

On 9 December 1999 a number of important amendments were passed by both Houses of Federal Parliament. A summary of these follows:

Claiming Input Tax Credits on Insurance Premiums

Prior to the amendments the Act required you to elect whether or not to claim an input tax credit on insurance premiums and this rule applied during a transition period that would not end until 1 July 2003. This no longer applies and once registered for GST, you will now be able to claim input tax credits on the GST component of insurance premiums in the same way as you claim for any other goods or services purchased.

GST on Claims

Under the original legislation, where you elected to claim an input tax credit on insurance premiums you would be liable for GST on claims.

The new legislation removes your liability to pay GST on claims but puts the onus on you to notify us of details of your entitlement to claim an input tax credit on premiums. Failure to provide this information could leave you with a deemed GST liability on a claim settlement. Further, this advice must be given prior to 1 July 2000 on policies that are due before this date. On policies due on or after 1 July 2000 the legislation requires you to provide details before a policy is taken out.

The above requirements have some compliance problems and we will consult with a cross section of clients before developing appropriate systems and procedures.

Cash Settlement of Property Claims

Where cash settlements are made for post 1 July 2000 claims, we will reduce the settlement amount to the extent that you will be entitled to an input tax credit on the purchase of the replacement property.

Example

A computer is stolen with a replacement cost of \$2,500 including GST, we would pay \$2,273 on the basis that you would pay \$2,500 to the retailer but claim an input tax credit of \$227.

If the amount involved is substantial there could be short term cash flow implications for you and it may be preferable for us to pay suppliers or retailers directly.

Excesses

The amended legislation contains some inconsistencies in that you are not entitled to an input tax credit on an excess amount paid to us but you will be if the excess amount is paid to a repairer or supplier. Guidelines will be provided prior to 1 July 2000.

Premium Pricing

Whilst the amendments have the great benefit of removing the GST exposure that you previously had on claims, there will be a significant impact on premiums as we will no longer have full access to input tax credits on claims. Our entitlement to an input tax credit on claims has been replaced by what is called a "Decreasing Adjustment Method" which has the effect of offsetting what would have been your GST liability on a claim against our input tax credit entitlement.

The above change will increase our anticipated claims costs by the extent of the GST that we cannot recover as a credit. Modelling carried out by a leading international firm of actuaries has been used to calculate the premiums that will be required to cover the higher claims payments resulting from this amendment to legislation. We will have no alternative but to pass on the net effect of GST.

This increase will principally affect claims settled for cash such as liability claims.

Sums Insured

When the legislation is fully effective from 1 July 2000 Wholesale Sales Tax will disappear and GST will apply and this will affect the replacement values of property. The replacement value of many contents items should in fact reduce whilst the replacement cost of buildings may increase by as much as 7% – 8%. We strongly recommend that you review the sums insured and policy limits to ensure that they are set at adequate levels and in this regard we will give assistance where we can.

There are still a number of matters in the legislation that are unclear and on which the insurance industry and other industries are seeking clarification. This is likely to come by way of rulings from the Australian Tax Office.

Further Information

For further information on how GST affects insurance talk to your Account Executive or ring CCI on 1300 655 001

A message from Mr Ted Exell, Chair, of the Australian Catholic Church Tax Working Group.

GST and A New Tax System

The Australian Catholic Church Tax Working Group has set up a website to assist with the dissemination of information nationally. This site can be used by all Catholic schools, parishes, agencies, organisations and institutions. At present, we are still advising all Catholic organisations not to register for anything concerning the New Tax System. Legislation and rulings are still being finalised and these changes could have an impact on the church in many ways. Early registrations may present more problems for us in the future. As there are many issues, implications and legislative procedures to consider with the New Tax System, please use this site as a reference

and guide to assist you with these processes. The internet address of this site is:

<http://www.tax.thechurch.com.au>

This site requires a username and password. Some of you already have access to the site and continue to use it regularly. For those of you who do not have a username and password but wish to access to this site, you may first register your details at the following address. (<http://www.thechurch.com.au>). In doing so, you will be asked to provide details such as organisation name, address, telephone and email address.

These details will be used for verification purposes only. Please allow a turn around time of two to three days.



Please note that this CCI GST Alert should not be used or relied on as a substitute for detailed professional advice or as a basis for formulating GST decisions.