THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

# INSURANCE LEVY BILL 1998

## EXPLANATORY MEMORANDUM

Circulated by the authority of
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Minister assisting the Treasurer

ACT GOVERNMENT

# Insurance Levy Bill 1998

## Outline

In other Australian jurisdictions, particularly New South Wales, the provision of emergency services is partly funded by a special levy on general insurance companies. The ACT has not previously adopted this approach.

The proposed levy is based on the NSW *Fire Brigades Act 1989* and is intended to operate in the following manner:

- *Interim Levy:* At the beginning of each financial year, general insurance companies will become liable to an interim levy based on historical premium information (based on the financial year ended 12 months previously). On the basis of this liability, they will make the first of four equal quarterly installments.
- *Audited return:* General insurance companies will provide an audited return to government in respect of the past financial year by September (or such other determined date) in each year;
- *Levy:* Before the end of the calendar year (or such other determined date), the Government will calculate the actual levy payable by each company (which replaces the interim levy) as a proportion of a fixed amount ($M10 or such other amount determined by the Minister) by examining the total amount of insurance written overall and by each company as disclosed in the returns (and as modified in accordance with a schedule concerning specific insurance classes);
- *Adjustment:* Government adjusts the amount payable in future installments based on the difference in liability of a company between the interim and final levy.

Where an insurer operates from outside the country and cannot easily be made amenable to the jurisdiction (in the bill a 'foreign insurer'), provision is separately made passing the burden of a comparable levy to the owner of the property so insured. Interstate experience suggests that this later circumstance is unusual.

In the first year of operation, because the scheme is not expected to commence until September, only the audited return and levy provisions of the scheme outlined above will be applicable.

## Revenue/Cost Implications

$M10 is intended to be collected through the levy in 1998-9.

**Formal Clauses**

**Clauses 1, 2, 3, 4 and 5**
Clauses 1 and 2 are formal requirements. Clause 1 provides for the short title of the Bill Clause 2 provides that this Bill commences on notification in the Gazette. Clause 3 provides for the act to be read together with the *Taxation (Administration) Act 1987.* Clause 4 provides for the interpretation of certain terms used in the Bill. Clause 5 provides that the regulations may determine the "assessable premium" for the purposes of the Act It also provides that regulations made after the first may only be made with the support of general insurers.

**Clause 6**

On 1 July of each year, general insurance companies will become liable to an interim levy based on historical premium information (based on the financial year ended 12 months previously) and will make the first of four equal quarterly installments.

Under the scheme·

- The Commissioner shall determine an interim levy (for an advance payment) in respect of general insurance companies before June in each year and shall issue an assessment to each company
- The interim levy is calculated as follows:

$$\text{interim levy} = \frac{A \times B}{C}$$

where:

'A' is the total amount of assessable premiums of a company (in respect of the financial year ended 12 months previously),

'B' is the total amount to be contributed under this Division,

'C' is the total amount of all assessable premiums subject to contribution of all insurance companies (in respect of the financial year ended 12 months previously).

- An insurance company shall become liable to pay the interim levy at the beginning of each financial year, and shall do so through four equal quarterly payments in accordance with the assessment issued by the Commissioner.

**Clause 7**

Before December in each year, the Commissioner will calculate the actual levy payable by each company (to be then used in substitution of the interim levy) as a proportion of a fixed amount ($M10 or such other amount determined by the Minister) by examining the total amount of assessable premiums written overall and by each company.

Under the provision:

- The Commissioner issues the assessment in accordance with the following formula:

$$\text{levy} = \frac{A \times B}{C}$$

where:

| | |
|---|---|
| 'A' | is the total amount of assessable premiums of a company (in respect of the financial year immediately ended), |
| 'B' | is the total amount to be contributed under this Division, |
| 'C' | is the total amount of all assessable premiums subject to contribution of all insurance companies (in respect of the financial year immediately ended). |

**Clause 8**

This provision deals with a situation where an insurer has not made an advance payment.

**Clause 9**

This clause adjusts the difference between the levies under sections 6 and 7.

- If the required contribution assessed in relation to an insurance company for a financial year is greater than the required advance payment by the company for that financial year, the company must pay the difference.
- If the required contribution assessed for a financial year is less than the amount of the advance payment by the company for that financial year, the Commissioner is to credit the amount of the difference.

**Clause 10**

General insurance companies are required to provide an audited return to government in respect of the past financial year before October (or such other determined date) in each year.

Offences are provided under section 46 of the *Taxation (Administration) Act 1987.*

**Clauses 11, 12, 13 and 14**

Where an insurance company not authorised under a law of the Commonwealth or of a State or Territory to carry on insurance business holds a risk in respect of property within the ACT, the owner of the property must before October in each year (or at such other time provided by notice in the Gazette) furnish a return to the Commissioner.

The return must show the amount of the premiums paid by the owner in respect of the property to the company during the previous financial year or such other period as the

Commissioner may direct. Under the provisions, the owner in such a case becomes liable to pay the levy.

Offences are provided under section 46 of the *Taxation (Administration) Act 1987.*

**Clauses 15, 16 and 17**

Makes provision for the consequential amendment of the *Taxation (Administration) Act 1987*, transitional arrangements for the 1998-9 financial year, and for the making of regulations for the purposes of the Act.