

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 1 to 4 June 2004

**Question: Bud 67**

**Topic: Potts Review**

**Hansard Page: Written Question on Notice**

Senator Conroy asked:

***What was the total cost of the Potts Review?***

Answer:

The cost of the Potts Review was \$29,780.86 (net of input tax credits). This figure includes consultancy, travel, printing and miscellaneous expenses. This figure does not include the salaries of Treasury officials assisting Mr Potts which were met by the Financial System Division.

***Could Treasury confirm that discretionary mutual funds are not liable to pay State Stamp Duty and Fire Service Levies? Will this continue to be the case if the Potts recommendations on DMFs are implemented?***

Answer:

Specific State taxes relating to the insurance industry include Stamp Duty and Fire Services Levies. These are currently not payable by DMFs as they do not provide contracts of insurance.

Whether this continues will depend on the outcome of implementing the Potts Review. The preferred recommendation with respect to DMF's will require discretionary mutual cover to be regulated by APRA as a contract of insurance under the Insurance Act unless APRA considers in the case of an individual entity that no contingent risk that would need to be met by additional undefined member contributions is retained in the entity (in these cases such risk would fall on the general insurer providing top up cover). However, the Potts recommendations and the Government's preferred approach provide for consideration of possible exemptions from regulation in recognition of the fact that a large number of current DMFs are structured in a way that does not warrant prudential regulation.

Therefore the immediate impact of implementation of the Potts Review will be a broadening of the State tax net. However, it is to be noted that the HIH Royal Commission recommended (no.55) that the States and Territories abolish taxes and levies on general insurance products because they are a significant impost.

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***Can Treasury advise whether the government or Mr Potts has consulted with the States on the issue of DMFs, in particular, about their impact on State revenue?***

Answer:

The Potts Review was a response to the recommendations of the HIH Royal Commission. The primary focus of the Potts Review was to address the question of prudential/regulatory adequacy. Further, as stated in the above response, the HIH Royal Commission recommended (no.55) that the States and Territories abolish taxes and levies on general insurance products because they are a significant impost.

No consultations were entered into with the States regarding revenue implications.

***Has Treasury seen a copy of the final report or a draft of ASIC's investigation into unauthorised foreign insurers? If so when?***

Answer:

Yes, a draft was received on 6 July 2004.

***Did Mr Potts see a copy of the report or a draft?***

Answer:

No. However, the review team did consult with ASIC and ASIC provided a submission.