

10 April 2015

Department of Treasury and Finance
State Tax Review
GPO Box 1045
Adelaide SA 5001

Via: www.yourSAy.sa.gov.au

Submission to the South Australia State Tax Review

The National Insurance Brokers Association of Australia (NIBA) appreciates the opportunity to provide this submission to the South Australia State Tax Review.

NIBA represents around 350 insurance broking firms across Australia, including large multinational companies, large Australian companies, and over 90% of the medium and smaller insurance brokers who serve clients in the cities, towns and regions across the country.

Insurance brokers provide advice, support and services to individuals, small medium and large businesses, governments and government agencies. Insurance brokers invoice over \$18 billion in general insurance premiums annually, around half of the total Australian general insurance premium pool.

NIBA is represented in South Australia by the NIBA South Australian Divisional Committee.

State Tax Review

NIBA strongly commends the South Australian Government and the Department of Treasury and Finance for undertaking the State Tax Review.

NIBA welcomes the recognition of the burden imposed by insurance taxes, and welcomes the opportunity to provide this submission on this important issue.

Key Principles for State Tax Reform

NIBA acknowledges and supports the key principles for State tax reform. It is important that the State Government has sufficient funds to deliver high quality services and infrastructure to the community of South Australia, and it is critical that the State tax system supports entrepreneurship, investment and job creation.

Perhaps more importantly (at least so far as insurance taxes are concerned), State taxes must be fair, efficient, stable and predictable.

NIBA believes that on any analysis, insurance taxes do not meet the Government's stated principles for a good tax system.

Efficiency: taxes on general insurance premiums increase the cost of general insurance in South Australia by around 20%. In other words, general insurance is 20% more expensive than it would be in the absence of GST and stamp duty taxes. This is a substantial additional burden imposed on policyholders, and has a direct impact on the affordability of cover. Because of this, insurance taxes are likely to have a negative impact on behavior, as policyholders are likely to reduce the level of cover to an amount they can afford to purchase. Where this occurs, there is a loss of economic welfare, resulting in underinsurance in the community.

Equity: insurance taxes do not exhibit horizontal equity, as they do not apply to all people in similar financial circumstances. Insurance taxes are only paid by those who chose to insure their risks. People who self insure their risks (by not purchasing insurance) or finance their risks by other means are able to avoid the burden of insurance taxes.

This raises an important element of fairness. The insurance process provides financial support to those who have suffered unexpected loss. Insurers distribute the cost of the loss across the pool of policyholders. This means that the individual, business and sometimes (following a natural disaster) the community is able to recover from the loss, restore or replace the lost asset, and continue making an economic contribution to society.

People and businesses should be encouraged to insure their potential losses and liabilities. However, insurance taxes operate as a potential financial disincentive to this process, especially when the level of overall insurance taxes is around 20%.

As noted in the Discussion Paper, taxes can be considered to be efficient and equitable if they reduce an activity which has negative effects on the broader community. NIBA strongly believes insurance has demonstrably positive impacts on the policyholder, businesses and the community. Insurance is not

something that should be treated in a manner similar to those activities that have negative impacts on the broader community.

Insurance taxes also do not exhibit vertical equity, as the same rate of tax is paid on all general insurance premiums, regardless of the financial circumstances of the policyholder.

Sustainability: insurance taxes are not necessarily sustainable over time. Ultimately, it is a personal choice by the individual or business as to the nature and extent of insurance cover (if any) they will maintain. Purchasing cover – and the obligation to pay tax – is entirely discretionary. This should not form the basis of the Government’s revenue stream.

Insurance Taxes Must Be Reformed

Every major review of insurance taxes has concluded they must be reformed. Some of these reviews and inquiries include:

HIH Royal Commission

Recommendation 55: I recommend that state and territory governments abolish stamp duty on general insurance products. It would be appropriate for this process to be coordinated through the proposed ministerial council with responsibility for general insurance.

There is extensive analysis and discussion of the burden, inequities and unfairness of insurance taxes in Chapter 10 of the final report of the HIH Royal Commission.

Henry Tax Review

Recommendation 79: All specific taxes on insurance products, including the fire services levy, should be abolished. Insurance products should be treated like most other services consumed within Australia, and be subject to only one broad-based tax on consumption.

NIBA acknowledges and commends former State Governments in South Australia for removing fire and emergency services levies from insurance premiums in that State.

Financial System Inquiry

Appendix 2 – Tax Summary: Insurance taxes mean that individuals and businesses must pay more to achieve the same risk reduction. Reducing duties on insurance would assist in dealing with underinsurance.

Composition of State tax revenues

NIBA acknowledges that insurance taxes contribute around 10% (or \$445 million) of the estimated State tax revenue for 2014-2015. On this basis, NIBA accepts that the challenge is to find alternative, more appropriate and more efficient revenue streams, rather than simply abolishing stamp duty on insurance premiums.

NIBA notes the comments in the Discussion Paper seeking community views on how any revenue lost from reforming insurance taxes could be raised from a revised State tax base.

Incidence of State taxes

As noted in the Discussion Paper, the short and long term economic incidence of insurance taxes affect the policyholder rather than the insurance company. Insurance companies fully pass on all premium taxes and levies in Australia.

NIBA Submission

Every independent review of insurance taxes from the HIH Royal Commission through to and including the recent Financial System Inquiry recommends the abolition of stamp duty and (where they still occur) fire services levies on insurance policies and premiums.

The State Tax Review Discussion Paper also acknowledges taxes on insurance are amongst the most inefficient taxes levied by government.

NIBA firmly submits that the time for discussion as to WHETHER insurance taxes should be reformed has well and truly passed. Insurance taxes must be reformed – they are inefficient, inequitable, unfair, and contribute to levels of underinsurance in the community. Responsible risk financing should be encouraged by governments, not taxed as if it is an undesirable activity.

The real question, therefore, becomes what is the most appropriate replacement revenue source(s). NIBA is not expert in the design of taxes and government revenue streams. We urge the Government to seek expert advice on alternative mechanisms to raise the revenue that would be lost by the removal of stamp duty on general insurance premiums. We note that the Government is receiving expert advice on these and related matters.

Finally, NIBA submits that any change to taxation requires strong leadership from the Premier and Treasurer. NIBA will fully support any moves by the State Government to reform insurance taxes, and to ease the burden on

policyholders who take responsible action to insure their risks and protect their exposure to potential future loss.

Conclusion

1. Every independent review of insurance taxes has concluded they must be removed.
2. NIBA urges the State Tax Review to develop options for alternative revenue streams, in order to protect the State's revenue base but also to raise the necessary revenue in a fair, efficient, equitable and sustainable manner.
3. NIBA will strongly support any moves by the State Government to reform insurance taxes, and to ease the unfair and inequitable burden currently carried by policyholders in South Australia.

Please do not hesitate to contact me if you require further information in relation to any matter covered in this submission.

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