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Greedy states won't forgo stamp duty on insurance

In every state and territory, governments place stamp duty on insurance products, thus increasing the cost of insurance to consumers through higher premiums. These tax rates range from the highest of 11% in South Australia, to the lowest of 7.5% in Queensland. NSW's rate lies in the middle at 9%.

At a time when underinsurance and non-insurance are a major issue, as it is estimated that 9 out of every 10 Australians are not fully insured, these taxes are not encouraging consumers to cover themselves adequately. These taxes can be seen to be inefficient in three ways:

- Firstly, taxes should be imposed on **activities we wish to discourage** - this is the rationale for charging 'sin taxes' on alcohol, cigarettes and gambling. Insurance is a benefit to the consumer in the event of a disaster. A recent report by the Centre for International Economics, however, finds that taxes on insurance now raise more revenue than alcohol, and not much less than gambling and tobacco.
- Secondly, stamp duty imposes a **'tax on tax effect'**, namely onto the goods and services tax (GST), thus breaking one of the most fundamental principles of taxation. In NSW and VIC, an additional 22% fire services levy (FSL) is imposed on premiums to fund fire-fighting services. After the levy is charged, followed by a 10% GST, followed by stamp duty, a basic home insurance premium in NSW of $100 can end up costing $146.28.

Fire Services Levy [FSL]
The ICA [Insurance Council of Australia] and NIBA [National Insurance Brokers Association] have lobbied successive governments for many years and have had success in Queensland, South Australia and Western Australia in having the FSL removed from insurance policies. It is only New South Wales, Victoria and Tasmania that still adopt the completely inappropriate method of funding. The **reallocation of FSL to rates** and not insurance is required in these states that have not already made the change.

The FSL has a tax base limited to those persons and organisations which take out property insurance. The base is further reduced in reality by under insurance. The limitations are completely unnecessary and result from poor scheme design.

This tax is inequitable in that those prudent individuals who insure and particularly those who insure fully pay for the service and those who do not insure contribute nothing and those who under insure pay only a proportion of their fair share.

The FSL should be property based [ie rates], but it also should be **charged only once per person** – not, in the case of investor owners, being charged for multiple properties.

- Thirdly, placing stamp duty on insurance keeps premiums higher, which **does not encourage the consumer to insure adequately**, if at all. The reality is, poorer people tend to live in areas with higher crime rates and are more likely to need insurance than most.

Whether it's the insurance cover the owners corporation is required by law to have, or the additional insurance the owners corporation decides it is prudent to have, all are slugged.

Surprisingly, there has not been much consumer reaction to the rise in stamp duties on insurance in NSW, perhaps because some consumers have convinced themselves they just don't need any, or much, insurance? There are three common reasons often used to justify the lack of insurance:

- There's the 'it won't happen to me' factor. Fifteen years of uninterrupted economic growth have exerted a calming influence on Australians through real wage rises and low unemployment.
- The second reason why insurance slips off the radar for some is the 'I couldn't be bothered' factor. Deciding whether or not you need to take out some form of insurance involves a complex weighing of risk.
- There's always the 'if something really bad happens to me, the Government will bail me out'. Economists call this a 'moral hazard' problem. In the case of insurance, if they think the Government will step in to cover the gap for large claims, they are likely to underinsure their property.

When the deal was initially struck between the Federal Treasurer and the states in 1999 to hand GST to the states, it was made in return for the states agreeing to 'review' a range of stamp duties. These included stamp duties on mortgages, leases, business conveyancing and hire of goods, and were to be offset by the GST. Insurance wasn't on the hit list.

NIBA has put these tax concerns in writing to express brokers' concerns over inequitable taxes charged on policies, seeking a commitment from the states and territory governments that stamp duty would be dropped in the future. The ICA predicts the 9% stamp duty in NSW brings in revenues of $540 million a year, so a tax reform in this area doesn't seem likely.

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