Did you know?

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Navigating through the maze of life insurance stamp duty

Stamp duty rates on life insurance products vary from no duty to a high of 11 per cent of all premiums paid. This article looks at the state of play in this field.

Each Australian state and territory has its own schedule of stamp duty rates payable on life insurance products. The payment and rates of life insurance stamp duty are governed by duties or stamp duty acts in each state and territory. The jurisdiction of applicable stamp duty is governed by the residence of the life insured (not of the policy owner, if different), and is based on the total premium, including the policy fee. Apart from minor exceptions (e.g. where the insurance issuer is not a registered insurer), the obligation to pay stamp duty is on the life insurance provider; however, the cost of stamp duty may be passed on to the end customer. Retail, wholesale, direct and general insurance policies are all potentially dutiable.

Whilst this all sounds straightforward, the devil is in the detail. To highlight this, let’s explore some recent developments.

Recent developments

The Victorian government recently announced that it would abolish stamp duty on life insurance products from 1 July this year, which initially was hailed as a welcome breakthrough for the industry. On closer examination, however, the abolition of stamp duty on term life was accompanied by the reclassification of life insurance riders – total and permanent disability (TPD) and trauma cover – as general insurance. This has resulted in life insurance riders incurring a higher rate of stamp duty than before the changes, i.e. from 5 per cent of the first year’s premium to 10 per cent of all premiums received. This only applies to policies issued on or after 1 July 2014.

Stamp duty changes over recent years have meant that in various states grandfathered stamp duty rates apply to certain policies. This means policyholders in the same state or territory may have different stamp duty rates applied on their policies based on their policy inception date. This included the changes in Queensland on 1 August 2013 and Western Australia in 2004 and 2007.

The ACT government has taken a different approach in announcing in its 2012-13 budget that it would phase out all insurance stamp duty over a 5-year period, meaning it would be completely abolished by 1 July 2016.

Insurers invest considerable time and resources keeping up with stamp duty changes.

We have attached a stamp duty calculation matrix – dated 8 August 2014 – for the general information of advisers.

Summary

Stamp duty applicable to life insurance products is a complex area, in that it is based on state and territory legislation, which generally differs from jurisdiction to jurisdiction.

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