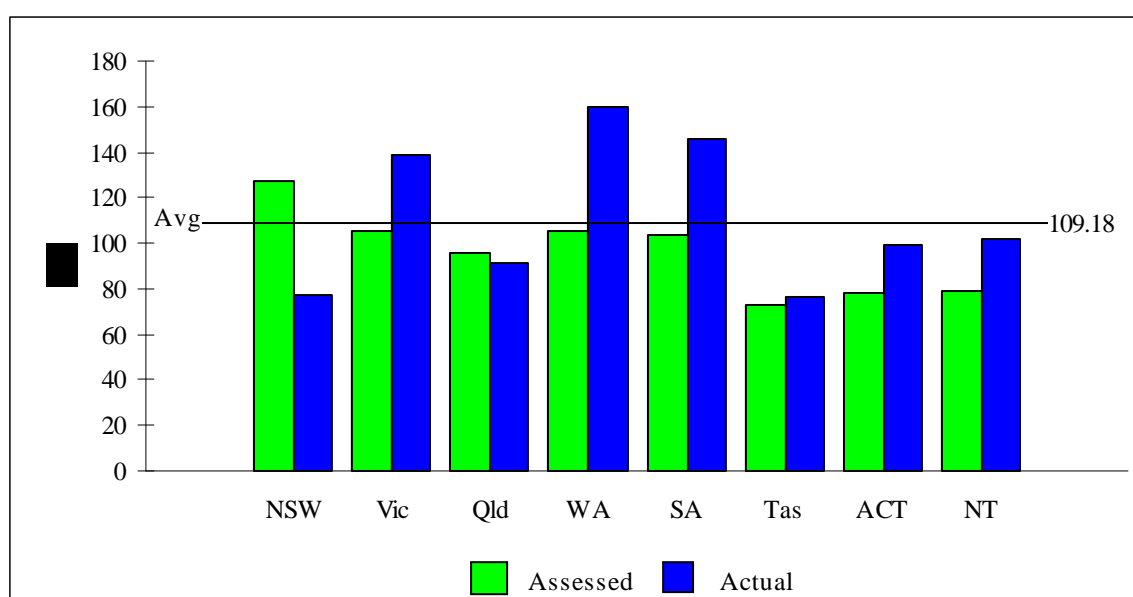
Table 10 Insurance tax assessment results, 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Total category									
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues	77.10	138.43	91.58	160.06	145.85	76.65	99.28	101.68	109.18
Assessed revenues	127.27	105.47	96.11	105.59	103.25	72.44	78.52	79.08	109.18
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio (a)	116.57	96.60	88.03	96.71	94.57	66.35	71.92	72.43	100.00
Revenue effort ratio (b)	60.58	131.25	95.29	151.58	141.25	105.81	126.43	128.58	100.00

(a) State revenue base per capita divided by the Australian average revenue base pc. This is the same as dividing each State's assessed revenue per capita by the Australian average revenue per capita.

(b) Actual revenues pc divided by assessed revenues per capita.

21 Figure 1 shows the average, actual and assessed per capita revenues for the total Insurance Taxation category for 2005-06.

Figure 1 Insurance Taxation assessed, actual and average revenues per capita 2005--06**Results for 2006-07**

22 Table 11 shows, for 2006-07, average, actual and assessed per capita revenues and States' implied capacity and revenue effort ratios. Since 2005-06 is the latest year for which premium data were available from APRA, the revenue bases for 2006-07 were estimated in Table 6 and Table 7.

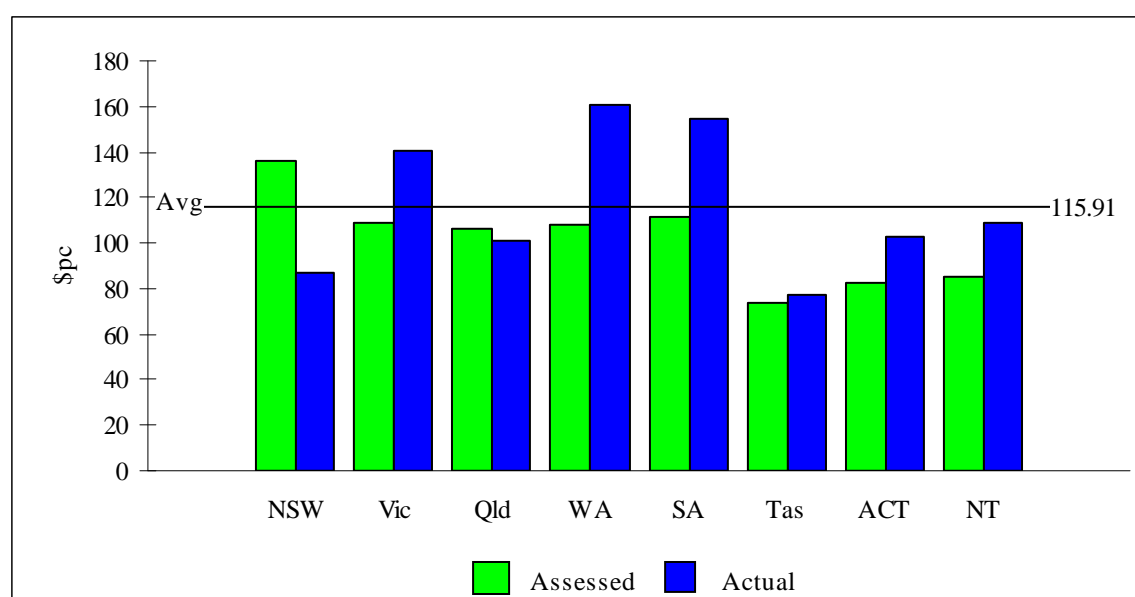
Table 11 Insurance Taxation assessment results, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Total category									
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues	87.28	140.60	101.09	161.11	154.54	77.26	102.45	108.56	115.91
Assessed revenues	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratio (a)	117.35	93.71	91.96	93.17	96.41	63.60	70.89	73.50	100.00
Revenue effort ratio (b)	64.17	129.44	94.84	149.19	138.30	104.82	124.69	127.42	100.00

(a) State revenue base per capita divided by the Australian average revenue base pc. This is the same as dividing each State's assessed revenue per capita by the Australian average revenue per capita.

(b) Actual revenues pc divided by assessed revenues per capita.

23 Figure 2 shows the average, actual and assessed per capita revenues for the total Insurance Taxation category for 2006-07.

Figure 2 Insurance Taxation assessed, actual and average revenues per capita 2006-07

Relative abilities to raise revenues

24 A State's relative ability to raise revenues (or revenue capacity) compares its assessed revenue, which reflects its revenue raising advantages or disadvantages, with average revenue.

25 Table 12 shows assessed revenues per capita and revenue raising capacity by State for the six years to 2006-07.

Table 12 Insurance taxes, assessed revenues, and revenue raising capacities, 2008 Update

	NSW	VIC	Qld	WA	SA	Tas	ACT	NT	Aust
Assessed revenue	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2001-02	106.64	89.39	71.31	69.27	79.48	56.57	58.38	61.33	87.49
2002-03	132.24	85.31	68.00	72.81	78.98	49.48	65.30	51.23	94.55
2003-04	121.19	99.48	85.30	87.40	91.11	58.13	67.20	69.81	100.36
2004-05	121.13	99.73	87.86	92.68	97.60	66.83	72.63	70.91	102.15
2005-06	127.27	105.47	96.11	105.59	103.25	72.44	78.52	79.08	109.18
2006-07	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91
Revenue raising capacity	%	%	%	%	%	%	%	%	%
2001-02	121.88	102.16	81.50	79.17	90.84	64.66	66.72	70.10	100.00
2002-03	139.86	90.23	71.92	77.01	83.53	52.33	69.07	54.18	100.00
2003-04	120.76	99.13	85.00	87.09	90.79	57.92	66.96	69.57	100.00
2004-05	118.59	97.63	86.01	90.73	95.55	65.43	71.11	69.42	100.00
2005-06	116.57	96.60	88.03	96.71	94.57	66.35	71.92	72.43	100.00
2006-07	117.35	93.71	91.96	93.17	96.41	63.60	70.89	73.50	100.00

Revenue efforts

- 26 A State's revenue effort compares its actual revenue (which reflects both disabilities and policy choices) with its assessed revenue.
- 27 In 2006-07, all States except New South Wales and Queensland had above average revenue effort ratios for the total category. For the general and life insurance component, New South Wales was the only State with a below average revenue effort ratio. In the CTP component Victoria, Western Australia and South Australia had revenue effort ratios above average. (New South Wales, the ACT and Northern Territory have not imposed a tax on CTP policies.)

Reality Check

- 28 The results show, in 2006-07, actual revenue for New South Wales was below its assessed level, while the actual revenues for the other States were above their assessed levels.
- 29 New South Wales did not collect revenue from CTP insurance policies and has had lower effective tax rates on general and term insurance policies. For example, compared to the general rate of 9 per cent, a concessional duty rate of 5% continues to be applied to aviation, consumer credit, disability, directors liability, motor vehicle professional liability policies and 2.5% to crop and livestock insurance. Thus, its revenue effort was below average, implying its actual revenues would be less than its assessed revenue.

- 30 For general and life insurance, Queensland and Tasmania charged 7.5 per cent and 8.0 per cent respectively of premiums, while most other States charged 10 per cent or more.
- 31 States impose taxes on CTP at different rates and in a variety of ways. Victoria and Western Australia impose a 10 per cent duty based on the value of premiums paid, Queensland, South Australia and Tasmania impose a flat fee, while the remaining three States did not impose a tax in 2006-07.

EFFECT ON DISTRIBUTION OF THE POOL: 2008 UPDATE

- 32 Table 13 shows the assessed differences from average for 2006-07. The difference is calculated by:

- subtracting each State's assessed revenue per capita from the average revenue per capita; and
- multiplying by each State's population.

Table 13 Assessed revenues, difference from average, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Assessed revenue \$pc	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91
Difference from average \$pc	20.11	-7.29	-9.32	-7.91	-4.16	-42.19	-33.74	-30.71	0.00
Population million	6.86	5.17	4.14	2.08	1.58	0.49	0.34	0.21	20.86
Difference from average \$m	137.85	-37.65	-38.52	-16.48	-6.56	-20.74	-11.36	-6.54	137.85

- 33 The assessed differences from average in \$ millions for all assessment years are presented in Table 14. The average of these amounts over the Update period provides an indication of the impact of the assessment on the distribution of the pool.

Table 14 Assessed revenues, difference from average, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2001-02	126.47	9.15	-59.43	-34.89	-12.15	-14.60	-9.34	-5.19	135.62
2002-03	250.71	-45.24	-100.03	-42.15	-23.76	-21.41	-9.48	-8.64	250.71
2003-04	139.44	-4.35	-58.14	-25.50	-14.20	-20.30	-10.82	-6.14	139.44
2004-05	127.83	-12.14	-56.53	-18.93	-7.03	-17.12	-9.70	-6.38	127.83
2005-06	122.80	-18.89	-52.93	-7.32	-9.25	-17.94	-10.19	-6.28	122.80
2006.-07	137.85	-37.65	-38.52	-16.48	-6.56	-20.74	-11.36	-6.54	137.85
Average (a)	150.85	-18.19	-60.93	-24.21	-12.16	-18.69	-10.15	-6.53	150.85

- (a) For States, simple average of the six years from 2001-2002 to 2006-07; for Australia, the total is the sum of positives or negatives.

- 34 Table 15 shows that compared with an equal per capita (EPC) assessment, the assessment of Insurance Taxation distributed \$188.2 million of GST revenue and health care grants

(hereafter described as GST revenue) from New South Wales to the other States in the 2008 Update.

Table 15 Insurance Taxation effect of assessment on GST revenue distribution, 2008 Update ^a

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redistributed
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
-188.2	27.1	76.2	27.4	14.4	22.8	12.1	8.2	188.2

a All distributions were calculated using the estimated 2007–08 GST revenue pool and December 2007 population.
Note: The Total redistributed is the sum of negatives or positives.

- 35 The Commission estimated that the State with above average assessed revenue per capita — New South Wales — required less assistance totalling \$188.2m to provide the average level of service. The other States with below average assessed revenues per capita — Victoria, Queensland, Western Australia, South Australia, Tasmania, the ACT and Northern Territory — needed additional assistance totalling \$188.2 million.
- 36 This is due to New South Wales historically being a major centre of insurable risks, the centre of industry and commerce and having a high-value property sector.

CHANGES SINCE THE 2007 UPDATE

- 37 Table 16 shows:
- the impact of the 2007 Update assessment on GST revenue shares;
 - the impact of the 2008 Update assessment on GST revenue shares; and
 - the difference.
- 38 The table also breaks the difference into smaller parts.

Table 16 Insurance Taxation effect of assessment on GST revenue distributions

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)									
	-189.8	10.6	86.7	33.8	15.9	22.0	12.2	8.5	189.8
Effect of revising category averages and revenue bases for 2001-02 to 2005-06									
Category averages	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue bases	-7.3	5.2	0.1	0.7	0.5	0.7	0.3	-0.1	7.4
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-7.3	5.2	0.1	0.7	0.5	0.7	0.3	-0.1	7.4
Effect of replacing 2001-02 category averages and revenue bases with those for 2006-07									
Category averages	0.6	0.1	-0.3	-0.2	-0.1	-0.1	0.0	0.0	0.7
Revenue bases	8.4	11.4	-10.4	-7.1	-2.0	0.2	-0.3	-0.2	20.0
Interactions	-0.1	-0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.3
Total	8.9	11.3	-10.6	-7.1	-2.0	0.1	-0.4	-0.2	20.3
Redistribution from EPC resulting from the 2008 Update assessment (a)									
	-188.2	27.1	76.2	27.4	14.4	22.8	12.1	8.2	188.2
Total effect of revisions and updating (b)									
	1.6	16.5	-10.5	-6.5	-1.5	0.8	-0.1	-0.3	18.8

(a) Assuming the same revenue pool and population.

(b) This figure shows the change in the amount redistributed among the States between the 2007 update and the 2008 update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

What has changed?

39 The main changes the Commission examined were:

- revisions to the financial and assessment data that were used in the 2007 Update; and
- advancing the reference period one year — a new year comes into the reference period and the oldest year drops out.

40 Figure 3 shows the reference periods for the two inquiries.

Figure 3 Advancing the reference period, 2008 Update

2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
2007 Update					
	2008 Update				

41 The effect of revisions was calculated by replacing 2007 Update data with 2008 Update data for the years 2001-02 to 2005-06. The effect of advancing the reference period one year was assessed by comparing the data of the year entering the reference period (2006-07) with the data of the year dropping out (2001-02). In doing so, the Commission considered the impact of replacing financial data (actual revenues) separately from the effect of replacing assessment data (revenue bases).

Changes due to revising revenue data and revenue bases for years 2001-02 to 2005-06.

- 42 **Revising revenue data.** Revisions to adjusted budget figures were minor and had only a negligible small effect on the distribution of GST revenue between the States.
- 43 **Revising revenue base data.** The major revision to the assessment data for the years common to the 2007 Update and the 2008 Update was the replacement of the estimated revenue base for 2005-06 with one based on actual APRA data. The differences between the revenue bases estimated for 2005-06 in the 2007 Update and the revenues calculated from actual APRA data were not large, averaging less than 3 per cent.
- 44 There were small adjustments to the yearly populations, with small increases in the populations in all States except New South Wales. While populations for Western Australia and Tasmania were revised upwards, the percentage increase was below the overall average percentage adjustment. In the absence of any other changes to revenue base calculations, the population revisions act to increase the revenue raising capacity of New South Wales, Western Australia and Tasmania relative to other States.
- 45 These changes led to a small redistribution of GST revenue shares totalling \$7.4 million, largely away from New South Wales towards the other States.
- 46 Table 17 summarises the changes. Changes to average revenues between the 2007 Update and the 2008 Update were minor, and changes to the relative capacities were also minor.

Table 17 Insurance tax assessment data, average of 2001-02 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2007 Update	68.58	126.81	87.42	136.31	135.31	65.95	90.67	96.83	98.96
2008 Update	68.67	126.34	87.02	136.03	134.71	65.87	89.88	95.84	98.75
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2007 Update	122.61	97.96	82.47	86.38	91.31	62.46	69.79	66.62	100.00
2008 Update	123.53	97.15	82.49	86.14	91.06	61.34	69.16	67.14	100.00

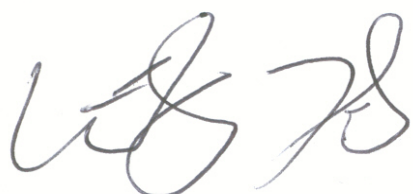
Changes in State circumstances – replacing 2001-2002 data with 2006-07 data

- 47 Table 18 shows, separately for each component, actual revenues, assessed revenues and revenue capacity ratios for 2001-02, the year that drops out of the assessment period and 2006-07, the year that comes in, for the 2008 update assessment. The substitution of 2006-07 data for 2001-02 data had a net effect on GST revenue distributions of \$20.3 million.
- 48 **Replacing revenue data.** The increase in the importance of the category between 2001-02 and 2006-07 occurred because per capita actual revenue collections increased by 32.5 per cent between 2001-02 and 2006-07, less than the per capita increase in the GST pool of 34.8 per cent. As a result, the category was less important in 2006-07 than in 2001-02 resulting in an increased redistribution of \$0.7 million of GST revenue towards New South Wales and Victoria, the two States with above average revenue capacity in 2001-02.
- 49 **Replacing revenue base data.** Changes in capacities to raise revenue from insurance tax between 2001-02 and 2006-07 reflect changes in insurance activity. The replacement of years resulted in a GST distribution of \$20.0 million to New South Wales (\$8.4 million), Victoria (\$11.4 million) and Tasmania ((\$0.2 million). Consistent with changes in general economic activities and property prices, the revenue raising capacity of Queensland and Western Australia show notable increases and the bulk of the GST redistribution came from these States – with \$10.4 million from Queensland and \$7.1 million from Western Australia.

Table 18 Insurance Taxation, assessment data, 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
Total category									
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenues									
2001-02	73.73	104.15	76.62	105.94	112.03	52.09	74.64	80.44	87.49
2006-07	87.28	140.60	101.09	161.11	154.54	77.26	102.45	108.56	115.91
Assessed revenues									
2001-02	106.64	89.39	71.31	69.27	79.48	56.57	58.38	61.33	87.49
2006-07	136.01	108.62	106.59	107.99	111.75	73.71	82.16	85.20	115.91
	%	%	%	%	%	%	%	%	%
Assessed revenue raising capacity ratios									
2001-02	121.88	102.16	81.50	79.17	90.84	64.66	66.72	70.10	100.00
2006-07	117.35	93.71	91.96	93.17	96.41	63.60	70.89	73.50	100.00

This chapter was prepared by the Revenue section of the Commonwealth Grants Commission. If you have any questions about its content please contact Lintong Feng on (02) 6229 8833 or lintong.feng@cgc.gov.au.



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Table 19 Insurance tax, average, actual and assessed revenues, 2002-03 to 2006-07

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Revenue		94.55		100.36		102.15		109.18		115.91
New South Wales										
Assessed difference	- 250.713	- 37.68	- 139.437	- 20.83	- 127.827	- 18.99	- 122.797	- 18.09	- 137.847	- 20.11
Revenue - Assessed	879.765	132.24	811.078	121.19	815.549	121.13	864.018	127.27	932.478	136.01
Actual	442.427	66.50	423.270	63.25	422.522	62.76	523.406	77.10	598.361	87.28
Victoria										
Assessed difference	45.239	9.24	4.349	0.88	12.142	2.42	18.890	3.71	37.649	7.29
Revenue - Assessed	417.632	85.31	493.028	99.48	500.574	99.73	536.944	105.47	561.298	108.62
Actual	591.441	120.82	659.336	133.04	678.939	135.26	704.723	138.43	726.530	140.60
Queensland										
Assessed difference	100.029	26.55	58.142	15.05	56.530	14.29	52.928	13.07	38.524	9.32
Revenue - Assessed	256.193	68.00	329.505	85.30	347.603	87.86	389.126	96.11	440.820	106.59
Actual	321.966	85.46	352.668	91.30	356.669	90.15	370.787	91.58	418.082	101.09
Western Australia										
Assessed difference	42.147	21.74	25.496	12.95	18.929	9.46	7.317	3.59	16.477	7.91
Revenue - Assessed	141.144	72.81	172.027	87.40	185.363	92.68	215.258	105.59	224.844	107.99
Actual	238.576	123.07	278.693	141.60	298.988	149.50	326.292	160.06	335.445	161.11
South Australia										
Assessed difference	23.765	15.57	14.199	9.24	7.028	4.54	9.251	5.93	6.557	4.16
Revenue - Assessed	120.555	78.98	139.977	91.11	150.956	97.60	161.122	103.25	176.186	111.75
Actual	200.572	131.41	211.091	137.40	227.115	146.84	227.593	145.85	243.659	154.54
Tasmania										
Assessed difference	21.412	45.07	20.299	42.23	17.121	35.31	17.944	36.74	20.745	42.19
Revenue - Assessed	23.505	49.48	27.941	58.13	32.401	66.83	35.387	72.44	36.240	73.71
Actual	29.000	61.05	33.801	70.32	33.577	69.26	37.442	76.65	37.987	77.26
Australian Capital Territory										
Assessed difference	9.481	29.25	10.815	33.15	9.697	29.51	10.185	30.66	11.361	33.74
Revenue - Assessed	21.168	65.30	21.922	67.20	23.862	72.63	26.089	78.52	27.663	82.16
Actual	27.396	84.52	30.993	95.01	31.530	95.97	32.983	99.28	34.494	102.45
Northern Territory										
Assessed difference	8.640	43.32	6.136	30.54	6.381	31.24	6.283	30.10	6.535	30.71
Revenue - Assessed	10.218	51.23	14.026	69.81	14.484	70.91	16.505	79.08	18.130	85.20
Actual	18.800	94.26	19.651	97.81	21.453	105.02	21.223	101.68	23.101	108.56