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Australian tax gaps – overview

The concept of tax gaps, why and how we measure them, links to our latest Australian taxpayer segments and taxes data.

Last updated 1 November 2024

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Overview

What tax gaps are and a list of them in categories.

Last updated 1 November 2024

Tax gaps estimate the difference between the estimate of what the ATO expects to collect and the estimate of the amount that would have been collected if every taxpayer was fully compliant with the law.

All our tax gaps are estimated and published for 6 years up to 2021–22 to allow us to generate a headline tax gap estimate for the tax and super system. For excises and goods and services tax (GST), we have also estimated and published estimates for 2022–23 this year due to the availability of more contemporaneous data.

Our latest tax gap estimates show that for 2021–22, we estimate that we will receive $545.8 billion or 92% of the $590.3 billion we estimate we would collect if everyone was fully compliant with tax law.

Based on the estimate of the tax we should collect versus what we estimate we will collect the overall net tax gap is estimated to be $44.5 billion or 7.5%. This reflects a system that is operating well with most taxpayers aware of and meeting their obligations.

2021–22 key findings:

- Across the largest gaps we saw a reduction in the net gap of 0.1 percentage points for individuals, and a 2 percentage point reduction in the net gap for small business. The reduction for the small business gap partly reflects the recovery from earlier economic disruptions of COVID-19. This is accompanied by increased domestic spending resulting in strong growth in voluntary reported income tax liabilities.
- For the GST 2021–22 gap estimate, we saw an increase of 1.2 percentage points. The GST gap is one of the few gaps where we've also estimated the gap for 2022–23 which was a further increase of 3.5 percentage points. The increase in 2021–22 and more significant increase in 2022–23 reflects slower growth in GST reported compared with the growth in theoretical GST and also high (non-pursuable) debt in both years.
- This year, the large corporate group net tax gap increased by 0.4 percentage points from last year. The majority of this uplift reflects an increase in the estimate of tax not detected as our assurance program coverage takes time to complete. The 2020–21 net tax gap has been revised from 4.2% as published last year to 3.7% as we get more complete information on the outcomes of our actions.

The major challenges to the tax gap program this year is as follows:

- COVID impacted financial years saw significant changes in taxpayer circumstances creating unpredictable patterns in behaviour and a change in how people are transacting in the non-observed economy (shadow economy). Due to timing issues, we have concerns around how this change in behaviour is reflected in certain point-in-time economic data used in our top-down methods. While these concerns will disappear over time as data is revised, estimates published today may be subject to change when these revisions occur.

To account for these issues, this year we have made the following changes to the tax gap program:

- Using a random enquiry program on employer obligations to publish bottom-up estimates for PAYGW and Superannuation Guarantee.
- Applying an uplift of the non-observed economy to our GST gap estimate to reflect a more contemporary estimate of the size of the shadow economy. This revised uplift is applied to current and prior

years and results in an increase in the estimate of the GST gap. Making this change improves the reliability and accuracy of this estimate. We have been developing a new bottom-up version of the GST model which we expect to be ready for publication shortly.

We have a strong governance framework and assurance process over our estimation methods. This includes external review by subject matter experts to ensure we have high confidence in our tax gap estimates, as well as in our other metrics that measure tax system performance which we report in our Commissioner of Taxation Annual Report.

Tax gap estimates are a lag indicator. They measure the performance of the tax system in the past.

Tax gaps are about measuring what isn't directly observable – what people have **not** told us.

Taxpayers may not have reported their true tax position:

- due to a misunderstanding of their obligations
- by choice
- by taking a tax position that differs from our view of the law.

All tax gap estimates are subject to a degree of error. They can change from year to year due to the availability of data, improvements in the methods we use to measure them and revisions to previous years' data, for example tax paid after a review.

Tax gap estimates and trends over time:

- provide useful insights into the longer-term operation of the tax and super systems
- tell us a story about the performance and integrity of the system, along with other performance measures, including levels of willing participation and significant shifts in compliance
- can guide us in determining priority risks and opportunities to better inform where we need to focus to
  - lock in improvements in compliance
  - prevent behaviours and activities that might increase the tax gap
  - sustainably reduce the overall tax gap.

Rapid changes in the economy, society and technology mean the issues driving tax gaps continue to evolve. No tax system can eliminate tax gaps, as the cost of doing so would be excessive. Instead, we aim to sustainably reduce tax gaps over time.

Effective tax gap management requires engagement with a range of stakeholders. Our work goes beyond estimating the tax gap. We want to understand the size of the gaps, the risks and drivers, and how we can work together to address these issues.

In this overview of tax gaps in Australia, we explain why we measure tax gaps, our approach to ensure credibility and a summary of the latest available data.

You can find out more about our research methodology, data sources and analysis used for our tax gap estimates in Principles and approaches to measuring gaps.

Tax gaps in categories

These are the different tax gaps we measure. They are grouped into 3 categories:

- transaction-based
- income-based
- administered programs.

Transaction-based tax gaps:

- Alcohol tax gap
- Fuel excise tax gap
- Goods and services tax gap
- Luxury car tax
- Tobacco tax gap
- Wine equalisation tax gap.

Income-based tax gaps:

- Fringe benefits tax gap
- High wealth income tax gap
- Individuals not in business income tax gap

- Large corporate groups income tax gap
- Large super funds income tax gap
- Medium business income tax gap
- Petroleum resource rent tax gap
- Small business income tax gap
- Small super funds income tax gap.

Administered program and PAYG withholding gaps:

- Fuel tax credits gap
- PAYG withholding gap
- Product stewardship for oil gap
- Superannuation guarantee gap.

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Annual tax gap findings

Our latest gross and net gap estimates.

Last updated 1 November 2024

We update our tax gap estimates in October each year. This year we are publishing estimates for 19 different gaps.

The **tax gap** can be viewed from 2 perspectives:

- The gross tax gap, which is the difference between the estimate of the amount we expect to receive (which includes what is voluntarily reported and paid) to the estimate of the amount of tax we theoretically would receive if every taxpayer was fully compliant with tax law.
- The net tax gap, which reduces the gross gap by the amount of amendments in that financial year, where amendments represent the outcomes from ATO compliance actions plus any amendments made by the taxpayer.

Table 1 shows our 2021–22 gross and net gap estimates (both as a dollar value and percentage) for the transaction-based tax gaps. It also contains the current reliability assessment ratings for the estimation approaches for all estimates. While some gaps also have an estimate for 2022–23 (see Table 4 for more details), all gaps have estimates for 2021–22.

Table 1: Transaction-based taxes, 2021–22 tax gap estima

Tax gap estimate	Reliability assessment rating	Financial year	Gross gap ($m)	Net gap ($m)
Goods and services tax	Medium	2021–22	10,798	4,395
Luxury car tax	Medium	2021–22	75	61
Wine equalisation tax	High	2021–22	47	37
Alcohol tax	Medium	2021–22	747	745
Tobacco tax	Medium	2021–22	5,203	2,343
Fuel excise	Reliable	2021–22	233	233

Table 2 shows our 2021–22 gross and net gap estimates (both as a dollar value and percentage) and their reliability assessment ratings for the income-based taxes.

Table 2: Income-based taxes, 2021–22 tax gap estimates

Tax gap estimate	Reliability assessment rating	Financial year	Gross gap ($m)	Net gap ($m)

Large corporate groups income tax	High	2021–22	6,103	3,645
Petroleum resource rent tax	Reliable	2021–22	n/a	43
High wealth income tax	Medium	2021–22	1,472	1,237
Medium business income tax	Medium	2021–22	1,568	1,387
Small business income tax	Medium	2021–22	18,765	17,650
Fringe benefits tax	Medium	2021–22	1,908	1,882
Individuals not in business income tax	High	2021–22	11,506	10,558
Large super funds income tax	High	2021–22	275	195

Small super funds income tax	Medium	2021–22	84	68

The administered programs summary is for programs administered by us on behalf of the community. Table 3 shows the gross and net gap (both as a dollar value and percentage), as well as reliability assessment rating, for each of our gap estimates for selected administered programs for 2021–22 as well as for PAYG withholding.

Table 3: Administered programs and PAYGW, 2021–22 tax

Gap estimate	Reliability assessment rating	Financial year	Gross gap ($m)	I g ($
Fuel tax credits	Medium	2021–22	339	2
PAYG withholding	Medium	2021–22	6,309	4,4
Product stewardship for oil	High	2021–22	n/a	
Superannuation guarantee	Medium	2021–22	6,170	5,

For GST and excise gaps, we have more contemporaneous data which allows us to estimate their tax gaps for 2022–23 as well – see Table 4.

Table 4: Transaction-based and administrative programs v

Gap estimate	Gap program	Reliability assessment rating	Financial year	

Goods and services tax	Transaction-based	Medium	2022–23	
Alcohol tax	Transaction-based	Medium	2022–23	
Tobacco tax	Transaction-based	Medium	2022–23	
Fuel excise	Transaction-based	Reliable	2022–23	
Product stewardship for oil	Administered	High	2022–23	
Fuel tax credits	Administered	Medium	2022–23	

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The performance of the tax system – 2021–22

Understanding the tax gap to understand the overall performance of the tax system.

Last updated 1 November 2024

Understanding the tax gap allows us to understand the overall performance of the tax system. Viewing the performance of the tax system with the economic environment at the time means we can better understand all the factors that may have influenced tax performance in 2022–22.

On an accrual basis, company tax reported and paid (including amendments) grew by around 20% in 2021–22 relative to 2020–21 to around $130 billion. Stronger growth rates were driven by large corporates, companies owned by high-wealth networks, while medium and small businesses reported slower growth.

On aggregate, personal income tax reported and paid (including amendments) also grew by 12% for 2021–22, underpinned by uneven growth across individuals who are in business and those whose primary income source is salary and wages. Individuals who owned or had connections to businesses reported on average 24% more personal income tax voluntarily in 2021–22 compared to the previous year. Individuals who were employees reported an increase of 6% over the same period.

Meanwhile, GST reported and paid (including amendments) grew by 8% in 2021–22, lower than that of corporate income tax.

The relatively strong growth in tax paid relative to growth in the estimated theoretical tax liabilities saw improvements in 6 out of the 15 gap estimates that constitute the whole-of-system gap estimate. For the system, we estimate that we will collect $545.8 billion in overall tax revenue for 2021–22 and a tax gap estimate of $44.5 billion. This gives us an overall estimate of the net tax gap of 7.5%.

This indicates that for 2021–22, we estimate that we will collect 92% of the tax that we estimate we should collect,, with 90.1% reported voluntarily (including the results of sustained improvements in compliance from prior year activities) and 2.4% was the result of compliance amendments and voluntary disclosures (see Figure 1).

Figure 1: Tax performance for published tax gaps in 2021–22

Figure 1: Doughnut chart reflecting tax expected to be collected of 90.1%, amendments of 2.4% and a tax gap of 7.5%.

Across our tax gap program, we estimate that for 11 out of the 15 segments, we received more than 90% of the tax that is expected to be collected in 2021–22.

Our compliance action continues to be important in ensuring high levels of tax performance. We can see this when we compare the gross tax performance (voluntary performance) to the net tax performance (after compliance intervention). For example, looking at the large corporate groups tax gap, the performance in this market improves from 93.2% before our engagement to 95.9% after.

For our transaction-based taxes, compliance action has the biggest impact for tobacco duty, where the performance in 2021-22 improves from 71% before the action of illicit tobacco taskforce, to 87% after the actions of the joint Australian Border Force and ATO Taskforce. Find out more about the drivers for **each tax gap** and what we are doing about it.

Figures 2 and 3 show a breakdown of the tax performance ratios for the 15 tax gaps. It shows the tax performance before any ATO-initiated action (gross performance) and the result after ATO-initiated action (net performance). Figure 2 includes both indirect taxes and excises. Figure 3 includes all income-based taxes.

Figure 2: Tax performance for transaction-based tax gaps in 2021–22

Figure 3: Tax performance for income-based tax gaps in 2021–22

Since we first started estimating the total tax gap (2015–16), we have observed an overall decline in the net tax gap, falling from 8.3% in 2015–16 to 7.5% in the latest year (2021–22). Between the years, we have observed some variation, including 2018–19, where the estimate increased to 8.1%.

The trend in the gross tax gap has historically followed the net tax gap estimate. Since 2019–20, the difference between the two has been increasing. There are two major reasons for this. First is the increase in illicit tobacco attempted to being smuggled into the country that is seized at the border by Australian Border Force. The second relates to BAS refund fraud which saw elevated levels of fraudulent claims for expenses claimed on a BAS statement, which include GST, fuel tax credit and luxury car tax.

Figure 4: Tax gap trend from 2016–17 to 2021–22

Figure 4: Image showing the six-year trend for the overall tax gap falling from 7.8% in 2016-17 to 7.5% in 2021–22.

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Why we measure the tax gap

Why we measure and how we address tax gaps.

Last updated 1 November 2024

Australians all benefit from a healthy tax and super system that supports our society and economy. We contribute to this by fostering willing participation in the tax and super systems. Some of the ways we achieve this are through the 6 key activities and 6 key focus areas that are outlined in our ATO corporate plan 2024–25.

One of our key activities is to collect the right amount of tax in accordance with the law in the most efficient way for government and the taxpayer. Tax gap estimates allow us to better understand the overall level of compliance across the tax and super system and whether we are collecting the right amount of tax in accordance with the law.

The insights gained from this work guides us in determining priority risks and developing strategies (including administrative design, help and education, and audit), which aim to both reduce the tax gap and improve voluntary compliance and also to prevent any deterioration in tax performance.

Our gap measurement methods draw on the experience of other contemporary tax administrations. This ensures our estimates are based on best practice. We share our tax gap information with our counterparts who also publish an annual tax gap program, such as His Majesty's Revenue and Customs (HMRC) in the United Kingdom.

We also participate in international forums and communities of practice, such as the OECD's Tax Gap Community of Interest. This was established in February 2023 for all OECD member countries and expands on the Community of Practice that had been in existence since 2019, of which Australia is a founding member.

Addressing the gap

Our primary strategy is to make it as easy as possible for Australians to comply with their tax and super obligations.

We approach this from many perspectives, including:

- continuing to implement the ATO Digital Strategy key initiatives to deliver trusted and effective digital services and ecosystems
- taking firm action on areas of suspected tax fraud, including intentional overclaiming of deductions and incorrect reporting of income
- improving our processes and technology, including our data-matching capability
- encouraging small businesses to adopt accounting software and other technology
- addressing key risks to the corporate tax base and close tax loopholes so that the community has confidence that public and multinational businesses are paying the right amount of tax in Australia
- applying differentiated strategies and targeted interventions to address collectable debt
- encouraging taxpayers to obtain high-quality professional tax advice
- providing advice to government, via the Treasury, where we see law reform options
- working with partner agencies and stakeholders to improve the tax and super systems
- providing guidance and advice to clarify areas of uncertainty, including issuing taxpayer alerts if we see potential risks
- dealing with non-compliance, including investigating aggressive tax planning.

These types of approaches help us achieve our desired future state. This is where the community is confident that our administration of the tax and super systems supports collection of the right tax, at the right time for the wellbeing of all Australians.

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Engagement, advice and assurance

How we ensure our estimates are reliable, credible and meaningful.

Last updated 1 November 2024

To develop our tax gap methods, we engage key stakeholders and subject matter experts within the ATO and the community.

These include:

- researchers
- academics
- government agencies
- taxpayer representative groups.

These engagements are important in establishing rigorous and robust methods for estimating tax gaps and it doesn't end once we've developed a method. A feature of this program is the continuous improvement based on feedback received and global developments in the use of tax gap methods and practices.

When models are significantly changed, we engage with relevant stakeholders to review the methods to give us confidence that each method delivers its intended outcome of providing a robust estimate.

Holistic view of the tax gap program

There are 3 main outcome principles to our tax gap program.

Our estimates need to be:

- reliable
- credible
- meaningful.

Each of these principles provides us with a framework (Figure 5) that is reflected through the whole program, including in the reliability assessments for each estimate.

Figure 5: Holistic view of the tax gap program

Reliable

For the 'reliable' principle, we assess ourselves against 2 outcomes – trustworthy and dependable.

For an outcome to be trustworthy, the outcome needs to be transparent, concise and open to evaluation and critique. To achieve a dependable outcome, the estimate needs to use the best practice methods available. The results from those methods need to be repeatable, and the method must be critiqued by experts.

Credible

For the 'credible' principle, we assess ourselves against 2 outcomes – rational and complete.

For the credible principle, an outcome is believable when it explains why the gap is the size it is, and what the wider issues and impacts are. To be complete, the outcome needs to cover all the bases, including where applicable, associated issues and the shadow economy.

Meaningful

For the 'meaningful' principle, we assess ourselves against 2 outcomes – explained and communicated.

This principle ensures that outcomes obtained through our estimates are more than just numbers on a page. It means that business, government and the wider community can understand the analysis. This helps them to engage with us in an informed conversation about the tax and super systems. An outcome is explained if it answers the 'why' questions. It identifies the contributing factors of a gap, the key risks and drivers. It also acknowledges the caveats and limitations of our estimate.

We engage experts to achieve reliable and credible outcome principles of the tax gap program.

The meaningful principle is assessed internally to ensure the reliable and credible outcomes are given appropriate context. This ensures the information is meaningful for the intended audience.

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Reliability assessment

The 10 reliability criteria and resultant ratings.

Last updated 1 November 2024

How we assess tax gaps for reliability

All gap estimates are assessed for reliability against 10 criteria. The reliability rating provides a transparent assessment of our gap estimates, drawing on the International Monetary Fund (IMF) evaluation framework and our expertise. We summarise this in a rating assessment for each gap estimate.

Reliability criteria

The 10 reliability criteria are considered of equal importance.

We sort them into 3 groups by evaluation stage.

Stage 1 – Evaluation of the estimation framework

1. capture the appropriate tax base
2. cover all potential taxpayers
3. account for all potential forms of non-compliance
4. no overlap within or between any components of the framework.

Stage 2 – Evaluation of the methodology

5. evaluate the approach used against the assessment criteria for that methodology
6. ensure the most appropriate method is used and results are validated against supporting information
7. sensitivity to the underlying model, assumption and structure
8. assessment of assumptions, judgment or expertise.

Stage 3 – Evaluation of the internal process and delivery

9. evaluate the quality of the management process
10. the analysis provides insights into the drivers of a gap estimate.

Reliability ratings

For each estimate, each reliability criterion is scored from zero ('poor or missing') to 30 ('excellent'). The sum of these scores determines the reliability rating.

The total reliability score ranges from zero to 30 and is placed into one of 5 categories.

- **Very low** is a score of zero to 10 – the results are preliminary or interim in nature, often being a pilot estimate in its first years of production. The estimate
  - may have several issues that compromise its reliability
  - may have a large or unknown margin of error
  - is not confirmed by other independent analysis
  - results provide very little information and could be misleading.
- **Low** is a score of 11 to 15 – many factors are not considered in the estimate. The estimate
  - has a material margin of error
  - may be partially confirmed by other analyses
  - should not be used to provide insight into population compliance
  - may provide direction for further research and analysis

  - improvements, when made, may significantly alter the gap estimate.
- **Medium** is a score of 16 to 20 – several factors are not considered which, if addressed, may change gap estimates by a limited or immaterial degree. The estimate
  - has an acceptable margin of error
  - is derived from an appropriate calculation methodology
  - is materially confirmed by other analyses, such as risk models and intelligence scans
  - with caution and contextualisation, can provide insight into population compliance.
- **High** is a score of 21 to 25 – a small number of factors are not considered which, if addressed, may change the gap estimate to a very limited or immaterial degree. The estimate
  - has a low margin of error
  - is derived from a highly appropriate calculation methodology
  - is materially confirmed by other analyses such as risk models and intelligence scans
  - with caution and contextualisation, can provide insight into population compliance.
- **Very high** is a score of 26 to 30 – all factors are considered. The estimate has a very low margin of error. The estimate
  - is derived from the most appropriate calculation methodology
  - is confirmed by other analyses, such as risk models and intelligence scans
  - can provide highly detailed insights into the levels of compliance across the population.

Tax gap program summary findings

A summary of all tax gap estimates produced for the 2020–21 financial year.

Last updated 1 November 2024

2021–22 overall tax gap

2021–22 is the most recent financial year with all tax gap estimates produced.

Our estimate for the overall tax gap for 2021–22 is $44.5 billion against our estimate of the total amount that we would collect if everyone was fully compliant, $590.3 billion. This represents a net tax gap estimate of 7.5%.

Figure 6 shows the overall tax gap. The largest contributors (in dollar value) to the overall tax gap remain the same as last year.

Figure 6: Estimated total tax gap for 2021–22

Personal income tax gap

The personal income tax gap consolidates all the income tax gaps relating to individual tax returns.

It includes the income tax gaps for:

- High wealth individuals

- Individuals not in business
- Individuals in small business
- Individuals in medium business.

Overall, the trend in our estimate of the personal income tax gap is steady over the 6 years from 2016–17 to 2021–22, with the main contributor being individuals not-in-business.

Figure 7: Personal income tax gap trend

Figure 7: Chart showing the six-year trend for the personal income tax gap peaking at 9.6% in 2018–19 and decreasing to 8.5% in 2021–22.

Corporate income tax gap

The corporate income tax gap consolidates all the income tax gaps relating to corporate tax returns.

It includes the income tax gaps for:

- high wealth income tax gap
- large corporate groups income tax gap
- small business income tax gap
- medium business income tax gap.

The overall corporate income tax gap estimate is now trending upwards, with an increase in both the gross and net tax gap in each of the past two years. Most of this increase is from the small companies component of the small business income tax gap population and large corporate groups.

Figure 8: Corporate income tax gap trend

Goods and services tax gap

The latest estimates for GST indicate a sharp increase in the estimated net gap to $7.9 billion in 2022–23 (9.0% of theoretical GST) up from $4.4 billion (5.5%) in 2021–22. The increase in the net gap reflects stronger growth in GST liabilities (11.8%) than in tax expected to be paid (7.8%). All the main components of the GST base grew, and the consumer spending component was boosted by a re-direction of spending towards GST-able expenditures. The weaker growth in tax expected to be paid partly reflects the relatively large estimates of non-pursuable debt for both years which includes the ongoing impacts of COVID-19 and Operation Protego.

Figure 9: Goods and services tax gap trend

Excise and other taxes gap

The remaining 9 tax gap estimates are excise taxes and several smaller transactional and income-based taxes. While we see an increase in the tax gap related to excise and other gaps, the increase in 2021–22 is largely attributed the tobacco duty gap. Significant amounts of illicit tobacco continue try to be smuggled through the border. In 2021–22, illicit tobacco supply is estimated to have contributed about $2.3 billion to the overall gap amount.

Figure 10: Excise and other taxes gap trend

Shadow economy findings

The shadow economy refers to people who intentionally operate entirely outside the tax and regulatory system or who are known to the authorities but do not correctly report their tax obligations.

Participation in the shadow economy penalises compliant taxpayers, undermines the integrity of Australia's tax and welfare systems and creates an uneven playing field for the majority of small businesses doing the right thing.

If left unchecked, shadow economy participation can lead to a dangerous dynamic. It can foster a culture which legitimises and supports this participation, spurring its further growth. As revenues fall, those remaining in the formal economy may be faced with higher tax burdens, providing a greater incentive to move into the shadows. All other OECD countries are grappling with the shadow economy issue – Australia is not alone.

While the shadow economy is not limited to tax and super, this is our main focus in tax gap contexts. The tax effect of shadow economy activities is a component of the tax gap which is measured against full compliance with relevant tax arrangements. For tax gap purposes, we focus only on the resultant tax effect – that is the tax revenue lost due to these activities.

In the past, there have been various estimates of the economic impact and size of the shadow economy in Australia including an Australian Bureau of Statistics (ABS) information paper released in 2013 and the Black Economy Taskforce in 2017. Our estimates of the tax effect of the shadow economy are mainly based on internal analysis in the context of each tax type however, for the GST gap, the indicative shadow economy estimates applied are leveraged to both the ABS and Black Economy Taskforce estimates.

The key findings from our gap analysis related to shadow economy activities are summarised below.

For alcohol and tobacco excises, GST, and fuel tax credits we have estimated and published shadow economy and gap estimates for 2022–23, reflecting the availability of more contemporaneous data.

System-wide aggregates

Our latest tax gap estimates indicate that around $22.0 billion of tax was lost in 2021–22 due to shadow economy activities associated with transaction-based and income-based taxes. This represents a relatively modest increase over our updated estimate for 2020–21 of $20.8 billion. The estimated tax lost due to shadow economy activities in 2021–22 represented around 38% of the aggregate gross gap; down from around 41% in 2020–21.

As a share of theoretical tax revenue for these taxes, shadow economy tax lost has fallen from 5.4% in 2020–21 to 5.3% in 2021–22. This is the first year that the shadow economy aggregate has fallen as a share of theoretical tax since 2016–17. Table 6 provides more detail.

Shadow economy effects associated with administered programs are not included in these system-wide aggregates.

Table 6: Shadow economy tax effects of total program

Tax gap program	2016–17	2017–18	2018–19	2019–20

Transaction-based ($m)	2,790	3,208	3,720	4,063
Income-based ($m)	9,295	9,709	12,199	13,036
Total of transaction and income-based taxes ($)	12,085	12,917	15,918	17,099
Total theoretical tax liabilities ($m)	316,744	338,727	349,726	359,330
Proportion of total theoretical tax liabilities %	3.8	3.8	4.6	4.8

The evolution of estimated tax effects of shadow economy activities for transaction and income-based taxes is shown in Figure 11.

Figure 1 1: Shadow economy tax effects and theoretical tax, $billion and % of theoretical tax.

Transaction-based taxes

Transaction-based taxes relate to taxes that are paid when you buy, sell, manufacture, produce, store, or import certain goods or services.

Alcohol excise gap – all illicit activity is regarded as shadow economy behaviour and is the major contributor to the overall gross gap in recent years. The tax effects of shadow economy activities have increased from $615 million (88.5% of the gross gap) in 2020–21 to around $660 million (88.4%) in 2021–22, and further to $709 million (88.6%) in 2022–23. Recent outcomes reflect the decline in international passenger volumes associated with the COVID-19 pandemic which has reduced the contribution to the gap from small scale illicit activity. Large scale illicit activity continues to trend higher.

Tobacco excise gap – reflects tobacco grown illegally within Australia and illegally imported tobacco on which duty hasn't been paid. Reflecting this, the shadow economy tax effects represent 100% of the gross gap in all years. The tax effects of the shadow economy have increased from around $2.1 billion in 2019–20 to around $5.2 billion in 2021–22 and further to $6.3 billion in 2022–23. The amount of illicit tobacco attempted to be smuggled across the borders has increased sharply in recent years and has been the critical driver of higher gross gap estimates for tobacco.

GST gap – previous estimates relied on data published by the ABS which, despite the uncertainty flowing from the disparate effects associated with the COVID-19 pandemic, likely underestimated the size of the shadow economy. Reflecting this uncertainty and the higher estimates published by the Black Economy Taskforce in 2017, we now consider it prudent to reflect a more contemporary view of the shadow economy into the GST gap. The purpose of this updated adjustment isn't to provide precise estimates of the shadow economy as it relates to the GST but to move towards estimates that are likely to be more accurate. This re-alignment has added over $1 billion to the estimated GST foregone due to shadow economy activities in recent years. The shadow economy is estimated to have resulted in foregone GST revenues of around $1.5 billion in 2020–21 (23.9% of the gross gap) before rising to around $1.6 billion (14.9%) in 2021–22, and further to around $1.9 billion (16.5%) in 2022–23.

Table 7: Shadow economy tax effects of transaction-base

Transaction-based program	Shadow economy estimation	2016–17	2017–18	2018–19
Alcohol excise ($m)	Illicit channels only	402	420	448
Tobacco excise ($m)	All channels	980	1,310	1,744

GST ($m)	Based on internal estimates	1,409	1,478	1,527
Total transaction-based tax effect ($m)	Based on varying internal estimates	2,790	3,208	3,720
Proportion of theoretical tax liability of transaction taxes above (%)	n/a	3.3	3.6	4.1

Income-based taxes

Income-based taxes relate to taxes based on income from various sources.

Small business income tax gap – shadow economy activities for small business mainly relate to under-reported business income, over-claimed business deductions and hidden wages for associated individuals. Overall, the tax effects due to shadow economy activities in the small business sector fell from around $11.4 billion (60.8% of the gross gap) in 2020–21 to $11.2 billion (59.4%) in 2021–22.

Individuals not in business – shadow economy activities relate to hidden wages and to people who intentionally stay outside the tax system. The tax effects of both these activities grew modestly from $3.3 billion in 2020–21 to $3.4 billion in 2021–22 resulting in a small fall in the shadow economy contribution to the gross gap from 30.0% in 2020–21 to 29.8% in 2021–22.

Table 8: Shadow economy tax effects of income-based tax

Income-based program	Shadow economy estimation	2016–17	2017–18	2018–19	2

Small business ($m)	Estimated using sample	6,528	6,777	9,069
Individuals not in business ($m)	Estimated using sample	2,767	2,932	3,130
Total income-based tax effect ($m)	Estimated using sample	9,295	9,709	12,199
Proportion of theoretical tax liability of income-based taxes above (%)	n/a	4.0	3.9	4.7

Administered programs and PAYGW

The ATO administers a range of payments and transfers on behalf of the Australian Government, including incentives and rebates delivered through the tax and super systems. Shadow economy effects associated with administered programs are not included in the system-wide aggregates discussed below.

Superannuation Guarantee – hidden wages are the only source of shadow economy activity recognised in this gap. The shadow economy estimate for Superannuation Guarantee is around $2.17 billion for 2021–22 (representing around 35.2% of the estimated gross gap) compared with around $2.03 billion (36.0%) in 2020–21.

Pay-as-you-go withholding – hidden wages are the only type of shadow economy activity included for this category. As the PAYG withholding gap and income tax gaps are estimated separately, missing income tax that should have been withheld by employers is captured in both gap estimates. To avoid double counting, we capture the tax effect of shadow economy only once across the PAYG withholding and income tax gaps. As a result, some of the tax impact of hidden wages estimated for the PAYG withholding gap is said to have been 'passed-through' to be reflected in income tax gaps (see Table 8). After accounting for this pass-through, the residual total shadow economy estimate for PAYG withholding is around $583 million for 2021–22 (representing around 9.2% of the estimated gross gap) down from around $611 million (10.2%) in 2020–21.

Fuel tax credits – were previously considered free of shadow economy activities however there was an increase in the number of relatively low value fraudulent claims in the Fuel tax credits system through 2020–21. We now consider these to be part of the shadow economy and estimate their tax effect at around $91 million (26.9% of the estimated gross gap) for 2021–22 falling to $16 million (4.6%) in 2022–23.

Table 9: Shadow economy tax effects of administered prog

Administered program	Shadow economy estimation	2016–17	2017–18	2018–19
Superannuation guarantee ($m)	Hidden wages based on 2.3% uplift	1,705	1,797	1,890
PAYG withholding ($m) (See Note)	Hidden wages based on 2.3% uplift	661	619	606
Fuel tax credits ($m)	Fraudulent claims	0	0	0
Total administered programs ($m)	Total of SG hidden wages, PAYG withholding hidden wages and	2,366	2,416	2,496

	Fuel tax credits fraudulent claims.			
Proportion of theoretical liability (%)	n/a	1.0	0.9	0.9

Note: This is the residual shadow economy amount in PAYGW after the pass-through income tax effects have been captured by individuals and small business tax gaps.

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