

15 March 2021

The Manager
Tax Reform Taskforce
NSW Treasury
52 Martin Place
SYDNEY NSW 2000

By email: taxreformtaskforce@treasury.nsw.gov.au

Dear Sir or Madam

NSW Property Tax Proposal

The Insurance Council of Australia¹ welcomes the opportunity to comment on the *NSW Property Tax Proposal* released for consultation as a part of the NSW Budget 2020-2021.

The insurance industry is one of the foundation stones of a successful economy and resilient community. Insurance affordability and accessibility are central to building a resilient economy with all the benefits that entails. Our members recognise that having access to an appropriate level of insurance cover is a crucial tool to support local, State and national economic recovery and growth.

We welcome the NSW Government's "vision for NSW for more people to be able to own their own home" and that it "wants to make home ownership more achievable". The estimated \$11 billion of stimulus over four years will indeed assist NSW emerge from the current downturn and is supported. The NSW Government is correct to describe this potential change as "a once in a generation change."

However, taxes on insurance premiums also impact on housing affordability because once a home is purchased NSW residents still have to pay 40 per cent or more in taxes on top of their premium each year to insure their new home and principal financial asset. NSW taxes on insurance premiums also add to the cost of small businesses operating in the State.

¹The 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. 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

December 2020 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$53.2 billion per year and has total assets of \$143.6 billion. The industry employs approximately 60,000 people and on average pays out \$187.2 million in claims each working day (\$47.2 billion per year). Over the 12 months to the end of December 2020 the industry's net profit after tax (NPAT) was \$35 million - a 98.9 per cent decrease from the prior year's NPAT of \$3.1 billion. The industry's underwriting result was -\$78 million, falling sharply from \$2.3 billion in the prior year.

As a result of this tax burden many homeowners may choose to underinsure their home, or not to insure it at all, leaving them less financially resilient and less able to recover from natural disasters like the recent black summer bush fires.

It has been recognised over many years in multiple reviews, including the *Henry Review of Australia's Future Tax System*, that State taxes on insurance are economically inefficient and regressive. The NSW Government's own *Review of Federal Financial Relations* found that "there is no principled case for applying a special tax on insurance" and recommended that:

"All specific taxes on insurance products, including the Emergency Services Levy (ESL) in New South Wales, should be abolished and replaced by more efficient and broad tax bases, to improve the affordability and uptake of insurance."

It is the view of the general insurance sector that the NSW Government's stamp duty reform, which stops short of encompassing reform of taxes on insurance products, is a missed opportunity.

A more comprehensive Property Tax Reform which encompasses reform of taxes on insurance would serve to accelerate NSW's emergence from the current economic downturn.

According to Deloitte Access Economics the abolition of stamp duty and ESL on insurances is estimated to inject \$12.2 billion of stimulus over four years into the NSW Economy.² If the NSW government was to undertake a comprehensive reform of taxes on property over the whole ownership cycle, including of those taxes on expenditure to safeguard property, it could double the economic benefit of the reform.

We believe that the removal of all State Government taxes and duties on general insurance products is an important first step in addressing insurance affordability, accessibility, and participation. There is a clear social and economic case for eliminating State taxes on insurance. This case is based on recognition of the essential benefits of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage.

We would welcome discussions with your team and trust that our observations are of assistance. If you have any questions or comments in relation to our submission please contact Aparna Reddy, the Insurance Council's General Manager, Regulatory Affairs, on telephone: 02 9253 5176 or email: areddy@insurancecouncil.com.au.

Yours sincerely



Andrew Hall
Executive Director and CEO

²Page 6, Deloitte Access Economics "Impact of removing stamp duties on insurance", October 2015 report to ICA quantified the per annum impact on real household consumption in NSW at \$3.056 billion per annum.