

22 November 2019

Mr David Thodey AO  
Chair, Review Panel  
NSW Review of Federal Financial Relations  
NSW Treasury  
52 Martin Place  
SYDNEY NSW 2000

Dear Mr Thodey

## REVIEW OF FEDERAL FINANCIAL RELATIONS

The Insurance Council of Australia (Insurance Council)<sup>1</sup> welcomes the opportunity to provide comment on the NSW Review of Federal Financial Relations Discussion Paper (the Discussion Paper).

The Insurance Council recognises that this review presents a significant and much needed opportunity for the NSW Government to evaluate its taxation arrangements to ensure that as many impediments to economic growth as possible are removed and that revenue is sustainable into the future. This is particularly important if NSW is to continue to provide the high quality vital services such as emergency services, health and education, on which the people of NSW depend.

The Insurance Council also welcomes the opportunity for national debate that this review affords; for States, Territories and the Commonwealth to consider how the vertical fiscal imbalance can be reformed for better social outcomes. As the Discussion Paper made clear, there are serious issues which need to be worked through in regard to the exemptions, concessions and tax free thresholds which heavily impact the revenue raising capacity of some of the most economically efficient taxes available to State/Territory governments (pages 12 and 13). Given the significant amount of revenue sourced from insurance stamp duties by each State/Territory, the Insurance Council believes that reform can only come from a co-ordinated effort between States, Territories and the Commonwealth.

The Insurance Council submits that the Review Panel should consider the economic and community benefits nationally which an abolition of all insurance duties across all States and Territories would bring. It would be timely for the Review Panel to recommend that the NSW

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<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent approximately 95 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$48.4 billion per annum and has total assets of \$128.4 billion. The industry employs approximately 60,000 people and on average pays out about \$151.4 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Government abolishes insurance stamp duty and revisits its 2015 commitment to reform the Emergency Services Levy (ESL).

We attach for the consideration of the Review Panel a paper prepared by the Insurance Council analysing the economic effect of insurance duties on household insurance. The paper compares the effect of general insurance taxes on consumers in different states and argues that consumers are better off in states that have decreased their reliance on inefficient stamp duties and levies. It argues that insurance taxes are socially harmful, and there would be great community benefit in all States and Territories in abolishing insurance duties.

Over many years, the Insurance Council has argued consistently for tax reform. Insurance based taxes distort decision making and drive up the cost of insurance for consumers. Between 2007/2008 and 2018/2019, state and territory governments collected \$54.7 billion in insurance taxes. At present, the NSW Government levies \$1.8 billion worth of insurance based taxes, including insurance duties and the ESL. Higher costs mean consumers are disincentivised from adequately insuring and this presents a challenge for governments at all levels as climate change increases their exposure to liability for natural disasters.

Nationally, the Insurance Council estimates that GST and stamp duties add 21% to the cost of premiums in Victoria, 19.9% in Queensland, 21% in Western Australia, 22% in South Australia, 21% in Tasmania, 21% and 21% in the Northern Territory. (We note that the ACT has phased out stamp duties on insurance products.) The Insurance Council estimates that stamp duty adds 9% to the cost of premiums and the ESL adds 21% to home and contents premiums in NSW. When GST, stamp duty and the ESL are combined, it leads to an effective tax of 45% on a home insurance policy premium in NSW, which is the highest of any state. Consumers are less likely to take up home and contents insurance in NSW than in any other state.

The Insurance Council believes that all States and Territories would be better off if the State revenue were more reliant on broad based taxes which minimise the distortion of decision making by consumers. Research from the Insurance Council in 2015 showed that removing insurance stamp duties in NSW would stimulate spending by \$125 million and removing the ESL would increase insurance expenditure by \$226 million. Revenue for NSW and local government would increase by \$84 million. The removal of all insurance based taxes across Australia and replacing them with broad based taxes would lead to an increase in consumption of \$5.52 billion and an increase in tax revenue collected by state and local governments of 0.69%.

The economic case for the abolition of insurance based taxes has been widely accepted by numerous State and Federal Government reviews including the Henry Tax Review and recently the 2018 ACCC Northern Australia Insurance Inquiry. Notably, the 2009 Victorian Bushfires Royal Commission also recommended their abolition. As the Federal and NSW Governments necessarily consider lessons in light of the current catastrophic bushfire season and the impact that climate change will have in making bushfire seasons longer and more severe, tax reform is a vital consideration for community resilience, risk management and ensuring that citizens can recover from a disaster.

It is important to ensure that consumers are not deterred from adequately insuring. Tax reform and increasing incentives for people to insure is vital to reducing the financial exposure of all levels of Government to natural disasters. The economic cost of national disasters is expected to reach \$39 billion a year by 2015, with NSW's exposure estimated to reach \$10.6 billion a year by 2050. The Insurance Council's research has shown that the removal of ESL and stamp duty would reduce non-insured households by 34% and reduce the number of households without contents insurance by 15%. Nationally, the removal of all

insurance taxes and charges would lead to a \$643 million increase in household expenditure on insurance premium on house or contents insurance.

Vital services such as emergency services must be sustainably funded into the future. The Insurance Council recommends that the Review Panel looks at the abolition of insurance duties and their replacement with broad based and more efficient sources of revenue. With regard to the ESL, the Insurance Council submits to the Panel that broad based taxes are a more equitable way to fund emergency services, so that those who insure their property do not unfairly bear the cost of the State's emergency services budget while those who don't insure their property make no contribution.

The Insurance Council thanks the Panel for its consideration. The Insurance Council hopes that the recommendations of the Panel will spark a national discussion which will lead to a fairer, more efficient and sustainable tax system that strengthens the Australian community's resilience against natural disasters, lowers premiums and removes disincentives to insure. As demonstrated by the NSW Government's decision in 2017 to postpone substantive reform of the ESL because of the strong dissatisfaction of several stakeholder groups, careful attention needs to be given to balancing the impacts of tax reform to ensure that there is widespread recognition that it serves the overall interests of the entire community

The Insurance Council looks forward to engaging further with the Panel on the importance of tax reform. We will also continue to engage with Government bodies such as the NSW Productivity Commission on the importance of ensuring that the social and economic costs of tax arrangements are minimised.

If you would like to discuss any of these matters further please do not hesitate to contact John Anning, General Manager Policy, Regulation at [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au) or 02 9253 5121.

Yours sincerely,



Robert Whelan  
Executive Director & CEO

# THE IMPACT OF GOVERNMENT DUTIES ON HOUSEHOLD INSURANCE

Insurance Council of Australia

November 2019

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## 1. Introduction

The Insurance Council of Australia (the Insurance Council) is the representative body of the general insurance industry in Australia. Its members are responsible for more than 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. They provide insurance products ranging from those usually purchased by individuals (such as home and contents, travel and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability, professional indemnity, commercial property, and directors and officers insurance).

The industry employs about 60,000 people and on average pays out about \$151.4 million in claims each working day. June 2019 Australian Prudential Regulation Authority statistics show that the private sector general insurance industry generates gross written premium of \$48.4 billion a year and has total assets of \$128.4 billion.

Through the efficient management of risk, the general insurance industry plays an essential role in supporting the everyday activities of individual Australians, communities and the broader operation of the Australian economy. In particular, the industry plays a critical role in protecting the financial wellbeing of individuals, households, businesses and communities by restoring their standard of living and helping them recover following natural catastrophes and other insured events.

The role of the general insurance industry in community recovery is significant not only in terms of the billions of dollars of claims paid each year, but also because of the evolving risk mitigation and emergency management initiatives that make for more resilient Australian communities.

The Insurance Council has been a key participant in the tax reform debate. The economic case for the abolition of insurance-based taxes (here referring to stamp duties and levies to fund emergency services) is widely accepted, having been canvassed in numerous federal, state and territory government reviews and inquiries including:

- Australian Competition and Consumer Commission's Northern Australia Insurance Inquiry 2018
- Australian Government's Review of Australia's Future Tax System (the Henry Tax Review) 2010
- NSW Independent Pricing & Regulatory Tribunal (IPART) Review into State Taxation 2008
- 2009 Victorian Bushfires Royal Commission
- NSW Government 2012 review: *Funding our Emergency Services*
- ACT Review of Taxation 2012
- GST Distribution Review<sup>1</sup>
- Various Productivity Commission reports.<sup>2</sup>

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<sup>1</sup> See GST Distribution Review, [Final Report](#), October 2012.

<sup>2</sup> Multiple Productivity Commission reports have recommended the abolishment of insurance-based taxes including Rec 4.8 – *Natural Disaster Funding Inquiry* (December 2014); Rec 4.8 – *Shifting the Dial: 5 Year Productivity Review* (October 2017) and; Rec 14.3 – *Inquiry Report; Competition in the Australian Financial System* (August 2018).

The consensus is that the states and territories would be materially better off if they reformed their tax regimes so that they were more or wholly reliant on broad-based taxes with minimal exemptions at the same time as they reduced their reliance on transaction-type taxes, including insurance duties.

The interests of all states and territories would be best served by abolishing their insurance duties. The successful shift in states (including Victoria, South Australia and Western Australia) from funding their emergency services through an insurance levy to a broad-based property levy shows that reform is feasible and would bring significant social and fiscal benefits.

Unfortunately, high taxes are a significant disincentive for households to insure. The take-up of home and contents insurance is consistently lowest in NSW, the jurisdiction with the highest rate of insurance duties and levies and the only state or territory to still fund emergency services via a levy on retail insurance premiums.

The ACT's experience in phasing out its stamp duties on insurance products between 2012 and 2016 shows governments can smoothly transition to other, more efficient and fairer revenue sources.

A broad-based property levy, subject to safeguards as to its impact, is a more economically effective and equitable method to fund Australia's state and territory governments when compared with transactional insurance duties.

This type of levy would encourage the adequate take-up of insurance and be a more efficient and certain way of collecting revenue compared with insurance duties, which in essence penalises policyholders for effectively managing their risks.

State and territory governments have the opportunity, through the reform of their insurance tax regimes, to strengthen the long-term integrity of their own revenue bases.<sup>3</sup>

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<sup>3</sup> For example, the Productivity Commission's October 2017 [Draft Report](#) on its Inquiry into Australia's system of horizontal fiscal equalisation (HFE) underpinning the distribution of GST revenue to the states and territories.

## 2. The impact of taxing home and contents policies

**Table A** below demonstrates in each state and territory the significant increase in premium from layering of insurance duty on premium before the Goods and Services Tax (GST) is applied, from 19.9 per cent on a Queensland home insurance policy premium to a substantial 45 per cent in New South Wales (NSW is the only state to retain an additional Emergency Services Levy or ESL).<sup>4</sup> Having phased out insurance duties in 2016, consumers in the ACT are in a markedly better off position with only the GST charged on premiums. Commercial premiums are typically significantly higher than for consumer policies, so the impact of these charges often hits small-to-medium businesses hardest.

**Table A: Comparison of insurance duties by states and territories**

<b>Tax</b>	<b>General insurance (GI) taxes</b> (GST of 10% applies to all GI products)	<b>Impact of levies, GST and stamp duties on final price paid by consumer<sup>5</sup></b>
<b>NSW</b>	<p><b>Stamp duty*:</b> 9% of the premium. Concessional 5% of premium payable on aviation, disability, hospital and ancillary health benefits, motor vehicle, occupational indemnity. Concessional 2.5% of premium paid on crop and livestock.</p> <p><b>ESL:</b> Historically adds 21% to home and contents premiums and up to 40% to business premiums.</p> <p><b>Note:</b> NSW is increasing its ESL requirements by \$230 million between 2018-19 and 2021-22 to fund presumptive workers' compensation liabilities for firefighters.</p>	The addition of ESL, GST and stamp duties is projected to add in 2020-21 <b>more than 50%</b> to the base premium for a household policy and up to 70% to a business policy.
<b>VIC</b>	<p><b>Stamp duty*:</b> 10% of previous month's gross premiums.</p> <p><b>Note:</b> Victoria abolished its Fire Services Levy on insurance premiums in 2013.</p>	The addition of GST and stamp duties adds <b>21%</b> to the base premium for a household policy.
<b>QLD</b>	<p><b>Stamp duty*:</b> 9% of the premium for most GI contracts; 5% of net premiums for workers compensation. 10c flat for CTP.</p> <p><b>Note:</b> The Queensland Government increased its stamp duties on GI products by 1.5 percentage points in 2013.</p>	The addition of GST and stamp duties adds <b>19.9%</b> to the base premium for a household policy.
<b>WA</b>	<p><b>Stamp duty*:</b> 10% of gross premiums; 10% of premiums on CTP.</p>	The addition of GST and stamp duties adds <b>21%</b> to the base premium for a household policy.
<b>SA</b>	<p><b>Stamp duty*:</b> 11% of premium.</p>	The addition of GST and stamp duties adds <b>22%</b> to the base premium for a household policy.
<b>TAS</b>	<p><b>Stamp duty*:</b> 10% of premium.</p> <p><b>Note:</b> The Tasmanian Government increased the stamp duty on GI products by 2 percentage points in 2012.</p>	The addition of GST and stamp duties adds <b>21%</b> to the base premium for a household policy.
<b>NT</b>	<p><b>Stamp duty*:</b> 10% of premiums.</p>	The addition of GST and stamp duties adds <b>21%</b> to the base premium for a household policy.
<b>ACT</b>	<p><b>Stamp duty*:</b> Nil.</p> <p><b>Note:</b> The ACT completed the phasing out of its stamp duties on insurance products in 2016.</p>	The addition of GST adds <b>10%</b> to the base premium for a household policy.

Source: States and territories' general insurance duty rates retrieved from NSW Treasury, *TRP18-01 Interstate Comparison of Taxes 2017-18*, page 22. April 2018. States and territories' impact of general insurance duties on price (percentage) calculated by the Insurance Council. NSW Budget papers and ministerial statements.

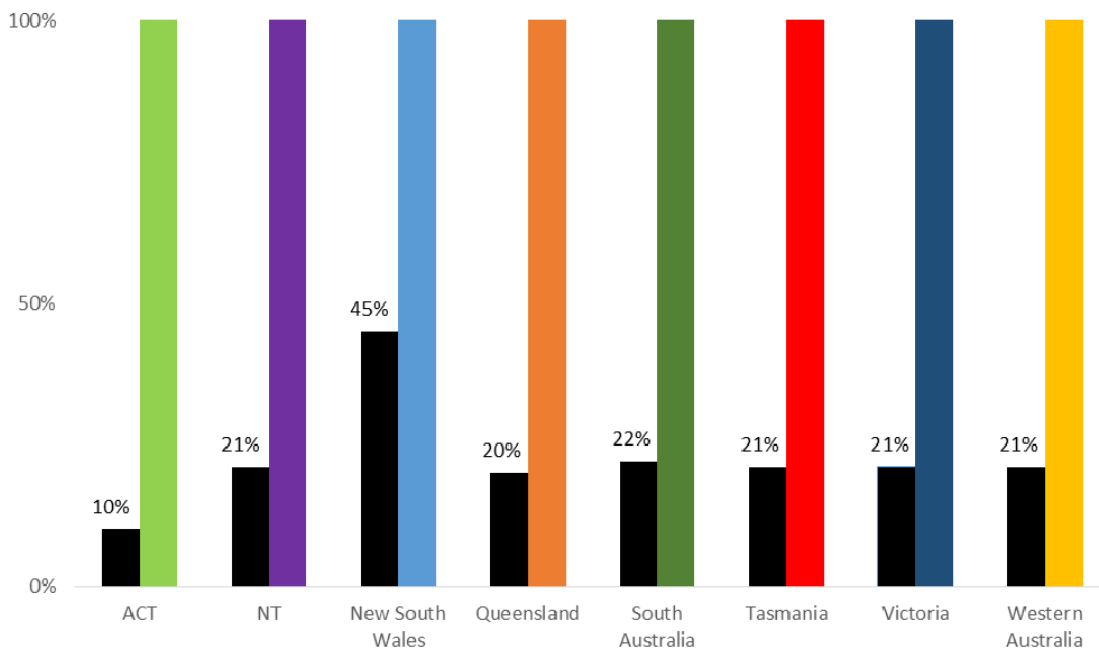
<sup>4</sup> Under the Australian Accounting Standards, the ESL is considered a component of the insurance premium, alongside the GST and state duty applied.

<sup>5</sup> Percentages are a calculation of the final effect of all state and territory government charges as a percentage of the insurer's base premium.



The significant impact of levies, GST and stamp duties on final price paid by consumers for household policies is represented in **Chart 1** below.<sup>5</sup>

**Chart 1: Interstate comparison of insurance duties as a percentage of base premium**



The Insurance Council recently conducted an analysis, using the taxation rates in Table A and drawing data from the past three Australian Bureau of Statistics (ABS) Household Expenditure Surveys to examine changes in the affordability of and decision to purchase (take-up) household home and contents insurance in each state and territory from 2003-2016.<sup>6</sup>

**Chart 2** shows the percentage of total household income (all sources) spent on home and contents insurance.<sup>7</sup> **Chart 3** selects food (including takeaway and restaurant) and non-alcoholic beverages, as a comparative measure of an expenditure class that is relatively inelastic in demand.<sup>8</sup>

Separately, **Chart 4**<sup>7</sup> observes home and contents insurance take-up over these three survey years, to show how price growth affects some states more than others.

The survey data shows that the cost of home and contents insurance relative to income increased significantly, with a notable sharp escalation in the 2015-16 period, for most states and territories. Household expenditure on food and beverages is shown alongside these figures to provide some context.

The take-up of home and contents insurance is consistently lowest in NSW, the jurisdiction with the highest rate of insurance duties and levies and the only state or territory to still fund

<sup>6</sup> Insurance Council conducted this analysis using data extracted from the past three ABS Household Expenditure Surveys: 2003-04, 2009-10 and 2015-16. The analysis is limited to households residing in a detached or semi-detached dwelling owned by the occupants outright or by mortgage.

<sup>7</sup> Charts 2 and 4 include households purchasing a combined home and contents policy; home policy; and contents policy. (Exclude each household that purchased a home or contents policy in isolation).

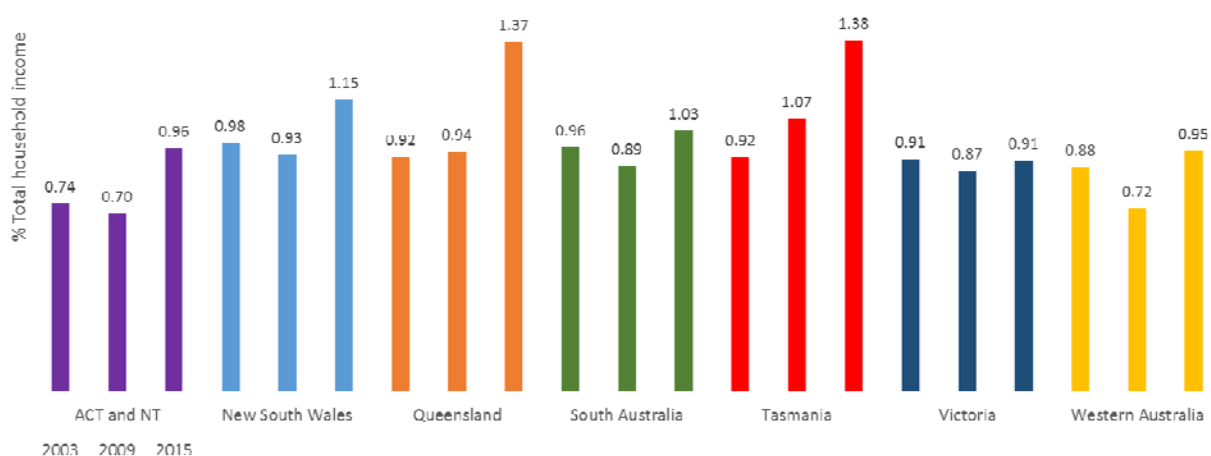
<sup>8</sup> Household expenditure represented in Charts 2 and 3 is tax inclusive.

emergency services via the ESL on insurance premiums (see **Chart 4** on page 8).

In 2016, the NSW Government announced it would abolish its ESL from 1 July 2017. The insurance industry spent more than \$40 million to help ensure a smooth transition from the ESL to a property-based tax.<sup>9</sup> However, in late May 2017 the NSW Government announced the postponement of this essential reform, with no date given for resumption of the process.

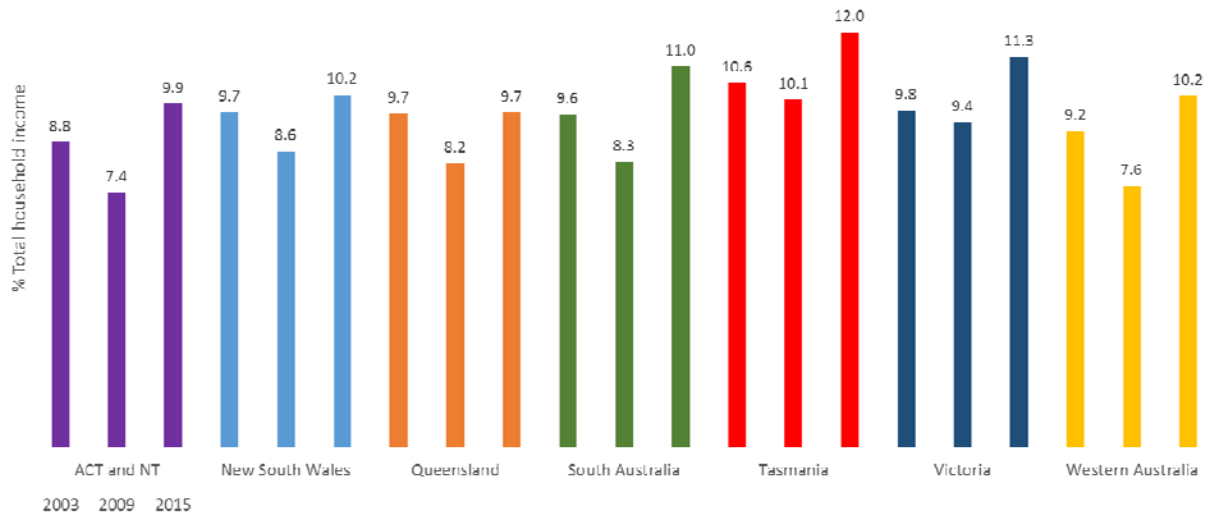
Insurers were therefore required to continue the collection of ESL on household, small business and some motor vehicle policies in NSW. The NSW Government’s policy reversal has led to confusion among insurance customers and fluctuations in premiums, particularly for commercial insureds, as the ESL was reinstated upon renewals. Furthermore, the NSW Government committed in 2018 to funding an increase in NSW firefighters workers’ compensation benefits through the ESL. While not questioning the policy reason for the increase, the Insurance Council regrets that this decision will further reduce the affordability of premiums in NSW.

**Chart 2: Percentage of total household income spent on home and contents insurance**

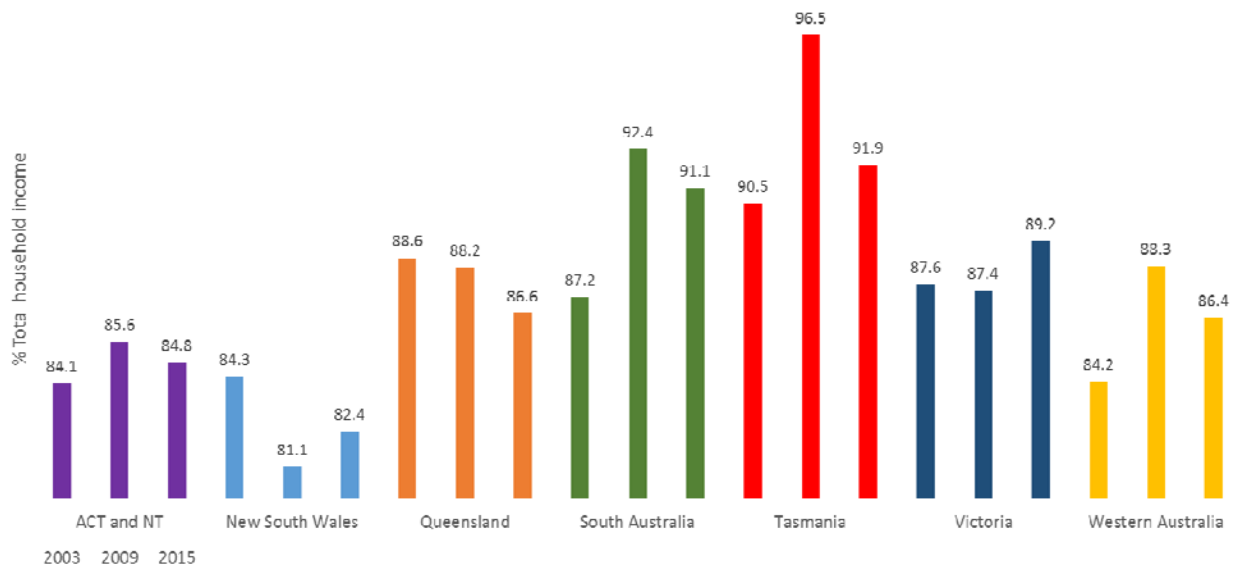


<sup>9</sup> Household expenditure represented in Charts 2 and 3 is tax inclusive

**Chart 3: Percentage of total household income spent on food and drink (exc alcohol)**



**Chart 4: Percentage of households covered by home and contents insurance policies**



### 3. Decreased affordability contributes to underinsurance and non-insurance

According to data from the 2015-16 ABS Household Expenditure Survey, it is estimated that of the nine million households that could potentially purchase contents insurance, 30 per cent (about 2.7 million) did not have a contents policy. Of the 5.8 million potential buyers of home insurance<sup>10</sup>, 5.7 per cent do not have a building insurance policy. The ABS data estimates are substantiated in **Table B**, with similar median percentages of non-insured households determined from the Insurance Council's policy-in-force (PIF) dataset.<sup>11</sup>

**Table B<sup>12</sup>: Rates (percentage) of non-insured households in Australian suburbs from PIF dataset**

1. State	2. Median suburb rate	3. Highest suburb rate	4. Lowest suburb rate
QLD North	5.68%	8.57%	3.61%
QLD South	5.87%	7.84%	3.34%
NSW	6.38%	9.37%	4.21%
VIC	6.12%	8.89%	2.44%
SA	6.23%	6.92%	3.53%
TAS	6.09%	9.09%	2.38%
WA	6.31%	7.93%	3.38%
ACT; NT	Not assessed		

The Insurance Council also recently conducted a national survey<sup>13</sup> that found more than 80 per cent of Australian homeowners and renters are likely to be underinsured for their home and contents and 63 per cent of renters do not have contents insurance.

Insurance duty increases the cost of insurance and may deter many householders and small business owners from taking up the appropriate level of insurance. The current insurance duty regime imposes a tax on people who protect their property, businesses, motor vehicles and personal possessions by insuring them.

The non-insured do not pay the insurance duty, while the owners of underinsured assets and businesses pay less than those fully insured. Apart from operating as a disincentive for owners of assets to purchase adequate insurance, when duties on the insurance industry are one of government's main own-source revenue mechanisms, this raises significant equity concerns.

The disincentive to appropriately insure is exacerbated by the combined effect of GST charged on insurance premiums and the ESL in NSW, which significantly reduces insurance affordability and increases the risk that a household or business will underinsure or not purchase insurance.

<sup>10</sup> Potential buyers of home insurance are represented by households residing in a detached or semi-detached dwelling owned by the occupants outright or by mortgage.

<sup>11</sup> The PIF is an ICA collated dataset that contains policy records for approximately 10 million building insurance policies in Australia that were in-force as at 1 November 2017. This dataset is useful as it represents actual consumer behaviours, rather than anecdotal information and speculation. The PIF shows, for each address, what the policy holder purchased, including; the sum - insured, the premium paid, the age of the property and the excess payment preferred for making a claim.

<sup>12</sup> Columns 3 and 4 show the percentage of non-insurance in suburbs with highest and lowest rates of non-insurance per state, respectively.

<sup>13</sup> Quantum Market Research for Understand Insurance (the Insurance Council's financial literacy initiative). April 2016.

The diminished affordability arising from the imposition of state and territory government stamp duties on insurance premiums reduces community resilience to insurable catastrophic events.

Exacerbation of non- and underinsurance by insurance duties ultimately increases the Australian and state and territory governments' own financial exposure to catastrophic events through strong political pressure to meet community expectations of recovery assistance.

It has been recently calculated that over the past decade the total economic cost of natural disasters in Australia averaged \$18.2 billion a year and that the total economic cost of natural disasters will reach \$39 billion a year by 2050, a growth rate of 3.4 per cent a year.<sup>14</sup>

Research from the Insurance Council in 2015<sup>15</sup> examined the impact of removing state and territory insurance duties (and the Emergency Services Levy in NSW) on the take-up of house or contents insurance.

It was found that the removal of all insurance taxes and charges would result in a \$643 million (or 13 per cent) increase in household expenditure each year on pre-tax insurance premium on house or contents insurance across Australia.

Also in 2015, the Insurance Council commissioned research<sup>16</sup> using computable general equilibrium modelling of the Australian economy<sup>17</sup> to determine the economic impact of removing all insurance-based taxes in all states and territories and replacing them with commensurate increases in municipal land rates/property taxes. The research found that this would lead to:

- A net increase in real private consumption across Australia of \$5.52 billion
- A net increase in tax revenue collected by state, territory and local governments of \$575 million after five years if this reform were implemented Australia-wide.

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<sup>14</sup> Australian Business Roundtable for Disaster Resilience and Safer Communities, [Media Release](#), 21 November 2017.

<sup>15</sup> Tooth, R, Sapere Research Group, (research commissioned by the Insurance Council), [Analysis of demand for home and contents insurance](#), pages 24-30. August 2015.

<sup>16</sup> Insurance Council and Deloitte Access Economics. Impact of removing stamp duties on insurance. October 2015.

<sup>17</sup> Comparative static computable general equilibrium model of the Australian economy with a representative household to model the impact of these changes on private consumption (as a proxy for welfare) and government budgets is recent best practice of modelling the impact of taxes in Australia, according to Cao, L. et al. *Understanding the economy-wide efficiency and incidence of major Australian taxes*. The Treasury, Australian Government. 2015; KPMG, *CGE analysis of the Current Australian Tax System*. Canberra. 2010; and Deloitte Access Economics, *Analysis of state tax reform: Report for Insurance Council of Australia*. 2011.

#### 4. Designing an efficient tax system

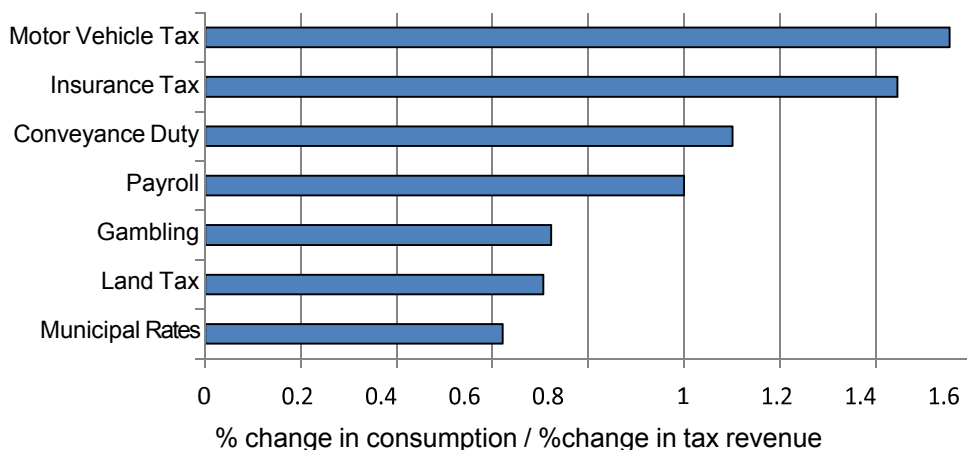
The effectiveness of a tax in achieving its purpose can be assessed against certain criteria, firstly by being equitable in terms of both horizontal and vertical equity (meaning that taxpayers with greater ability to pay, pay more tax). Furthermore, the effective tax should be:

- Transparent and simple to understand
- Unaffected by the imposition of separate taxes and levies
- Structured to minimise non-compliance
- Able to provide government/s with sufficient funding to adequately provide the services expected by the community.

Insurance duties imposed on general insurance policies do not satisfy these characteristics. Nor do they uphold the effective tax criteria of efficiency, in that the imposition of insurance duties raises premiums and as a consequence can affect consumers' choices to purchase insurance, increasing the likelihood of non-insurance and underinsurance (as discussed in earlier sections). The Insurance Council conducted an analysis<sup>18</sup> of the economic efficiency of state and territory government taxes to produce the rankings summarised in the chart below.

**Chart 5** shows that the change in consumption reduces as tax becomes more efficient. The efficiency rankings are based on the ratio of the percentage change in real consumption to the percentage change in tax revenue and then indexed to payroll tax, which is assigned a value of 1. Accordingly, the higher the ranking the less efficient is the tax.

**Chart 5: Australia-wide efficiency rankings of state and territory taxes**



The analysis shows that of the primary sources of taxes and duties collected by state and territory governments, motor vehicle taxes, insurance taxes and conveyance duty are the least efficient when compared with the more efficient municipal rates, land taxes, gambling and payroll taxes.

<sup>18</sup> Analysis conducted in 2009 by Deloitte Access Economics in conjunction with the Insurance Council using the Access Economics General Equilibrium model to assess the efficiency of state government taxes as part of project examining stamp duty reform. The efficiency of an individual tax in the model is measured by the change in household consumption that comes from raising an extra dollar of revenue via the tax while at the same time decreasing lump sum taxes by a dollar (equivalent to raising Government transfers by a dollar). The consumption response is dependent on the size of the demand and supply elasticities incorporated into the model.

#### 4.1 Stamp duty is a regressive tax

In 2015, the Insurance Council sourced data on average premiums, average sums insured and the number of policies at the post code level from members and combined this data with Australian Taxation Office postcode-level income data to determine the average stamp duty burden<sup>19</sup> at the postcode level<sup>20</sup>.

Analysis of the data demonstrated that as incomes increase, the stamp duty burden tends to decrease. This reflects the fact that households on higher incomes have a greater propensity to reduce premiums (for a given sum insured) by adopting self-insurance strategies such as increased deductibles or implementing household mitigation strategies.

The regressive nature of insurance stamp duties should be an important equity issue for policy makers.

#### 4.2 Stamp duty reforms

In the past two years the NSW and Victorian governments announced stamp duty exemptions for several forms of insurance covers.

In NSW, a stamp duty exemption for lenders' mortgage insurance took effect from 1 July 2017 while exemptions for certain small business and crop and livestock insurance covers took effect from 1 January 2018.<sup>21</sup> In Victoria, stamp duty exemptions for certain crop, livestock and agricultural machinery insurance covers took effect from 1 July 2017.<sup>22</sup>

While only a start on reform, the Insurance Council strongly supports the policy goals underpinning these important exemptions, chiefly as they collectively contribute to helping address the issue of underinsurance and non-insurance in Australia, which can have a devastating financial impact on people's lives.

The Insurance Council's members have invested significant resources in complying with the NSW and Victorian stamp duty exemptions. Insurers have been required to implement extensive changes and needed considerable time to develop, test and implement new systems, largely reflecting the complexity of the insurance covers that fall within scope of the exemptions. For example, many crop and livestock risks can be insured under generic commercial product lines (such as grouped or blanket commercial property covers), rather than specific, stand-alone agricultural lines. Because of this, insurers have typically needed to significantly alter systems to apply the exemptions in accordance with the new laws.

Implementing the exemptions has been a challenging experience for industry, particularly in light of the relatively short timeframes provided by governments and the complex nature of many of the insurance covers. The Insurance Council believes that more thorough industry consultation would have helped to facilitate a smoother transition process for all parties involved. For example, earlier consultation would have provided Insurance Council members with a better opportunity to identify potential technical challenges and work with governments on possible solutions. Given these experiences, the Insurance Council encourages all State

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<sup>19</sup> Stamp duty burden is defined as total stamp duty paid divided by income for each Australian post code.

<sup>20</sup> Aggregated member data from Insurance Statistics Australia database for the Insurance Council's submission in response to the Australian Government's Tax Discussion Paper. June 2015.

<sup>21</sup> See Revenue NSW [website](#).

<sup>22</sup> See Victorian State Revenue Office [website](#).

and territory governments, in developing any insurance stamp duty exemptions, to consult early on any proposed changes and provide a sufficient time frame for industry implementation.

#### **4.3 Government reliance on insurance taxation revenue**

The Insurance Council examined the total insurance taxation revenue collected by each state and territory government over the past 12 financial years (2007-08 to 2018-19) and the forecasted collections from financial year (FY) 2019-20 to FY2022-2023.

Over the past 12 years, state and territory governments together collected \$54.7 billion. NSW collected the most revenue at \$18.2 billion, followed by Victoria (\$15.7 billion), reflecting the higher number of dwellings in each state and the growth in population and new housing developments. The ACT collected the least (\$314 million). This is broken down in **Chart 7** (on page 15).

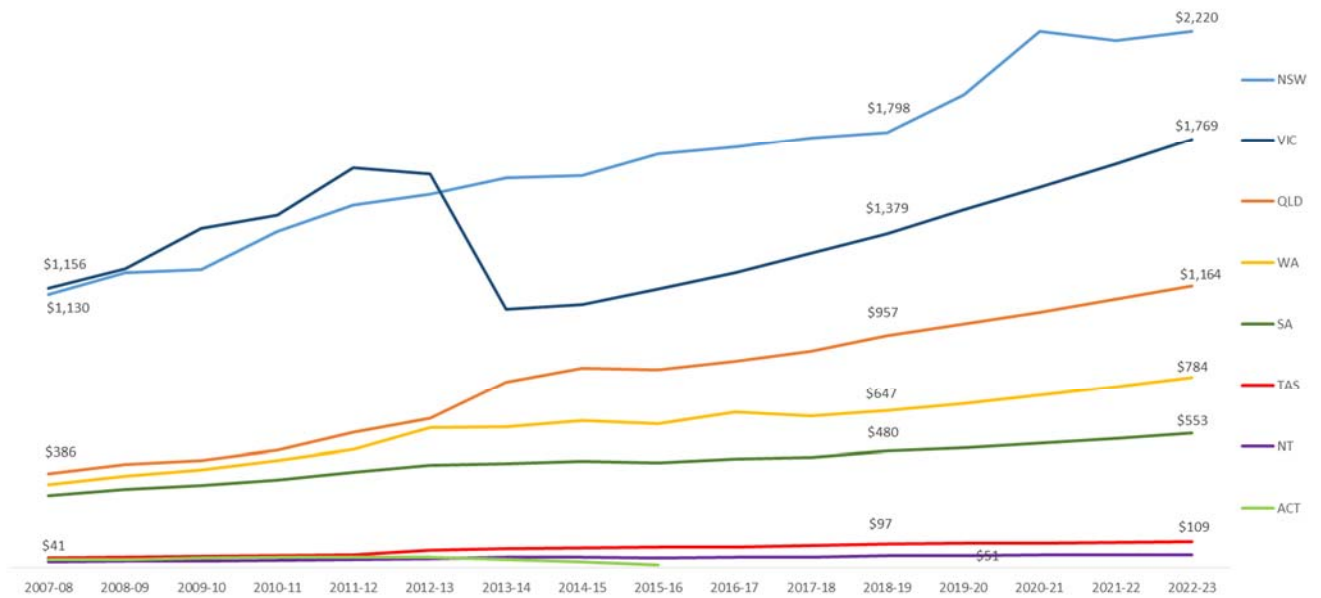
As illustrated in **Chart 6** below, over the past 12 years, each state and territory governments' insurance taxation revenue has steadily increased. The total insurance taxation revenue collected in FY2007-08 was \$3.41 billion and \$5.41 billion in FY2018-19, an increase of 58.6 per cent. This is projected to increase another 22.0 per cent in forecasts to FY2022-23.<sup>23</sup> The only state or territory that experienced any notable decline in collections over these periods is Victoria in FY2013-14. This occurred due to the abolition of the insurance-based Fire Services Levy.

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<sup>23</sup> Estimated percentage increase in total forecasted insurance taxation revenue from FY2018-19 to FY2022-23 for the states and territories that published forecasted insurance revenue figures (NSW, Victoria, Queensland, WA and SA. ACT abolished stamp duties in FY2016-17).

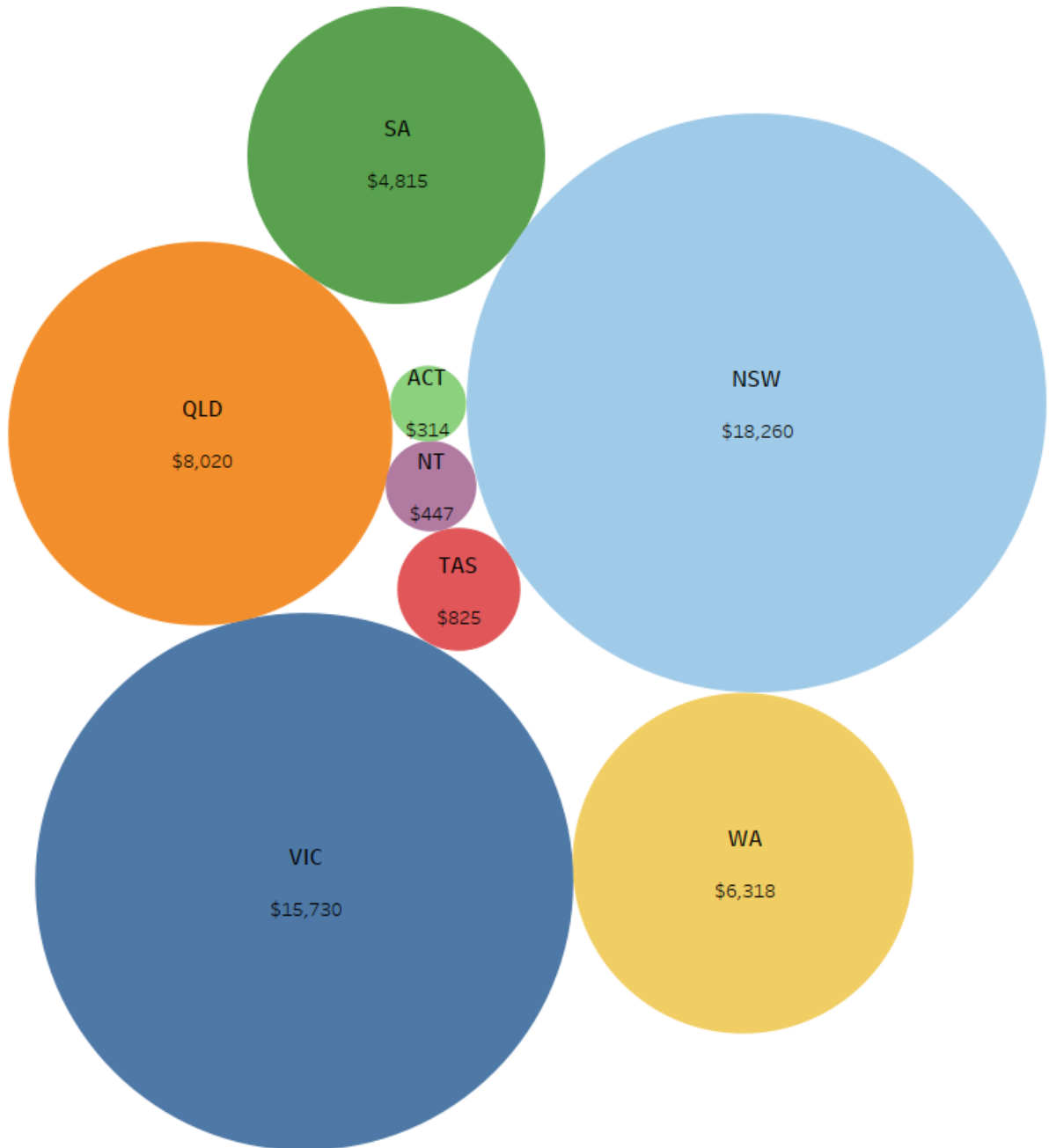


**Chart 6: State and territory government insurance duties and levies collected and forecasted between financial years 2007-2008 and 2022-23 (\$ million)**



Source: Budget and forecast figures retrieved by the Insurance Council from each respective state and territory's budget papers, for all financial years inclusive of 2007-08 to 2018-19 (current).

**Chart 7: State and territory government insurance duties and levies collected between financial years 2007-2008 and 2018-19 (\$ million)**



Source: The Insurance Council retrieved budget and forecast dollar amounts from each respective state and territory's budget papers, for all financial years inclusive of 2007-08 to 2018-19 (current).

## 5. Alternative model for revenue collection

Proposals to abolish insurance duties and levies, inevitably raise the question of alternative sources of revenue. A decision to reform an inefficient tax which is diminishing community welfare would be justifiable on its economic merits alone.

However, given the practical considerations in forgoing such a significant source of revenue, an alternative is to replace insurance duties with a commensurate increase in a broad-based property levy subject to safeguards as to its impact.

The Insurance Council's research presented earlier found that this would result in an increase in real private consumption and a net increase in revenue collected by each state and territory overall. As shown earlier in **Chart 5**, a broad-based municipal or land tax is highly efficient when compared with other possible sources of taxation revenue, including taxes on insurance. The efficiency rankings highlight the scope for economic gain if state and territory governments were to shift the composition of their taxation revenue away from transaction taxes on insurance to taxes of a more fixed nature, such as municipal rates and land taxes.<sup>24</sup>

The Insurance Council respectfully submits that state and territory governments should implement a tax reform strategy designed to shift their reliance from inefficient, narrow-based transaction taxes to broad-based, more efficient taxes.

Provided there is adequate consideration of each jurisdiction's specific characteristics, the Insurance Council is confident that governments will be able to implement an effective broad-based property levy in the same manner most had transitioned away from insurance-based emergency services levies.

For example, in Queensland, the emergency services levy incorporates stipulated risk factors depending on the activity carried out on the property; in Western Australia, the levy is a function of service levels with minimum payments and maximum caps in place; South Australia employs a land-use factor for its emergency service calculation. The fire services property levy in Victoria is made up of a residential or commercial fixed charge and a variable charge component. The variable charge is calculated by applying the appropriate land use classification rate<sup>25</sup> to the capital improved value of the land.

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<sup>24</sup> This is consistent with the understanding in the Henry Tax Review and the IPART State Tax Review. The policy objective of shifting state taxes away from transactional taxes to taxes on immobile bases was also discussed at the Commonwealth Taxation Forum in October 2011.

<sup>25</sup> The State Revenue Office of Victoria uses 12 variable levy rates; a metropolitan and regional rate for 6 property classifications.

## 6. Conclusion

Many federal, state and territory government reviews and inquiries have recommended to abolish insurance-based taxes across Australia. In recent years these have included the Australian Government's Review of Australia's Future Tax System (the Henry Tax Review), the NSW Independent Pricing & Regulatory Tribunal Review into State Taxation, the 2009 Victorian Bushfires Royal Commission, the NSW Government 2012 review: *Funding our Emergency Services*, ACT Review of Taxation, the GST Distribution Review<sup>26</sup> and Productivity Commission reports.<sup>27</sup>

A strong body of economic analysis consistently demonstrates the inequities and economic inefficiencies of taxation on insurance, including emergency services levies.

There are numerous examples across the states and territories that exhibit the successful reform of insurance-based taxes for potential social and fiscal benefit.

Broad-based taxation remains the most economically effective, equitable and efficient method to fund Australia's state and territory governments. Transaction-based insurance duties are distortionary to pricing and reduce the affordability and take-up of insurance.

Insurance taxes create an incentive for the policy holder *not* to insure by penalising them for effectively managing their risks. Accordingly, the imposition of insurance-based taxes exacerbates the serious problem of non-insurance and underinsurance. This ultimately increases the financial exposure to all levels of government when providing recovery assistance during catastrophic events

The Insurance Council urges state and territory governments to commit to and prioritise the abolition of insurance-based taxes. This would immediately improve insurance affordability and increase the take-up of insurance. Furthermore, it would reduce the need for government funding in the aftermath of natural disasters, thereby shifting the burden of disaster recovery from the public to private sector.

State and territory governments have the opportunity, through the removal of insurance taxes, to strengthen the long-term integrity of their revenue bases.<sup>28</sup>

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<sup>26</sup> See GST Distribution Review, [Final Report](#). October 2012.

<sup>27</sup> Multiple Productivity Commission (PC) reports have recommended the abolishment of insurance-based taxes including Rec 4.8 – *Natural Disaster Funding Inquiry* (December 2014); Rec 4.8 – *Shifting the Dial: 5 Year Productivity Review* (October 2017) and; Rec 14.3 – *Inquiry Report; Competition in the Australian Financial System* (August 2018).

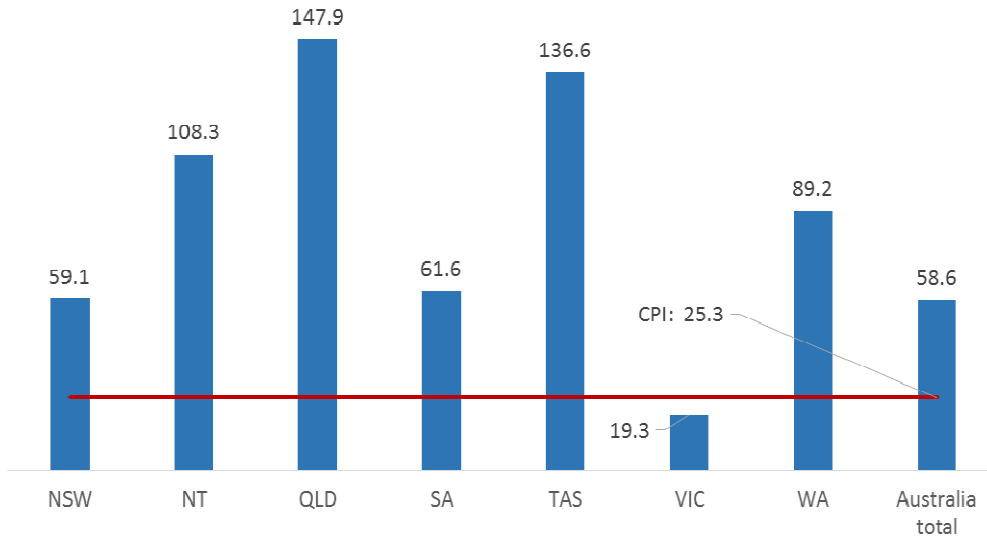
<sup>28</sup> For example, the PC's October 2017 [Draft Report](#) on its Inquiry into Australia's system of horizontal fiscal equalisation underpinning the distribution of GST revenue to the states and territories.

## 7. Appendix

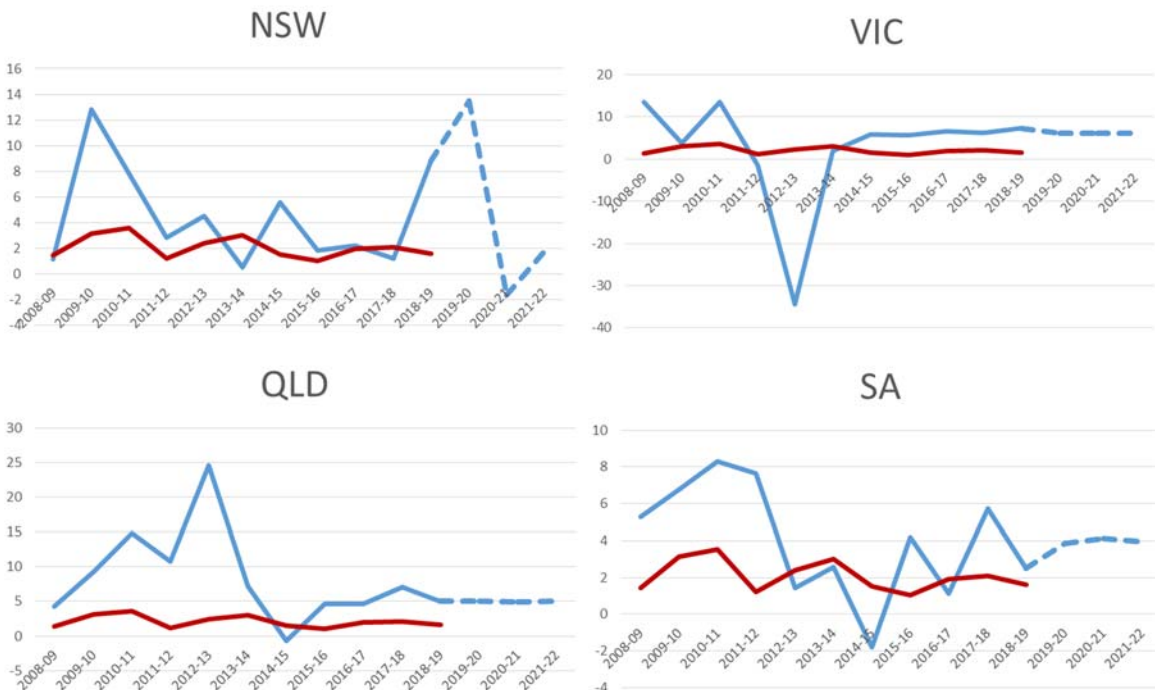
### Total general insurance taxes and levies collected (\$ million) – Actual and Projected



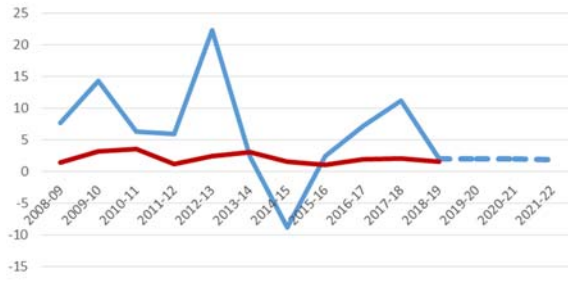
**Change (%) in insurance tax collected (blue) Vs Change (%) in CPI, 200-08 to 2018-19 (red)**



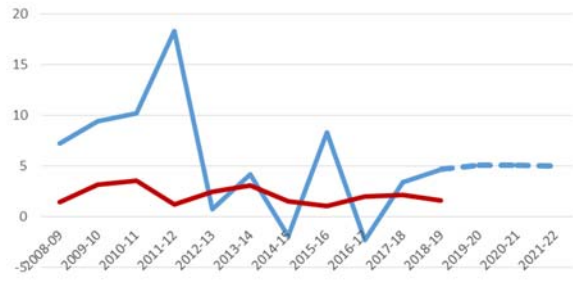
**Year-on-year change (%) in insurance tax collected (blue) vs CPI (red) – Actual and Projected (dotted)**



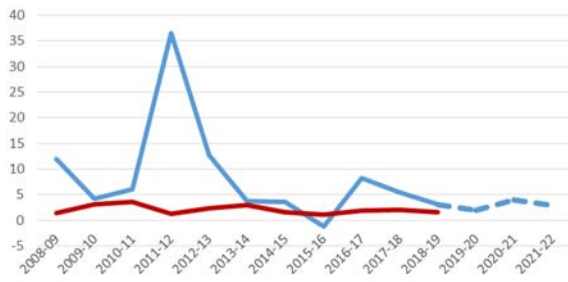
NT



WA



TAS



ACT

