Insurance Council of Australia

15 November 2021

The Director
Department of Police, Fire & Emergency Management
GPO Box 308
HOBART TAS 7001

By email: act.review@fire.tas.gov.au

Dear Sir or Madam

Tasmania Fire Service Act Consultation

The Insurance Council of Australia[1] (**Insurance Council**) welcomes the opportunity to contribute to the Tasmanian Government's:

- *Consultation for a contemporary new Fire Service Act* (**FSA Consultation**); and
- *Treasury Options Paper - Fire Service Funding Arrangements* (**FSA Funding Consultation**).

The FSA Consultation and the FSA Funding Consultation build upon the significant work led by Mr Mike Blake in his *Review of the Fire Service Act 1979* (**Blake FSA Review**) and the *House of Assembly Standing Committee Inquiry into the State Fire Commission* (**House Inquiry**). The Blake FSA Review and the House Inquiry respectively made 45 and 10 recommendations as to the organisation, governance structure and funding of the Tasmanian Fire Service (**TFS**) and State Emergency Service (**SES**). Our comments in relation to the FSA Consultation and the FSA Funding Consultation are limited to the funding aspects and are made in one submission for convenience.

TFS and SES funding sourced from levies on insurance

Section 77A of the *Fire Services Act 1979* (**FSA**) provides for the cost of the TFS brigades to be defrayed by "contributions" to be paid to the State Fire Commission (**SFC**), including by insurance companies. In the 2018-19 Financial Year contributions paid by insurance companies totalled $25.2m[2] and amounted to 25% of the SFC's entire funding.[3]

Who funds the levies on insurance?

The Insurance Council notes that there is a distinction between the identity of *who pays* the contribution and the identity *who funds* payment of that contribution. This is an important distinction which on occasion gets lost. Under section 77C of the FSA, insurers are required to pay the prescribed amount. However, it is Tasmanian policyholders who fund that payment.

[1] The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 95 percent of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of $55.9 billion per annum and on average pays out $169.6 million in claims each working day ($42.4 billion per year).
[2] Page 15, FSA Funding Consultation.
[3] Table 3: SFC's prescribed funding sources, page 64, Blake FSA Review.

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Further, not all Tasmanian policyholders contribute to the funding of the SFC. The levy is imposed on a diverse range of commercial insurance policies, but with a bias towards those who prudently seek financial protection against the risk of damage to their assets by fire.[4] Of those policyholders who do contribute, not all contribute equally as the fire service levy is imposed on insurance policies at different rates.[5]

Commercial businesses who insure their business premises against the risk of fire contribute to the payment of the levy at the top rate of 28%. Once GST and stamp duty are added on top of the levy, this adds up to a tax burden of 54% in taxes on top of the premium charged by the insurer on the component of the insurance cover which protects the policyholder from the financial consequences of fire damage to their property.[6] The differing tax burden on real property insurance across different States and Territories is summarised in **Appendix 1**.

The role of insurance levies in underinsurance

Underinsurance of real property in Australia is an issue of particular concern to the Insurance Council. Moreover, it is an issue which is only becoming more pressing with the increasing incidence of extreme weather events and longer fire seasons as a result of climate change.[7] Underinsurance leads to less resilient communities. In practical terms, if a property is underinsured, should disaster strike the owner will have less funds available to build back, let alone build back better. This financial deficiency greatly adds to the stress of an owner rebuilding their business post-event.

There are multiple reasons for underinsurance, but as the Blake FSA Review explicitly states one of the unintended consequences of Tasmania's fire service levy is "under-insured properties". [8] Addressing under-insurance is one of the many strong policy reasons why across Australia there has been a move away from funding emergency fire services via a levy on insurance premiums.

Levies on insurance should be abolished and replaced with a broad-based property tax

The majority of Australian States have abolished fire services levies on insurance and rely on a property-based model for funding fire services. South Australia, Western Australia, Queensland and, most recently Victoria have all abolished such levies demonstrating that this type of reform is achievable and can be implemented effectively.

New South Wales (**NSW**) is now the last mainland State or Territory to retain a levy on insurance to partially fund emergency services. Even in NSW the recent *NSW Review of Federal Financial Relations* found there to be "no principled case for applying a special tax on insurance"[9] and recommended that NSW's emergency services levy funded by insurance policyholders be abolished.[10]

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[4] For example, the list of "prescribed classes of insurance" in section 74, FSA Act includes "fire insurance" and "boiler explosion insurance", but it also includes "loss of profits insurance" and "marine cargo insurance".
[5] Prescribed in Regulation 4 of *Fire Service (Finance) Regulations 2017* to be a rate of either 2%, 14% or 28%.
[6] It is important to note this is not a 54% tax burden on the entirety of the premium insurance policy, but only those risks subject to the levy. The balance of the premium is subject to a 21% tax burden (comprising GST and stamp duty).
[7] An issue of concern also noted in the Blake FSA at para 5.1.2 Context, page 62.
[8] Para 5.5.1.1 Discussion, page 67, Blake FSA Review.
[9] Page 67, *NSW Review of Federal Financial Relations Final Report*, August 2020.
[10] Recommendation 10, page 13, *NSW Review of Federal Financial Relations Final Report*, August 2020.

The Insurance Council therefore strongly endorses Recommendation 12 of the Blake FSA Review that the Tasmanian Government:

> *"Replace the Insurance Levy with a property-based levy or another funding source providing similar, and consistent (predictable), levels of funding."*[11]

Design of a replacement broad-based property tax

The FSA Funding Consultation explores the merits of the four funding options recommended for consideration by the Blake FSA Review. Retention of the existing funding arrangements (Option 1) is put forward as a base case. A single property-based levy (Option 2) is further bifurcated into:

- *"Option 2A: a single fixed charge and a single variable rate applied to all properties; and*
- *Option 2B: a differential fixed charge and a differential variable rate applied on the basis of a property's classification."*[12]

Options 3 and 4 are a property-based levy combined with a vehicle levy and fully funded by annual appropriation respectfully.

The Insurance Council is strongly of the view that the existing funding arrangements (Option 1) should not be retained and as noted above agrees with Recommendation 12 of the Blake FSA Review that it be replaced.

The Insurance Council is strongly of the view that the existing funding arrangements should be replaced with a broad property-based levy (Option 2), as has occurred in other States in Australia with the current exception of NSW. We consider this is preferable to Options 3 and 4 as it is likely to be the most equitable and efficient approach.

Further, the Insurance Council recognises that good tax policy design involves the balancing of at times competing considerations. For example, administrative simplicity (and consequential low compliance burden) can be at odds with principles of fairness and equity.

Where the optimal balance between competing considerations lies will be informed by amongst other things economic modelling, such as the high-level modelling contained in the FSA Funding Consultation. However, as noted in the FSA Funding Consultation the likely impact on individual taxpayers is only indicative due to a number of significant limitations.[13] Therefore, at this stage, the Insurance Council has a slight, but not strong, preference for Option 2B.

We trust that our observations are of assistance. If you have any questions or comments in relation to our submission please contact Aparna Reddy, the Insurance Council's General Manager, Policy – Regulatory Affairs, on telephone: 02 9253 5176 or email: areddy@insurancecouncil.com.au.

Yours sincerely

Andrew Hall
Executive Director and CEO

[11] Page 69, Blake FSA Review.
[12] Page 9, FSA Funding Review.
[13] Page 6, FSA Funding Review.

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Appendix 1

Comparison of insurance duties by states and territories

Tax	General Insurance (GI) Taxes (GST of 10% applies to all GI products)	Impact of levies, GST and stamp duties on final price paid by consumer
NSW	**Stamp duty:** 9% of the premium. Concessional 5% of premium payable on aviation, disability, hospital and ancillary health benefits, motor vehicle, occupational indemnity. Concessional 2.5% of premium paid on crop and livestock. **ESL:** Historically adds 21% to home and contents premiums and up to 40% to business premiums.	The addition of ESL, GST and stamp duties is projected to add in 2020-21 more than 50% to the base premium for a household policy and up to 70% to a business policy.
VIC	**Stamp duty:** 10% of previous month's gross premiums. **Note:** Victoria abolished its Fire Services Levy on insurance premiums in 2013.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
QLD	**Stamp duty**: 9% of the premium for most GI contracts; 5% of net premiums for workers compensation. 10c flat for CTP. **Note:** The Queensland Government increased its stamp duties on GI products by 1.5 percentage points in 2013.	The addition of GST and stamp duties adds **19.9%** to the base premium for a household policy.
WA	**Stamp duty:** 10% of gross premiums; 10% of premiums on CTP.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
SA	**Stamp duty:** 11% of premium.	The addition of GST and stamp duties adds **22%** to the base premium for a household policy.
TAS	**Stamp duty:** 10% of premium. **Note:** The Tasmanian Government increased the stamp duty on GI products by 2 percentage points in 2012.	The addition of GST and stamp duties adds **21%** to the base premium for a policy.
NT	**Stamp duty:** 10% of premiums.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
ACT	**Stamp duty:** Nil. **Note:** The ACT completed the phasing out of its stamp duties on insurance products in 2016.	The addition of GST adds **10%** to the base premium for a household policy.

Source: Reproduced from Page 5, Table A, *The Impact of Government Duties on Household Insurance,* Insurance Council of Australia, November 2019.