

July 21, 2015

Insurers urge states and territories to commit to stamp duty abolition

The Insurance Council of Australia (ICA) is urging Australia's Premiers and Chief Ministers to commit to abolishing taxes on insurance at the upcoming Commonwealth tax review's leaders' meeting.

In letters sent individually this week to each leader, ICA CEO Rob Whelan says state and territory governments remain overly reliant on inefficient taxes, including stamp duties on insurance products. Inefficient taxes account for about 40 per cent of their taxation revenue.

"Apart from the negative welfare effects arising from the distortionary effects that inefficient taxes on insurance have on resource allocation and economic growth, they are highly regressive and contribute to the incidence of underinsurance and non-insurance," he writes.

Mr Whelan says taxes on insurance are one of the most inefficient and inequitable revenue-raising methods that governments employ. By putting greater reliance on more efficient and less distorting taxes, governments can provide positive stimulus to economic growth and community wellbeing.

He says low-income households and property owners in high-risk areas carry a disproportionate burden due to taxes on insurance, and the removal of stamp duties on insurance would improve the affordability of general insurance, "leading to a reduction in the dual problems of under and non-insurance".

He says research shows removal of all state taxes on insurance would result in a 22 per cent fall in households without home insurance and 10 per cent in households without contents policies.

Removal of these taxes "would result in a more resilient community with greater capacity to recover from catastrophic events and place less demand on government resources in the aftermath of an event", he says.

"Insurance Council research reveals that the tax payable in cyclone/flood prone areas is on average twice that of residents in less disaster prone areas, which has the flow on effect of making high premiums more expensive than need be."

In his letter to New South Wales Premier Mike Baird, Mr Whelan also calls for the removal of the state's Emergency Services Levy, which typically adds about 20 per cent to the amount consumers pay for their household and motor vehicle insurance.

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Mr Whelan concludes: “The Commonwealth tax review offers a rare opportunity for comprehensive reform and Premiers and Chief Ministers should take advantage of it by proposing at the Leaders’ meeting that eliminating stamp duties on insurance policies be dealt with as part of the review.”

Though some reform has taken place this decade, Mr Whelan says momentum has stalled. Only the Australian Capital Territory has committed to removing stamp duties on insurance, phasing it out over the five years to 2016-17. Two years ago the Victorian Government removed its Fire Services Levy on insurance premiums, replacing it with a property charge. It did not change its stamp duties on insurance.

In the past three years both the Queensland and Tasmanian governments have increased their insurance stamp duties, despite previous commitments by all state and territory governments to jointly examine tax reform.

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