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Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Email bettertax@treasury.gov.au

5 June 2015

Dear Sir/Madam,

**SUBMISSION TO THE AUSTRALIAN GOVERNMENT'S RE:THINK
BETTER TAX, BETTER AUSTRALIA DISCUSSION PAPER**

On 30 March 2015, the Government released the Re:think Discussion Paper and requested submissions. This letter responds to that request.

Should you have any queries in respect of this submission, please do not hesitate to contact Kate O'Loughlin, Head of Government Relations & Industry Affairs (kate.oloughlin@qbe.com).

Yours faithfully

A handwritten signature in black ink, appearing to read 'CF', with a large, sweeping flourish underneath.

Colin Fagen
Chief Executive Officer
QBE Australia and New Zealand



**Submission to the Australian
Government's Re:think Better Tax,
Better Australia Discussion Paper**

June 2015

Introduction

Creating a well-designed tax system is critical to the ongoing economic prosperity of Australia. It has now been fifteen years since the last major set of tax reforms in Australia, and QBE welcomes the Federal Government's decision to conduct a "root and branch" review of tax through its *Better Tax, Better Australia* White Paper process (**Review**).

QBE welcomes the Review as an important opportunity to consider how our taxation system can position Australia to participate and compete effectively in an increasingly converging and interdependent global market.

Tax reform is always difficult, but for Australia to compete with the rest of the world, it needs the best-designed tax system possible, one that promotes incentive and enterprise, enhances efficiency and addresses equity considerations. A good tax system must encompass equity and fairness, certainty and transparency with minimum compliance costs. In general, unless specifically required, taxes should not distort consumption.

QBE considers that the broad review of Australia's tax system will provide an important opportunity to consider co-operative reform of both State and Commonwealth taxation regimes to promote economic activity in Australia and position our country for the future.

About QBE

For over 127 years, QBE has been an integral part of the Australian business landscape providing peace of mind to Australians during normal business and times of crises. Our business has been a significant feature of Australia's commercial landscape since its early beginnings in Queensland. QBE is proud of its heritage and the support that it has provided to our customers and policyholders during this time.

Listed on the ASX and headquartered in Sydney, stable organic growth and strategic acquisitions have seen QBE grow to become one of the world's top 20 insurers with a presence in all of the key global insurance markets. QBE today is one of the few domestic Australian-based financial institutions to be operating on a truly global landscape with operations in 38 countries around the globe.

As a member of the QBE Insurance Group, QBE Australia operates primarily through an intermediated business model that provides all major lines of insurance cover for personal and commercial risk throughout Australia.

Our global general insurance experience and expertise gives QBE insights across a broad range of taxation systems and regulatory regimes that either enable or impede a competitive, innovative insurance sector.

Insurance taxes

QBE Australia is a member of the Insurance Council of Australia (**ICA**) and fully supports the ICA's submission to the Review.

QBE views the reform of taxes on insurance as integral to any progress in achieving a world-class tax system. Tax experts have long agreed that taxes on insurance are inefficient, and that more efficient forms of revenue-raising are available to governments. The opportunity exists through the Review to address this obvious issue with constructive and realistic proposals for reform.

Taxes on insurance contribute to under-insurance and non-insurance, penalise prudence and ultimately increase the demands on governments to step-in for the non-insured when the inevitable catastrophic event (storm, flood, etc) occurs. The unintended consequence of government compensation for those under or uninsured has a double taxation effect on those prudent enough to insure.

In the year ended December 2014, QBE wrote 4.1 million policies and paid \$651 million in GST, stamp duty and fire service levies. For an average cost per policy of \$1,094, the state and territory insurance taxes impose an additional cost to the policyholder in the order of 14.4 per cent (depending on the state regulations and rate of tax). QBE estimates that the current cost of insurance tax imposts adds an average \$157 to each QBE policy.

QBE agrees with comments in the *Better Tax, Better Australia Tax Discussion Paper of March 2015 (Discussion Paper)* that these state and territory insurance premiums act to 'discourage some households from taking out appropriate levels of insurance.'¹ The current taxation framework distorts consumption in the insurance market, preventing households, individuals and businesses from accessing affordable and comprehensive insurance products to protect their assets and interests. Insurance taxes impair the ability of people and businesses to manage risk rationally, which leads to under-investment and sub-optimal economic outcomes.

QBE notes that the impact of current insurance taxes is regressive – that is, the burden of these taxes is greater for those with lower rather than high incomes, as research from the Insurance Council of Australia has shown. Reducing insurance taxes would be a progressive measure, an important consideration in securing community support for a tax reform package that may include other regressive elements. The broad scale of insurance coverage across the community makes this a significant reform opportunity not just for tax experts, but for individuals and businesses throughout Australia.

A government looking to reduce inefficient insurance taxes may look to replace them with more efficient tax bases, of which there are proven options. Tax experts view land and property taxes as among the most economically efficient tax bases – they are the least distortionary to economic activity, easily collected, transparent, and very difficult to evade.

Some state governments have made progress in reforming insurance taxes in conjunction with land taxes – such as the ACT and Victoria – but the overall record is mixed. Queensland and Tasmania in recent years have increased their stamp duties. As outlined in the ICA submission, QBE believes that state and territory governments could make a greater utilisation of efficient tax bases such as land taxes to replace revenue lost on insurance taxes. An alternative to these state revenue sources would be for the government to raise extra revenue from the broad-based GST, itself an efficient form of taxation.

It is worth noting that for governments that remove insurance taxes, under-insurance and non-insurance rates decline, meaning that when adverse events occur the demands on Government funding are significantly reduced. The overall cost to revenue for state governments is therefore less than the simple impact of a tax abolition would indicate.

Removing insurance taxes would be the most efficient and rational method of addressing the issue of high insurance premiums in particular areas subject to adverse weather events. Individuals and businesses in these areas would benefit significantly from reduced insurance costs, and if this is done through broad tax reform which moves from inefficient taxes to efficient taxes the broader economic effects would be positive.

QBE is firmly of the view that taxes imposed on insurance products by states and territories, such as stamp duty and fire services levies, are one of the most inefficient and inequitable

¹ Taxation Discussion Paper, page 24.

taxes levied in Australia. Given the importance of affordability of insurance and the serious consequences of non or underinsurance among individuals and businesses, QBE believes it is time to act to remove all these specific imposts on insurance, as has previously been recommended by numerous tax experts. State and territory governments should be actively encouraged by the Australian Government to implement this reform within three years.

Conclusion

In looking to modernise Australia's tax system to make it competitive with the rest of the world, there is an opportunity to reform taxes on insurance in line with world's best practice. Removing taxes on insurance would enhance efficiency by allowing greater utilisation of risk-management by individuals and businesses. It would see investment and spending decisions made with greater confidence, and this extra confidence would contribute to a lift in economic activity.

For a government looking at long-term tax reform, the removal of insurance taxes – estimated at around \$3.7b per year by the Insurance Council of Australia – is a sensible and achievable goal, realisable through the utilisation of more efficient bases of taxation. Removing insurance taxes is not a subject of partisan or ideological division and it is not a decision that would be seen as unfairly impacting or benefitting sectional interests. It is, rather, an overdue reform that would enjoy the support of structural reform experts as well as the mainstream community.

QBE would welcome the opportunity to be further involved in the debate over the future of the Australian taxation system. If there is any further detail or information which QBE could provide, please do not hesitate to contact Kate O'Loughlin, Head of Government Relations & Industry Affairs (kate.oloughlin@qbe.com).