

26 November 2019

Mr Peter Achterstraat AM
NSW Productivity Commissioner
NSW Treasury
52 Martin Place
SYDNEY NSW 2000

KICK STARTING THE PRODUCTIVITY CONVERSATION

Dear Mr Achterstraat

The Insurance Council of Australia (Insurance Council)¹ welcomes the opportunity to contribute to the debate being encouraged by the NSW Productivity Commission on vitalising productivity growth with release of its paper “Kick Starting the Productivity Conversation” (the Discussion Paper). The Insurance Council believes this discussion is vital to ensure the long term economic growth necessary to maintain good wages and a high standard of living in NSW.

The Discussion Paper rightly identifies that, as part of the NSW Government’s productivity agenda, it is important to consider how insurance taxation arrangements can be improved. We attach for the consideration of the Commissioner a paper prepared by the Insurance Council which analyses the economic costs of insurance duties on household insurance, including in NSW. The paper argues that NSW would benefit from the abolition of insurance duties and their replacement with a broad based tax.

Insurance taxes in NSW have negative economic and social costs. Insurance duties add 9% to the cost of premiums and the Emergency Services Levy (ESL) adds around 21%. Increased premiums provide disincentives for individuals and businesses to insure. In fact, consumers are less likely to take up home and contents insurance in NSW than in any other state.

Underinsurance has consequences for productivity and the NSW Government’s exposure to risk. As the Discussion Paper recognises, in the event of natural disaster, individuals who are underinsured may be left without adequate resources to recover, and businesses may collapse and lead to a loss of market competition, employment and know-how. The

¹ 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).

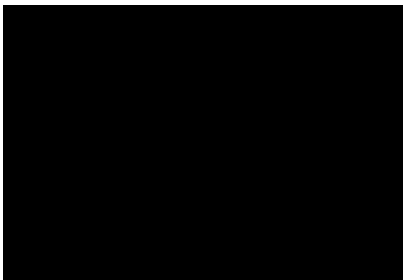
Insurance Council expects that the economic cost of natural disasters in NSW will rise to \$10.6 billion a year by 2050, particularly with the ongoing impact of climate change.

The removal of insurance duties and the ESL and replacing them with more efficient taxes would contribute to lifting growth and removing distortionary effects to economic decision making that can hamper productivity. Research by the Insurance Council in 2015 estimated that the removal of ESL and stamp duty would reduce the number of non-insured households in NSW for house insurance by around 34% and reduce the number of households without contents insurance by 15%. Furthermore, the removal of stamp duties would stimulate spending in NSW 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.

Vital public services such as emergency services need to be sustainably funded into the future. The NSW Productivity Commission should explore how the removal of distortionary insurance taxes and their replacement with more efficient sources of revenue could lead to greater growth and productivity and therefore more effective and sustainable ways to fund the services upon which the citizens of NSW rely.

The Insurance Council thanks the Commission for its consideration. If you would like to discuss any of these matters further please do not hesitate to contact [REDACTED].

Yours sincerely



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 Review¹
- Various Productivity Commission reports.²

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

² 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.³

³ 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).⁴ 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

Tax	General insurance (GI) taxes (GST of 10% applies to all GI products)	Impact of levies, GST and stamp duties on final price paid by consumer⁵
NSW	<p>Stamp duty*: 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>ESL: Historically adds 21% to home and contents premiums and up to 40% to business premiums.</p> <p>Note: 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 more than 50% to the base premium for a household policy and up to 70% to a business policy.
VIC	<p>Stamp duty*: 10% of previous month's gross premiums.</p> <p>Note: Victoria abolished its Fire Services Levy on insurance premiums in 2013.</p>	The addition of GST and stamp duties adds 21% to the base premium for a household policy.
QLD	<p>Stamp duty*: 9% of the premium for most GI contracts; 5% of net premiums for workers compensation. 10c flat for CTP.</p> <p>Note: 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 19.9% to the base premium for a household policy.
WA	<p>Stamp duty*: 10% of gross premiums; 10% of premiums on CTP.</p>	The addition of GST and stamp duties adds 21% to the base premium for a household policy.
SA	<p>Stamp duty*: 11% of premium.</p>	The addition of GST and stamp duties adds 22% to the base premium for a household policy.
TAS	<p>Stamp duty*: 10% of premium.</p> <p>Note: 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 21% to the base premium for a household policy.
NT	<p>Stamp duty*: 10% of premiums.</p>	The addition of GST and stamp duties adds 21% to the base premium for a household policy.
ACT	<p>Stamp duty*: Nil.</p> <p>Note: The ACT completed the phasing out of its stamp duties on insurance products in 2016.</p>	The addition of GST adds 10% to the base premium for a household policy.

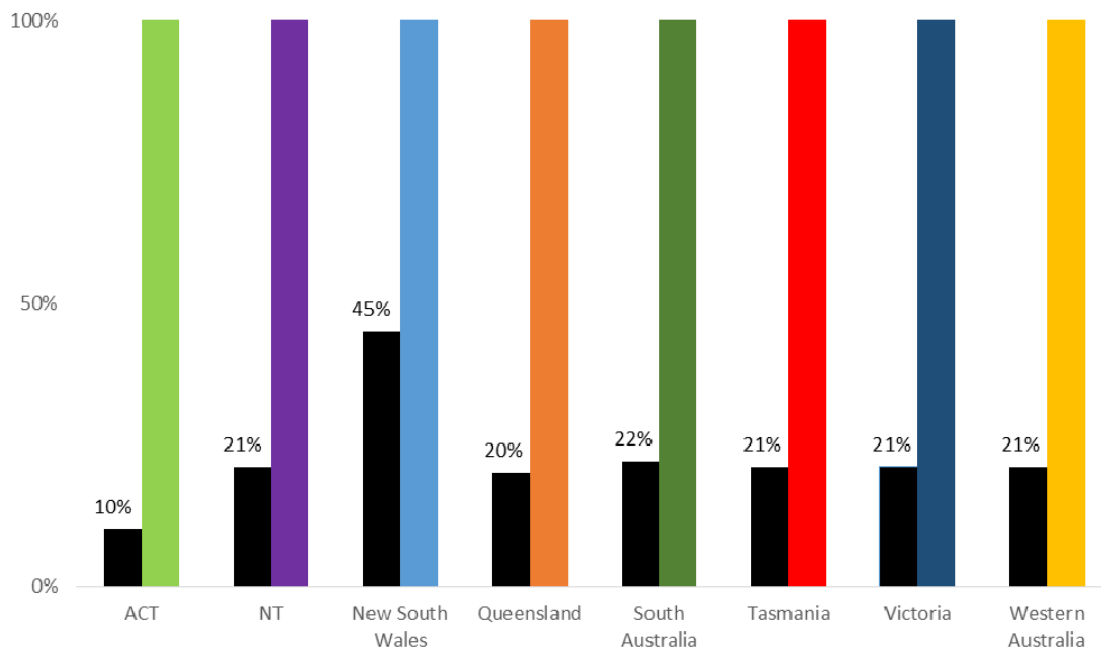
Source: States and territories' general insurance duty rates retrieved from NSW Treasury, *TRP18-01 Interstate Comparison of Taxes 2017-18*, page 22. April 2018. States and territories' impact of general insurance duties on price (percentage) calculated by the Insurance Council. NSW Budget papers and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

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

⁵ 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.⁵

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 2003-2016.⁶

Chart 2 shows the percentage of total household income (all sources) spent on home and contents insurance.⁷ **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.⁸

Separately, **Chart 4**⁷ 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

⁶ 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.

⁷ 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).

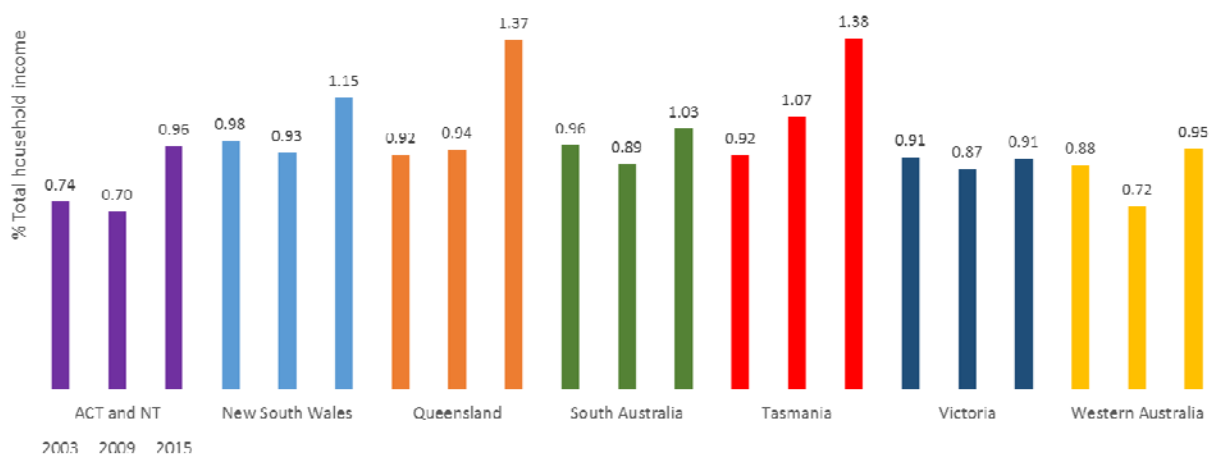
⁸ Household expenditure represented in Charts 2 and 3 is tax inclusive.

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.⁹ 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



⁹ 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)

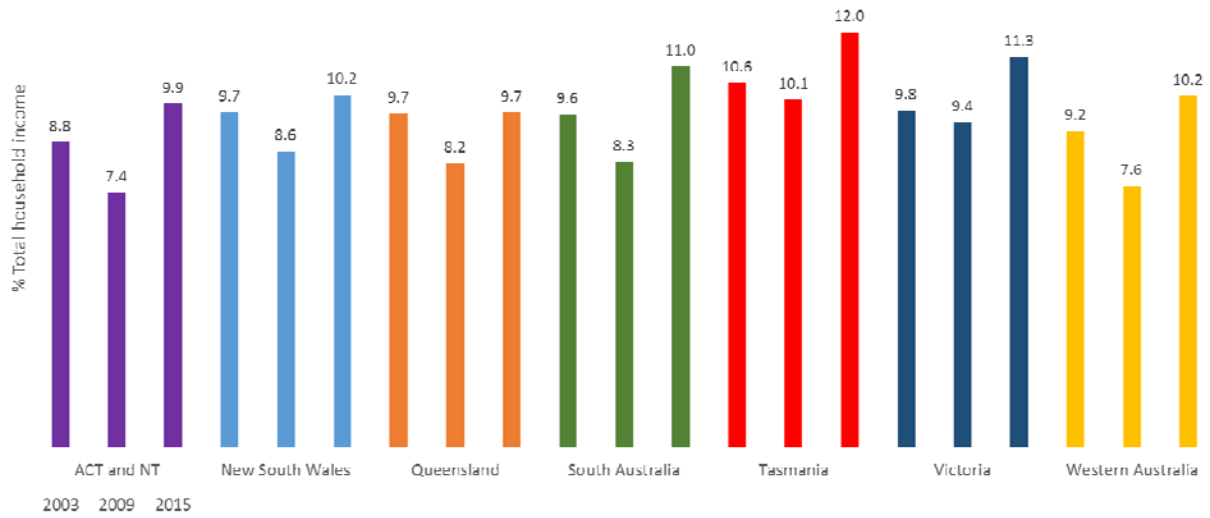
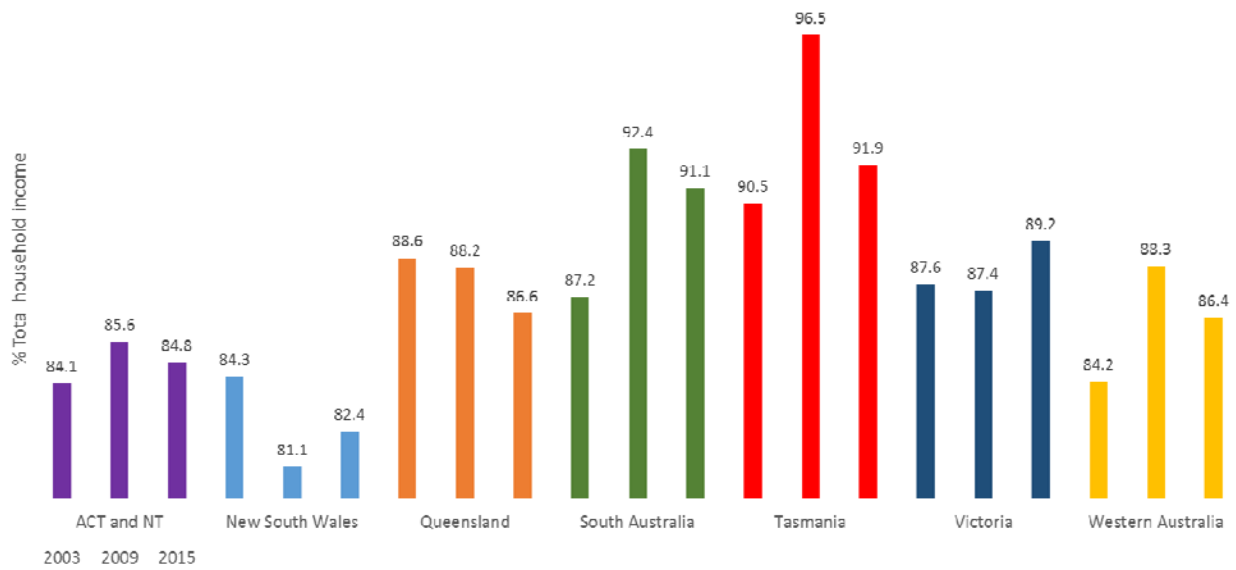


Chart 4: Percentage of households covered by home and contents insurance policies



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 insurance¹⁰, 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.¹¹

Table B¹²: 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 survey¹³ 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.

¹⁰ 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.

¹¹ 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.

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

¹³ 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.¹⁴

Research from the Insurance Council in 2015¹⁵ 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 research¹⁶ using computable general equilibrium modelling of the Australian economy¹⁷ 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.

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

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

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

¹⁷ 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

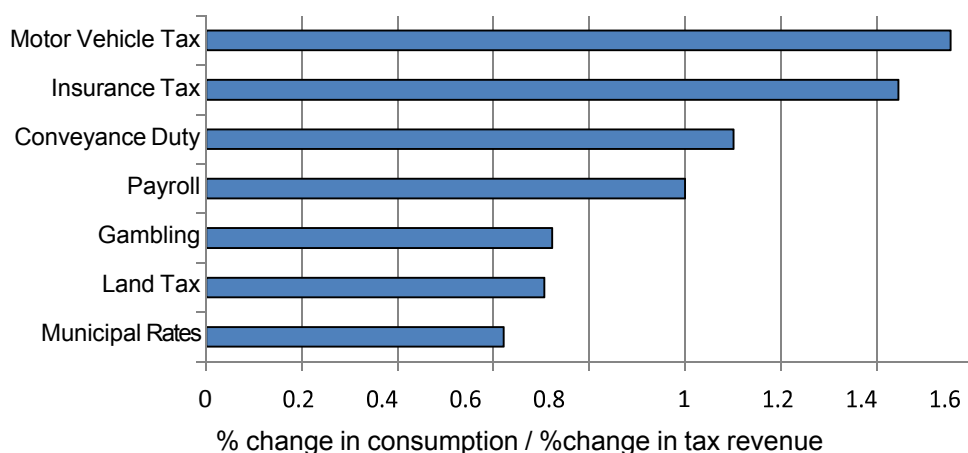
The effectiveness of a tax in achieving its purpose can be assessed against certain criteria, firstly by being equitable in terms of both horizontal and vertical equity (meaning that taxpayers with greater ability to pay, pay more tax). Furthermore, the effective tax should be:

- 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 analysis¹⁸ 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.

¹⁸ 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 burden¹⁹ at the postcode level²⁰.

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 2018.²¹ In Victoria, stamp duty exemptions for certain crop, livestock and agricultural machinery insurance covers took effect from 1 July 2017.²²

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

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

²⁰ 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.

²¹ See Revenue NSW [website](#).

²² 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

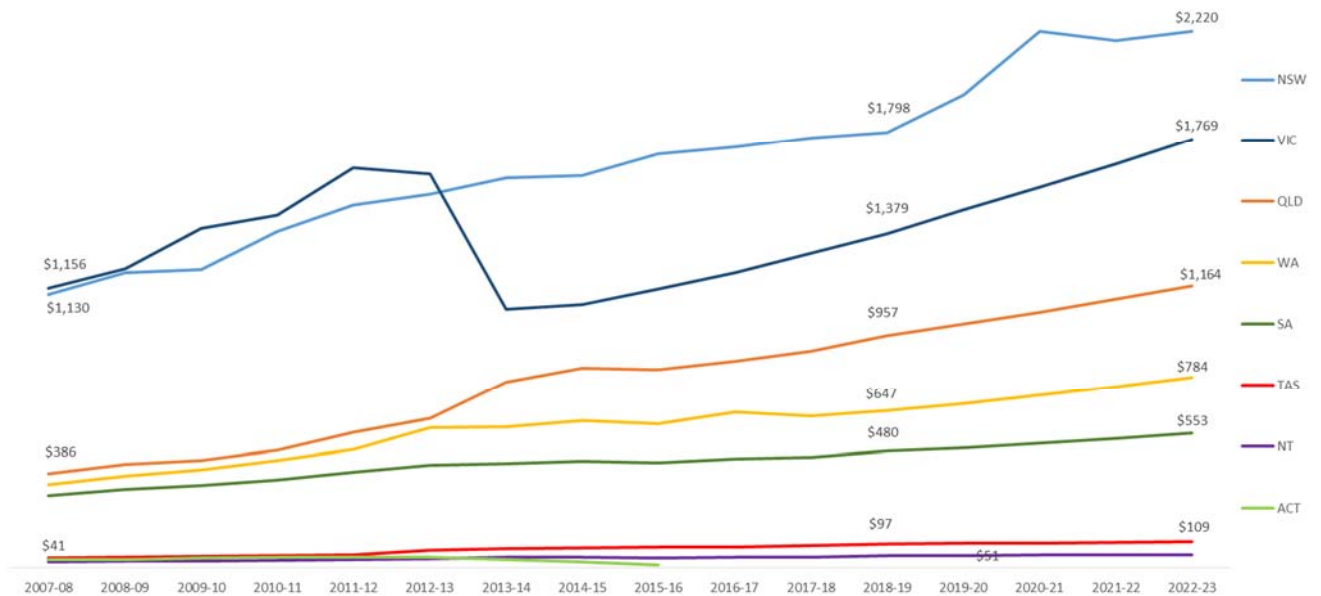
The Insurance Council examined the total insurance taxation revenue collected by each state and territory government over the past 12 financial years (2007-08 to 2018-19) and the forecasted collections from financial year (FY) 2019-20 to FY2022-2023.

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 FY2022-23.²³ 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.

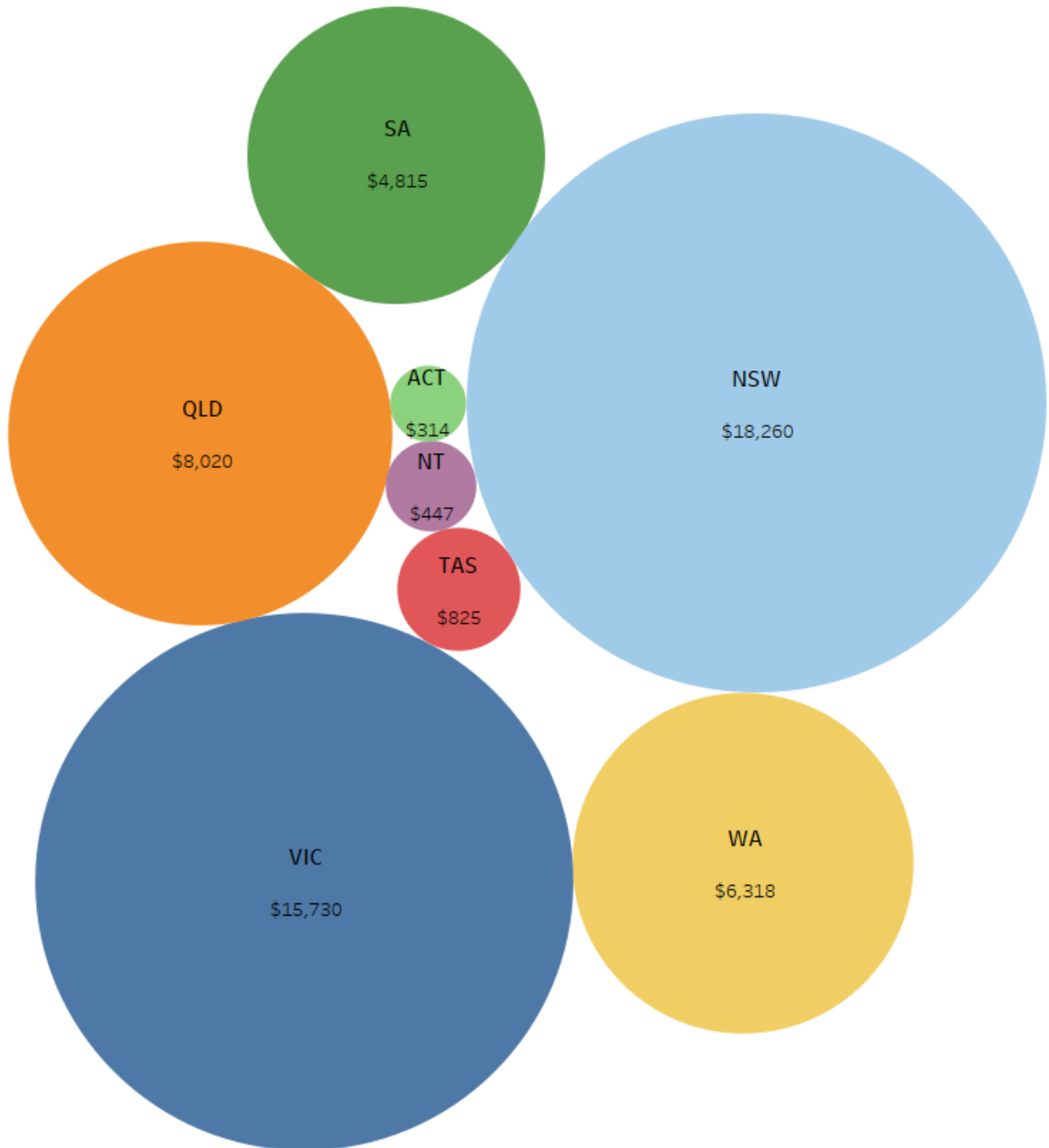
²³ Estimated percentage increase in total forecasted insurance taxation revenue from FY2018-19 to FY2022-23 for the states and territories that published forecasted insurance revenue figures (NSW, Victoria, Queensland, WA and SA. ACT abolished stamp duties in FY2016-17).

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.²⁴

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 rate²⁵ to the capital improved value of the land.

²⁴ 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.

²⁵ 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 Review²⁶ and Productivity Commission reports.²⁷

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.²⁸

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

²⁷ 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).

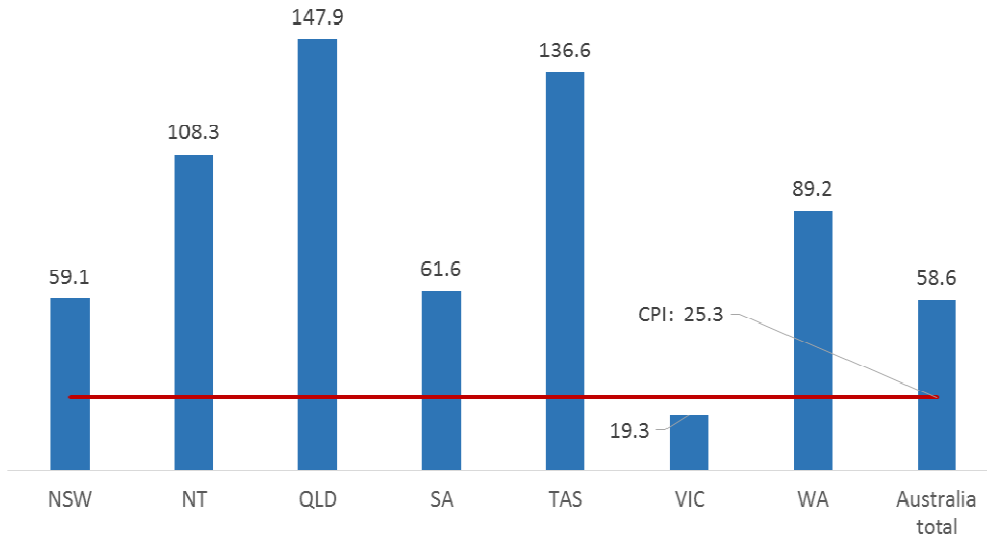
²⁸ For example, the PC's October 2017 [Draft Report](#) on its Inquiry into Australia's system of horizontal fiscal equalisation underpinning the distribution of GST revenue to the states and territories.

7. Appendix

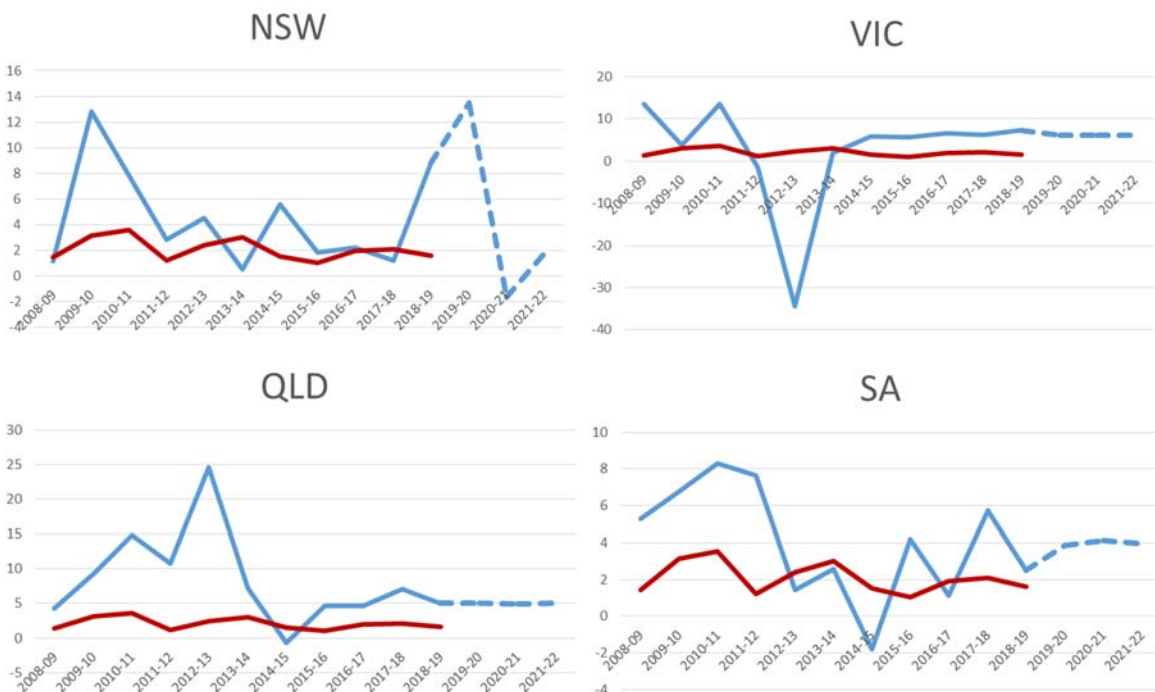
Total general insurance taxes and levies collected (\$ million) – Actual and Projected



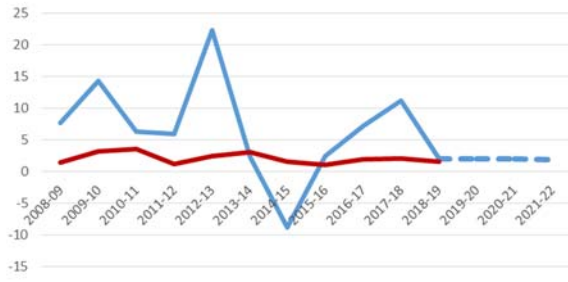
Change (%) in insurance tax collected (blue) Vs Change (%) in CPI, 200-08 to 2018-19 (red)



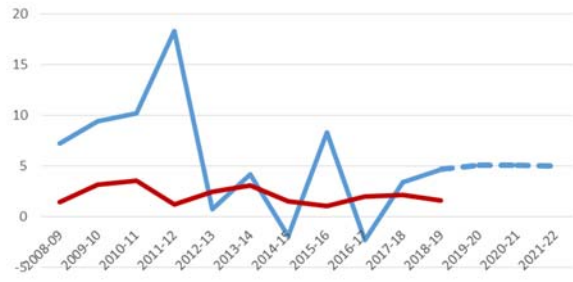
Year-on-year change (%) in insurance tax collected (blue) vs CPI (red) – Actual and Projected (dotted)



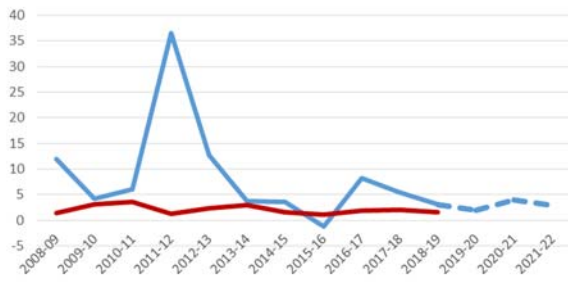
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