Insurance Council of Australia

5 December 2025

The Board of Taxation Secretariat
c/o Treasury
Langton Crescent
PARKES ACT 2600

By email: taxboard@taxboard.gov.au

Dear Board of Taxation

Red Tape Reduction Review

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to respond on behalf of our members to the Board of Taxation's 'Red Tape Reduction Review' ('the Review').[1]

The Insurance Council is the representative body of the general insurance industry and represents approximately 85 per cent of private sector general insurers by gross written premium. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people and on average pays out $147 million in claims each working day ($36.5 billion per year).[2]

The 2009 Henry Tax Review estimated tax compliance costs at $40 billion annually, a figure likely to have grown significantly with the cumulative layering of new obligations over time.[3] The Board of Taxation's Red Tape Reduction Review now presents a valuable opportunity to simplify Australia's tax system and reduce compliance costs.

The cumulative impact of regulatory complexity imposes significant productivity costs on the general insurance sector. The Insurance Council's recent November 2025 report estimated annual sector compliance costs up to $3.5 billion, representing up to 6 per cent of gross written premium.[4] By addressing both legislative and administrative red tape, the Review can help build a more predictable, proportionate, and transparent system, aligned with broader government goals to boost productivity.

For the insurance sector, one of the country's most heavily regulated industries, streamlining tax administration would improve operational efficiency, free up resources, and support affordability for consumers. The overall compliance burden stems not from any single requirement, but from the cumulative impact of overlapping and expanding obligations. The industry strongly supports this Review as a pathway to a more coherent and sustainable tax framework that enables insurers to better serve policyholders and the broader economy in a more cost efficient and sustainable manner.

Our submission highlights revenue-neutral and material solutions to red-tape issues for the Board's consideration. Our proposals focus on reducing duplication, simplifying processes, and improving proportionality, without compromising revenue integrity or transparency.

Red Tape Issues

1. Inefficient state-based insurance tax complexity

The current state-based tax system on insurance imposes immense complexity for insurers and consumers. Stamp duties and emergency services levies (ESLs), which vary across jurisdictions, create inconsistent and duplicative tax administration requirements. In some states, total taxes and

[1] The Board of Taxation (October 2025), 'Red Tape Reduction Review'.
[2] www.insurancecouncil.com.au.
[3] Report to the Treasurer (December 2009) Australia's Future Tax System - Final Report
[4] Insurance Council of Australia (November 2025), The Cost of Regulatory Burden

charges, including GST, stamp duty, and ESL, can add 20 to 40 per cent to the cost of premiums, contributing to underinsurance and increasing the burden on insurers to manage compliance across multiple regimes.[5] The abolition of insurance taxes has been recommended by multiple reviews, to improve equity and reduce red tape.[6]

When a new insurance product includes multiple coverage types, insurers must conduct a complex, state-by-state analysis to determine the correct tax classification for each component. This task is highly resource-intensive because both the classification criteria and applicable tax rates vary significantly across jurisdictions. The lack of uniformity creates persistent uncertainty, delays product launches, and drives up compliance costs, ultimately impacting affordability and innovation in the insurance market. Streamlining these requirements would reduce inefficiencies and promote greater clarity for all stakeholders.

While we acknowledge that major tax reform and state-based taxes are outside the scope of this Review, we believe the Board should explore opportunities to promote a more harmonised approach to insurance taxation to reduce red tape and nationally consistent insurance tax settings to simplify compliance for insurers operating across jurisdictions. Practical steps could include uniform reporting templates, standardised data definitions, and synchronised filing periods.

2. Fringe Benefits Tax (FBT) compliance burden

Fringe Benefits Tax (FBT) was introduced to ensure non-cash benefits provided to employees are taxed appropriately. However, its complexity in calculation, reporting, and payment imposes disproportionately high compliance costs on businesses. FBT obligations impose a significant administrative burden, particularly in relation to car fringe benefits and minor benefits exemptions.

The complexity of the regime reflects its intricate valuation methods, the challenging data needs and detailed documentation requirements. This creates unnecessary complexity and resource demands for insurers and other businesses. We understand that FBT accounts for less than 1 per cent of Australia's net cash collections.[7] The administrative burden is therefore disproportionate to the revenue collected.

The treatment of fringe benefits also interacts with other areas of the tax law in complex ways and adds difficulty in determining appropriate compensation programs for employees.

Tax teams will routinely devote resources to FBT compliance at levels which can approach that of other business taxes where the liabilities are vastly greater. Internal policies should be prioritised over declarations.

We recommend the Board consider:

- Enhanced transparency and publication of previous Government analysis of the FBT regime. This could include using a risk based approach to compliance and concessional administrative rules.
- Reviewing the FBT rules to introduce a simpler regime for non-cash benefits, better aligned with the actual tax risk.
- Extending ATO-approved concessions for low-risk, low-value benefits to reduce the need for extensive documentation.
- Introducing simplified or standardised approaches for common benefits, such as pooled vehicles and minor benefits, to streamline processes.

[5] Tax Reform - Insurance Council of Australia.
[6] The abolition of insurance-based taxes has been advocated by many reviews and inquiries, including the Australian Competition and Consumer Commission's Northern Australia Insurance Inquiry 2020, Various Productivity Commission reports, Standing Committee on Economics report into the 2022 major floods, released 2024 and Senate Select Committee report on the Impact of Climate Risk on Insurance Premiums and Availability, released 2024.
[7] The Tax Institute (May 2024), Taxation in Australia.

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3. GST complexity for insurers

GST compliance presents a substantial administrative challenge for insurers due to the unique and highly complex nature of GST rules in the insurance sector. These rules require detailed information gathering and validation from customers, which can be difficult and resource intensive. Examples include:

- The distinction between Division 11 acquisitions and Division 78 'decreasing adjustments' and the complex tests that each approach entails. Under Division 78, customers are required to provide information on their own GST status in order for the insurer to determine whether they can claim a decreasing adjustment. The ATO is increasingly demanding onerous validation steps be undertaking by insurers despite the notification obligation residing with customers and the difficulties in accessing corroborating data.
- The GST Analytical Tool (GAT) is an ATO assurance exercise designed to reconcile financial statements to the Business Activity Statement (BAS). While the GAT aims to enhance transparency and assurance, it is extremely difficult for insurers to complete in practice and often requires purpose-built calculation engines. The utility of the GAT in the case of an insurance business is also questionable.

Although the ATO acknowledges the challenges insurers face in completing the GAT, it continues to encourage its use and expects insurers to indicate in the supplementary return if it has not been completed, along with a reason. This creates a tension between policy intent and practical feasibility, contributing to unnecessary compliance burden. In addition to the GAT, there is a broader suite of compliance expectations imposed by the ATO that arguably provide sufficient assurance.

We recommend the Board consider:

- In the immediate term, clarifying ATO expectations and acknowledge current limitations to support more practical compliance.
- Collaborating with industry to develop simplified guidance and sector-specific alternatives to the GAT, taking into account existing controls and assurance measures.
- Engaging with the insurance industry and other industry bodies to align feedback and promote a proportionate approach.

Appendix A details further red tape issues for the Board's consideration.

Conclusion

The Insurance Council supports the Board's efforts to reduce red tape and improve the efficiency of Australia's tax system. We encourage a shift toward longer-term thinking that prioritizes genuine compliance cost reduction over incremental administrative changes. This approach will ensure that red tape reduction delivers tangible benefits for businesses and the economy, rather than simply redistributing compliance effort.

If you require further information, please contact Leisha Watson, Director, Regulatory and Consumer Policy at lwatson@insurancecouncil.com.au.

Yours sincerely,

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Appendix A

Further red tape issues

4. Volume and complexity of information required by the ATO

The volume and complexity of information required by the ATO has expanded significantly in recent years, resulting in extensive documentation requirements for corporate taxpayers. Tax returns for large general insurers can exceed 65 pages, while even simple company returns can extend to over 50 pages. High Assurance taxpayers continue to face the same extensive lodgement requirements as others.

The expansion of ATO information requirements may reflect a combination of legislative, policy and technology factors. Advances in data analytics will enable the ATO to request and process large data volumes, while heightened policy and governance expectations have increased the level of detail required from large taxpayers, including general insurers.

Over the past decade, new reporting obligations have been layered into existing processes, such as:

- Expanded International Dealings Schedule and Reportable Tax Position schedule.
- Additional 50 questions in the short form local file, many require information on offshore related party counterparts operations, not readily available.
- Enhanced transparency measures.
- New Global Minimum Tax rules; and
- Upcoming public country-by-country (CBC) measures, which will further trigger significant additional lodgement obligations.

Significant amounts of further data are often also requested as part of the ATO's review and assurance activities. The scope and complexity of lodgement obligations have grown substantially, often without a commensurate compliance benefit for low-risk entities. The compliance costs associated with tax lodgement and reporting for insurers is substantial.

Large insurers typically invest significant resources in managing complex tax reporting obligations, driven by the scale of their operations, the volume of forms, and the need for specialised tax systems and professional advice. A significant portion of these costs is attributable to data collation, reconciliation, and form completion, tasks that could be reduced through simplified lodgement requirements, proportional reporting thresholds, and improved digital integration with ATO systems.

There is a case for better integration across government agencies to remove duplication of data across the ATO, ASIC, ABR, and other regulators.

There is an opportunity to simplify and rationalise the data collection process by:

- In the immediate term, the ATO reviewing individual data points to consider if they are used or relied on in practice, to aid assurance activity.
- Streamlining and consolidating forms, where possible, to remove duplication and improve usability.
- Introducing thresholds or proportional reporting to allow smaller entities to opt out of detailed disclosure requirements
- A 'light' reporting framework for taxpayers rated as 'high assurance' by the ATO, given the current volume of information in such cases is disproportionate to the risk profile.
- Prior to issuing detailed information requests, ATO thoroughly review prior lodgements (including information held by different teams within the ATO) and publicly available

information, e.g. financial accounts, to determine whether they can access the required information without needing to engage the taxpayer.

- Investigate further opportunities to reduce duplication of information requests with other government agencies.

The Insurance Council and our members strongly support the adoption of a 'provide it once' principle to reduce duplication across tax reporting obligations. Feedback from the Corporate Tax Association's recent survey highlights significant overlap in the International Dealings Schedule, short form local file, and related transfer pricing documentation.

We recommend the Board explore opportunities to:

- Harmonize reporting templates and data definitions across these schedules.
- Improve inter-agency data sharing between the ATO, ASIC, ABR, FIRB, and AusIndustry to eliminate redundant requests.
- Introduce proportional reporting thresholds and streamlined processes for low-risk taxpayers.

5. Governance over third-party data

While robust governance remains essential to maintaining confidence in the tax system, the current level of oversight for third-party data and investment reporting could be better aligned with actual risk within the insurance sector.

ATO guidance on managing third-party data integrity, while intended as "better practice," has at times instead been used by teams in the field as a quasi-minimum standard, creating additional complexity and workload for insurers. These expectations are applied to insurers, despite the markedly different nature of insurance investments and data flows. Many insurers have portfolios which are strongly biased towards fixed income assets where information is drawn from direct market sources and there is minimal reliance on third parties.

While the guidance does contemplate that the governance approach used by an insurer should be fit for purpose, the experience in practice is that the ATO appears to be using the highest level of assurance as their starting point. For example, requesting a gap analysis against the full suite of recommended controls prior to any broader assessment of the inherent risk for the taxpayer.

As a result, insurers are required to invest significant time and effort explaining why it is not appropriate for them to conduct proactive, and invasive assurance over the internal control environments of custodians and other service providers, effectively reviewing another entity's tax governance framework.

This approach can overlap with existing assurance mechanisms already in place to ensure the accuracy and reliability of investment data and is out of step with the inherent level of tax risk. This disconnects between regulatory expectations and operational realities has led to an increase in governance workload, without a corresponding improvement in tax integrity.

We recommend the Board consider:

- Streamlining the three streams of review (e.g. justified trust, risk reviews, and assurance activities) to minimise duplication and overlap in ATO engagement.
- A more proportionate and sector-specific governance approach to third party data governance.
- Ensuring that the highest tier of governance is not used as a standardised starting point when assessing third party data arrangements of insurers
- Focusing assurance activities where risk is demonstrably higher would deliver a more efficient and balanced framework.

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6. Complexity in tax treatment for re-insurance arrangements

The current withholding tax on offshore reinsurance premiums imposes significant administrative and economic costs on Australian insurers. These costs flow through to pricing, increasing pressure on premiums at a time when underinsurance is a major concern. The need to factor these costs into pricing models adds further complexity to business processes and can reduce affordability for consumers.

Compliance also requires lodging specific tax returns, often involving complex foreign currency conversions and detailed record-keeping. While the policy intent relates to managing economic flows, the administrative burden is disproportionate and adds limited value from a business or revenue integrity perspective.

We recommend the Board consider:

- In the immediate term, simplifying or consolidating the forms and processes required for withholding tax on reinsurance premiums.
- Reducing duplication and unnecessary documentation for routine, low-risk transactions; and
- Enabling digital reporting or pre-filled data for foreign reinsurance transactions to streamline administration and reduce manual effort.

7. Thin capitalization rules burden

Australia's existing thin capitalisation rules limit interest deductions for Multinational Enterprises (MNEs). While we support the Government addressing known weaknesses in the international tax environment, a different approach is more appropriate when dealing with entities in the insurance sector. The industry's view is that insurers should be excluded from application of the fixed ratio rule.

Similarly to banks and authorised deposit-taking institutions (ADIs), insurers operate under stringent Australian Prudential Regulation Authority (APRA) capital standards that act as a natural debt limitation mechanism. These prudential requirements ensure insurers cannot excessively gear their operations, making additional tax-based restrictions unnecessary.

Insurers are typically net lenders rather than borrowers, investing premium income in fixed-income assets and earning net interest income. Applying fixed ratio rules based on Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) creates volatility and uncertainty due to the inherently variable profitability of insurance businesses, particularly following natural catastrophe events. This forces insurers to adopt complex alternative tests such as worldwide gearing or arm's length debt, significantly increasing compliance costs without addressing a genuine tax integrity risk.

We recommend the Board consider:

- In the medium to long term, advocating to Government for the introduction of an exemption for insurers from the fixed ratio interest limitation rules, consistent with the treatment of banks and ADIs. This aligns Australian policy with OECD guidance and international best practice to maintain competitiveness and proportionality.