



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

Alex Sanchez, General Manager, Economics & Taxation

### ORGANISATION

Insurance Council of Australia (ICA). The Insurance Council of Australia is the representative body of the *general* insurance industry in Australia. ICA members, represent more than 90 percent of total premium income written by private sector general insurers

### STATEMENT OF PRIORITIES

The Insurance Council of Australia is seeking from the Tax Forum a pathway for the abolition of State stamp duties/transaction taxes in general and general insurance taxation in particular. The ICA concurs with the Review of Australia's Future Tax System (AFTS) that general insurance in Australia is heavily taxed by overseas comparisons and endorses the AFTS recommendation that all specific taxes on insurance products, including the fire services levy, should be abolished. Moreover, the ICA concurs with the sentiments in the AFTS Review that reform of State taxes should incorporate a direction away from narrowly based transaction taxes (such as stamp duties) and towards broad based State taxes that are both more efficient and provide a more sustainable tax structure for future State service needs. In that regard, the ICA sees opportunities for the Tax Forum to examine paths to improving existing arrangements for payroll tax and a tax mix switch away from property conveyances to an improved land tax.

The ICA notes that the States **do** have access to efficient and sustainable tax bases, although in some cases existing arrangements can be markedly improved. For example, in the case of payroll taxes, the States subject payroll tax to a series of exemptions and carve outs that dilute the efficacy of this hitherto efficient tax. The ICA will outline a plan, first highlighted in its submission to the AFTS and then elaborated upon in its submission to the Tasmanian State Tax Review (copies attached) to return payroll tax to the Commonwealth via the Business Activity Statement (BAS) as the first positive step towards a future Cashflow Tax. The ICA expects that such a plan would have no adverse effect on vertical fiscal imbalance (VFI) as each State would be directed its own source payroll tax revenue. (This is in contrast to current arrangements which deploy the Grants Commission process). Further, the ICA expects that the proceeds of this reform could be used to abolish the most inefficient of State taxes and in particular, taxes on insurance. The ICA estimates that a return of pre 1971 settings, where payroll tax was levied at 2.5% uniformly across all businesses, would raise approximately \$15 billion today, compared to current revenues of \$17 billion. Moreover, the ICA has calculated that the States of Queensland, South Australia and Tasmania would be "better off" today if they had retained the original 1971 arrangements.

The ICA will also use the opportunity of the Tax Forum to suggest that other State taxes be replaced by more efficient tax bases. In this regard, the ICA will be advocating that property based



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conveyances be replaced by improved land tax arrangements. The ICA will also comment positively on recent initiatives in Victoria where insurance fire levies will be replaced by a property based charge and importantly, will outline to the Forum, that this important measure is an example of “Henry Tax Review” recommendation being adopted by State action alone. The ICA will highlight that stamp duties on property transactions are a drag on mobility and given the current terms of trade shock, that reform of property conveyances are fundamental to ensuring that scarce resources move to their highest value destination.

The ICA will articulate the fundamental need to re-engineer the State tax base given the ageing population and future expected State revenue needs. The ICA submits that faced with such an outlook, the States are best served by taxation bases and receipts that are steady, predictable and non volatile. Both improved payroll and land tax arrangements offer the best opportunity for the States to stabilise their budget and resource planning. The ICA notes that these sentiments are shared by the States and have been expressed in such places as the NSW State Tax Review by the Independent Pricing & Regulatory Tribunal, the Victorian State Business Tax Review (i.e. the “Harvey Review”) and the Tasmanian State Tax Review.

Finally, the ICA is providing to the Forum, research prepared by the Finance Industry Council of Australia (attached) which models and costs, the benefits that accrue from reforms of the type highlighted here. In particular, the FICA research suggests that funding non property conveyance reform with a “better” payroll tax and funding the abolition of property conveyances with improved land taxes, would see significant welfare gains. Moreover, the welfare gains from this reform are of the magnitude comparable to funding such reform with adjustments to the GST and in that respect, do not involve the complexities and challenges associated with changes to the goods and services tax.

## LIST OF ATTACHMENTS

Deloitte Access Economics (May 2011) *“2011 Analysis of State Tax Report: A Report to the Finance Industry Council of Australia”*.

Insurance Council of Australia (2009) *“Supplementary Submission to the Review of Australia’s Future Tax System”*.

Insurance Council of Australia(2011) *“Submission to the Tasmanian State Tax Review”*