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AFTS Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

[AFTSubmissions@treasury.gov.au](mailto:AFTSubmissions@treasury.gov.au)

## Introduction

Insurance Australia Group (IAG) welcomes the release of the Australia's Future Tax System Review's *Consultation Paper*.

IAG agrees with the *Consultation Paper* that:

*"...through a lack of coordination in policy and administration, the federation's tax-transfer system has become disjointed and complex, imposing unnecessary costs on all Australians.*

*Reforms which enhance the accountabilities, integration and efficiency of the federation's tax-transfer system can improve the functioning of the federation by reducing costs, removing complexity and improving resource allocation" (p.183).*

As IAG highlighted in its submission to the *Review of Australia's Future Tax System* one area of taxation reform that would enhance accountability and efficiency is insurance taxation reform. As the *Consultation Paper* outlines:

*"Submissions note that stamp duty on insurance may encourage people to either under insure or to not insure at all by increasing the cost of insurance products relative to other goods. While this in itself is inefficient, it may also lead to an increase in government expenditure if assistance is provided to the uninsured in the event of a disaster..." (p.191)*

IAG believes individuals electing to not insure their assets place a burden on the community when governments, in the absence of private insurance, are faced with the position of taking on the responsibility of insurer of "last resort". Arguably, while there may be an equity argument for individuals who are financially disadvantaged to access government assistance, open ended assistance is inequitable when provided to those individuals who are able to do so but choose not to responsibly insure.

Open ended government assistance further reduces the incentive for private insurance. Clearly there is a role for governments to ensure appropriate risk management policy settings do not crowd out the private insurance market. Governments need to avoid interventions that promote dependence on government assistance and reduce incentives for self-reliance and personal responsibility. Indeed, as the Productivity Commission's Draft Inquiry Report into Government Drought Support (2008) noted "It is also important that governments do not blur the boundaries between risk management and equity objectives" (p.165).

Insurance Australia  
Group Limited  
ABN 60 090 739 923

388 George Street  
Sydney NSW 2000  
Australia

T +61 (0)2 9292 9222  
[www.iag.com.au](http://www.iag.com.au)

Insofar as governments see a need to intervene to provide financial support to non-insureds, then IAG considers that a counter-balancing policy setting, possibly using an income tax measure, is required to ensure there remains continued incentive for prudent risk management by individual to take out private insurance.

IAG argues that there is a clear social and economic case for eliminating or at least reducing State insurance taxes and charges as a priority for any taxation reform agenda.

IAG believes a fire services funding system, which encourages full value insurance, would result in economic and community benefits, especially as regards under-insurance. A system that is fair, consistent and more understandable to taxpayers and the community at large is needed. IAG believes that the most effective way of achieving this end, is to implement a system that sees all property owners sharing the responsibility for funding fire services.

IAG notes the Local Government and Shires Association of NSW submission to the IPART Tax Review:

*"The Associations have long advocated a change to the current fire services funding model. We maintain that the current system is lacking in transparency, accountability and equity."...."The Associations are advocating a property valuation based levy model to replace the existing fire services levies on local government and the fire services levy on insurance policy holders." (Local Government and Shires Associations of NSW submission to IPART Review of State Taxation, November 2007).*

In relation to stamp duty on insurance IAG believes it is appropriate for the Federal and State Governments to examine a new set of undertakings beyond the current *Intergovernmental Agreement* to assist further reform of State taxation. A strong case can be made that reform of insurance taxes should have a high priority.

This case is based on the recognition of the essential benefit of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage.

This submission supplements the submission from the Insurance Council of Australia. IAG endorses the Insurance Council's submission.

IAG would be happy to discuss this submission and to assist in any way we can. If you wish to discuss this matter or make further inquiries please contact David Wellfare, Senior Adviser, Economics & Policy on (02) 9292 8593 or me on 9292 9291.

Yours sincerely



**Michael J Wilkins**  
Managing Director & Chief Executive Officer

Insurance Australia  
Group Limited  
ABN 60 090 739 923

388 George Street  
Sydney NSW 2000  
Australia

T +61 (0)2 9292 9222  
[www.iag.com.au](http://www.iag.com.au)