

Tuesday November 3, 2015

Replacing inefficient insurance taxes would deliver a windfall for the NSW Government

The New South Wales Government could pocket an extra \$400 million over five years by removing stamp duties and the emergency services levy (ESL) from insurance policies.

Research by Deloitte Access Economics for the Insurance Council of Australia (ICA) examined the impact of replacing the twin imposts with a commensurate rise in land taxes.

Though the changes were designed to be revenue neutral, moving to a more efficient tax base was found to boost economic activity, resulting in the overall tax intake increasing.

ICA CEO Rob Whelan said: "This research highlights the economic benefits the Baird Government could reap should it grasp this long-overdue financial reform.

"Removing the ESL alone in NSW could add \$84 million to state taxation revenue, and the benefit is five times that if insurance stamp duties are also replaced."

Mr Whelan said NSW was better positioned than any other state or territory to gain from replacing the taxes, which have consistently been found to be inefficient and regressive.

"NSW is the only state that funds its emergency services through a levy on household insurance*, adding about 20 percent to the cost of premiums – and that's before stamp duties and GST are imposed," he said.

"These increased costs significantly contribute to the incidence of non-insurance and under-insurance in the community."

Mr Whelan pointed to earlier [ICA-commissioned research](#) that found removing state-based premium taxes would lead to 242,000 more Australian households taking out contents insurance and 38,000 buying house insurance.

The Deloitte study also examined the impact on other state and territory budgets if they replaced their insurance stamp duties with an increase in municipal land rates.

"The total benefit to the national economy would be \$575 million after five years if this reform was implemented Australia-wide," said Mr Whelan.

"The removal of insurance taxes has long been advocated by independent inquiries and was most recently endorsed by the participants at last month's National Reform Summit.

"Though the idea of replacing existing arrangements with other forms of broad-based taxes may be daunting to some politicians, it's clear such a move would ultimately benefit state and national economies."

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Impact of selected reforms on real household consumption				
	Removal ESL** in NSW		Removing ESL and all insurance-based stamp duties across Australia	
	Consumption change (%)	Consumption change (\$m)	Consumption change (%)	Consumption change (\$m)
NSW	0.38	1,085	1.07	3,056
VIC	-0.06	-127	0.51	1,080
QLD	-0.06	-100	0.35	582
SA	-0.01	-6	0.53	298
WA	-0.05	-47	0.28	263
TAS	-0.09	-15	0.35	57
NT	-0.1	-9	0.58	55
ACT	0.11	17	0.81	123
Total	0.1	799	0.66	5,515

Net revenue effect on government revenue of selected reforms				
	Removal ESL in NSW		Removing ESL and all insurance-based stamp duties across Australia	
	Revenue change (%)	Revenue change (\$m)	Revenue change (%)	Revenue change (\$m)
NSW	0.30	84	1.42	400
VIC	-0.06	-12	0.47	98
QLD	-0.03	-4	0.14	21
SA	0.04	2	0.55	30
WA	-0.01	-1	0.22	23
TAS	-0.08	-1	-0.08	-1
NT	-0.15	-1	0.75	5
ACT	0.23	3	2.24	29
Commonwealth		26		185
Total	0.08	68	0.69	575

*Commonwealth revenue refers to increases in GST revenue as a result of the change.

Note: Revenue changes in \$m are in 2014-15 Australian Dollars.

Source: Deloitte Access Economics, 2015.

* Tasmania partially funds its emergency services by a levy on commercial insurance

** Emergency Services Levy

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