



GST on insurance claims

Should the GST component be included in the sum insured?

In Australia this really depends on your GST status, as the insured (owner).

When GST is charged on the insurance premium that you paid:

If you are registered for GST, you can reclaim from the Australian Taxation Office (ATO), as input tax credits, any GST component of the purchase price and GST levied on any insurance premium. The net cash cost to you is therefore what you actually paid out less the GST that is later refunded to you by the ATO after you have lodged your Business Activity Statement (BAS). The sum insured for insurance should be stated at net purchase price i.e. exclusive of (without) GST bearing in mind that the principle of insurance is to indemnify the insured against any loss and to put the insured in the same financial position as if the loss had not occurred. In the event of an insurance claim being paid to you, the cash settlement of the sum insured is free of GST. When completing your BAS, the insurance claim should be shown as a GST free receipt.

If you are **not** registered for GST you are ineligible to reclaim from the ATO any GST component of the purchase price and GST levied on any insurance premium. In this instance the sum insured should still be stated exclusive of (without) GST. The reason is that in the event of a claim being paid to you, the ATO applies what is known as the “Decreasing Adjustment Method (DAM)”. The insurer settles you the stated sum insured and adds a further 10%, being the GST component paid by the ATO in terms of DAM, **provided** GST was levied on the insurance premium that you paid.

When GST is NOT charged on the insurance premium that you paid:

Where the insurance policy is placed with an offshore insurer under a Lineslip or Open Market arrangement, GST is **not** levied on the premium. If you are not registered for GST, the stated sum insured should be inclusive of (with) GST. DAM does not apply in circumstances when GST is not levied on the premium. Therefore in the event of a claim settled under a Lineslip or Open Market arrangement, for you to be in the same financial position as if the loss had not occurred, the sum insured ought to have the GST component added.

For further clarification or specific advice, consult the GST Act and/or your personal accountant or financial adviser.