



GST Advisory Panel
C/- The Chair
PO Box 2195
WELLINGTON

9 July 2010

By email: submissions@gstadvisory.govt.nz

GST Rate Change Impact on Insurance Premiums

1. Background

The Investment Savings and Insurance Association (ISI) has 20 investment and life insurance members and 19 associate members. The ISI represents investment and life insurance companies in New Zealand. Member companies manage over \$50 billion in savings and provide other financial services on behalf of more than 1,500,000 New Zealand investors and policyholders.

We understand the GST Advisory Panel (“the Panel”) is already considering specific transitional issues that arise for insurers from the impact of the GST rate increase on premiums payable under existing policies and whether any transitional measures should be recommended by the Panel.

ISI life insurer members provide non-life insurance related cover in the form of disability and other income protection related cover which is subject to GST and accordingly have similar transitional issues.

2. Premium Issues impacting the life insurance industry

The issues can be summarised as follows:

- Difficulties in recovering the increased GST from the insured in respect of existing policies. This is because the insurance policies referred to above can be expressed as “GST inclusive”. Notwithstanding the recent legislative amendment to clarify the scope of section 78(2) of the GST Act (i.e., where the GST Act generally allows a supplier to increase contract prices where the

amount is expressed as “inclusive of GST”¹, from a commercial perspective, it is not always possible for life insurers to recover the additional GST until the next opportunity arises for a review, which often will be on the next policy anniversary after 1 October;

- From a systems perspective, it can be difficult and expensive to change premium instalments that fall due after 30 September 2010 in order to recover the additional GST; and
- We understand consideration is being given to changes to the GST Act to allow insurers to account for GST at 12.5% on future premium instalments post 30 September 2010 but that the insurer would be required to account for GST at 12.5% in full before 1 October 2010². This will impose a financial cost on the life insurance industry in funding the payment. In addition, it presents practical difficulties in that estimates of future premium instalments would, presumably, need to be compared with actual premium receipts and adjustments to GST payments made accordingly. Finally, we understand such changes are likely on the basis of insurance policies renewed annually. Often income protection policies issued by life insurers are not renewed annually but are more in the nature of perpetual supplies.

3. Recommendation

Given the above, we recommend the following **optional** transitional measure be introduced by way of legislative change or by way of an industry agreement, Standard Practice Statement or publication in a Tax Information Bulletin:

- (a) The ability to account for GST at 12.5% in respect of premium instalments after 30 September 2010 (with GST paid at that rate at the time of receipt of premiums, not in one lump sum before 1 October; and
- (b) A restriction on point (a) above to address concerns of fiscal risk from a Government perspective as follows:
 - The ability to account for GST at 12.5% in respect of instalments for policies issued before 1 October 2010 to be limited to the earlier of the next review, anniversary or renewal date or 31 March 2011.

We consider that it is crucial that the above (or any other solution) is optional. Given the variety of systems used by life insurers, it is possible that the costs of complying with this transitional measure may outweigh the benefit for some life insurers. The timing of any amending legislation giving effect to the above is also a key factor in that some life insurers may need to make decisions on systems changes before there is any clarity as to whether this alternative will be acceptable. In that case, life insurers may have no choice but to amend systems to comply with the rules as they currently stand.

¹ We refer to page 20 of the “Guide to the tax changes proposed in the Taxation (Budget Measures) Bill 2010”

² We refer to the various media coverage on 21 and 22 June 2010 in respect of comments made by the GST Advisory Panel concerning changes to the legislation.

We note the above recommendation will not resolve all of the issues and financial costs facing the life insurance industry as a result of the GST rate increase. However, we urge the Panel and Government to provide this transitional relief in recognition of these specific issues facing this industry.

We understand these views are consistent with those of the Health Funds Association.

We look forward to your response to this submission. If you would like to discuss this submission, please do contact me.

Yours faithfully

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Chief Executive