INSURANCE COUNCIL OF AUSTRALIA

Media Release

Tuesday November 3, 2015

Replacing inefficient insurance taxes could boost the national economy by half a billion dollars

The national economy would be boosted by more than half a billion dollars if state and territory governments replaced inefficient stamp duties on insurance policies.

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

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

ICA CEO Rob Whelan said: "The modelling shows significant rises in both household consumption and government revenue when governments implement this long-overdue financial reform.

"Household spending rose in every state and territory once insurance levies were replaced by more efficient taxes, leading to an increased tax intake for governments."

In New South Wales there would be more than $3 billion in extra consumption over five years, followed by Victoria ($1.08 billion), Queensland ($582 million) South Australia ($298 million) and Western Australia ($263 million).

That increase in economic activity would lead to an overall rise in tax revenue across all state and territory governments of $575 million after five years.

The jurisdiction which stood most to gain was New South Wales which imposes both stamp duty and an emergency services levy (ESL) on insurance .

"The Baird Government could reap an extra $400 million dollars by implementing a reform that's long been advocated by independent inquiries, as well as the participants at last month's National Reform Summit", said Mr Whelan.

"The ACT Government could raise an additional 2.24 percent in tax revenue, while South Australia and Victoria would gain about half a percent – significant yields in the context of a state or territory budget."

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.

"Not only are taxes on insurance highly inefficient, they substantially increase the incidence of under-insurance and non-insurance in the community."

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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. These are calculated by applying the revenue change calculated to total local and state taxation income for 2013-14, using ABS 5506.0

Source: Deloitte Access Economics, 2015.

*Note: Emergency Services Levy

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