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GST windfall should lead to cuts on insurance taxes

With GST revenue to the States to increase by \$2.3 billion in 2006-07, according to last night's budget, the Insurance Council of Australia (ICA) has called on Federal and State Governments to take a fresh look at abolishing the inequitable taxes on general insurance.

ICA's CEO, Kerrie Kelly, said that despite its significant importance to the economy, general insurance was currently taxed as a luxury item with taxation treatment at the same levels as alcohol, gambling and tobacco.

"A 'tax on tax' effect applies because State stamp duty is imposed on top of GST on insurance policies, and as long as this continues, it will affect the affordability of insurance and exacerbate the problems of under-insurance and non-insurance in the community.

"For policyholders in NSW and Victoria, the situation is even worse. With the addition of a Fire Services Levy (FSL) there is in fact a 'tax on tax on tax' effect which in Victoria is as high as 81.5% on property insurance.

"The impact of under-insurance and non-insurance has been evident in communities hit by natural disasters such as those in North Queensland after Cyclone Larry, and in Canberra after the 2003 bushfires. Governments need to be looking at ways to encourage individuals and businesses to take out insurance to protect themselves," Ms Kelly said.

She said independent research had confirmed the negative impact of taxes on general insurance. Analysis by the Centre for International Economics (CIE), commissioned by ICA, found that general insurance plays a critical role in supporting economic activity and protecting the community, yet it is subject to a punitive tax burden at the same levels as alcohol, gambling and tobacco.

The report found that: "...taxes on insurance are relatively inefficient and that reducing these taxes or replacing them with almost any of the others that government have at their disposal today would lead to large gains in economic welfare."

The CIE report also confirmed that Australia continues to lead the world in levels of taxation on household and commercial property insurance, due to the existence of a FSL in NSW and Victoria, and stamp duty levied by all State and Territory Governments.

"Because State insurance taxes were not included in the original Intergovernmental Agreement (IGA), it means ordinary Australians are being penalised for being prudent enough to protect themselves and their property with insurance.

"The HIH Royal Commission report in 2003 strongly recommended that State stamp duty and FSL on insurance products be abolished. Other business groups such as the Business Coalition for Tax Reform and the Australian Chamber of Commerce and Industry have also called for the abolition of inefficient insurance taxes which add to the cost of insurance.

"With most States and Territories moving into revenue positive positions following the introduction of the GST, and with the implementation of the IGA on State tax reform well advanced, it is timely for the Federal Government to start developing a new IGA on tax reform through the Council of Australian Governments (COAG)," Ms Kelly said.

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