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Goods and services tax gap

How we estimate and reduce the goods and services tax (GST) gap for 2021–22.

Last updated 30 October 2023

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Overview

Work out what GST is and when it is paid.

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GST is a consumption tax at 10% on most goods, services and other items sold or consumed in Australia. It also includes imported goods, services and digital products.

GST started in Australia in July 2000 with a 10% GST rate. There have been some changes to the goods and services subject to the GST but there has been no change to the GST rate.

Generally, businesses and other organisations registered for GST will:

- include GST in the price they charge for their goods and services
- claim credits for the GST included in the price of goods and services they buy for their business.

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Latest estimate and trends

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The latest estimates indicate a significant decline in the estimated net tax gap in 2020–21 (to a historic low of \$1,939 million) before an increase in 2021–22 (to \$2,845 million). Despite the increase in 2021–22 the estimated net gap remains well below most previous years. The net gap estimates also incorporate our best current estimate of mature non-pursuable debt for each year, including the impact of COVID-19 and Operation Protego.

The net gap for 2021–22 is around 3.6% of theoretical GST if all relevant GST businesses and organisations were fully compliant. This means that expected collections from businesses and organisations are likely to be around 96.4% of theoretical GST.

The improvement in measured compliance partly reflects compositional shifts caused by COVID-19 that have moved spending online and away from components that fully attract the GST. It has also moved spending towards goods rather than services, and away from

industries with compliance issues. Compliance was also partly supported by the broader requirements for pandemic support programs.

Despite the lower net gap outcomes, there was a sharp increase in the gross gap (that is, before the impact of ATO compliance activity) in 2021–22. It was estimated to be around \$8,754 million or 11.2% of theoretical GST for 2021–22.

This predominantly reflects the impact of amendments associated with Operation Protego. Overall, amendments increased from \$3,044 million in 2020–21 to \$5,909 million in 2021–22. Of this, just over \$2 billion relates to Operation Protego.

Operation Protego relates to fraud whereby individuals applied for an Australian Business Number (ABN) for a business that does not exist and then submitted business activity statements (BAS) fraudulently reporting GST paid on input purchases and seeking to gain an invalid GST credit. We have issued over \$2 billion in amendments relating to 2021–22 to address these invalid claims. Some amendments are addressed at a pre-issue stage, that is before being paid out to taxpayers. There are however some refund claims that are amended after being paid to taxpayers. In this instance, the ATO's ability to recover these refunds is lower. This gives rise to increased non-pursuable debt.

We seek to incorporate the latest available information into our gap estimates including revisions to previously published estimates. This updated information comes from internal sources as well as external sources such as the Australian Bureau of Statistics (ABS) which provides important information supporting our estimate of theoretical GST.

This gap forms a part of our overall tax performance program. Find out more about the concept of tax gaps and the latest gaps available.


Table 1: GST gap, 2016–17 to 2021–22

Element	2016–17	2017–18	2018–19	2019–20	2021
Gross gap (\$m)	6,321	6,937	7,887	5,206	4

Amendments (\$m)	2,599	2,672	2,869	2,175	3
Net gap (\$m)	3,722	4,265	5,017	3,031	1
Expected collections (\$m)	61,139	63,613	64,862	64,523	68
Theoretical liability (\$m)	64,861	67,879	69,879	67,554	70
Gross gap (%)	9.7	10.2	11.3	7.7	
Net gap (%)	5.7	6.3	7.2	4.5	

Figure 1 displays the gross and net gap as a percentage of theoretical liability over the same period.

Figure 1: Gross and net GST gaps; as percentage of theoretical GST, 2016–17 to 2021–22

 Figure 1: is a chart showing the gross and net GST tax gap as a percentage of theoretical GST from 2016-17 to 2021-22 – as outlined in Table 1.

Theoretical GST declined in 2019–20 (down 3.3%) before increasing at around its historical average in 2020–21 (up 4.5%) and then accelerating in 2021-22 (up by 10.8%). This profile reflects the compositional shifts in consumer spending as well as:

- GST-able consumer spending (up 5.9% between 2018–19 to 2021–22) rose significantly slower than overall consumer spending (up 7.2% over the same period). Non-GST-able consumer spending growth moderated in 2019–20 but remained around historical trend growth in 2020–21 and 2021–22; and overall was up 9% across 2018–19 to 2021–22.
- The dwellings component of the GST base had a similar growth profile (down 7.9% in 2019–20, up 5.7% in 2020–21 and accelerating by 13.5% in 2021–22).

- International tourism is largely GST-free and declined sharply in both 2019–20 and 2020–21 given the closure of Australia’s international border. As a result, the reduction in the overall GST base associated with international tourism declined sharply in both 2019–20 and 2020–21. A moderate rebound occurred through 2021–22 as international travel resumed but the consequent reduction in the GST base remains well below historical levels.
- Expected GST collections fell slightly in 2019–20 (down 0.5% to \$64,523 million) before increasing at more normal rates across 2020–21 (up 6.4% to \$68,683 million) and 2021–22 (up 9.8% to \$75,420 million). This reflected:
 - Expected voluntary collections grew by only 0.6% in 2019–20 (to \$62,348 million) — the weakest growth since the GST commenced — and well below the historical average of around 4% per annum. This in part reflected the cashflow pressures for registered GST participants associated with the pandemic response and consequent economic slowdown. Growth in expected voluntary collections moved above its long-term average rate in both 2020–21 (5.3%) and 2021–22 (5.9%).
 - Amendments fell in 2019–20 (to \$2,175 million) before rebounding to around the trend in 2020–21 (\$3,044 million). Amendments for 2021–22 were significantly higher (\$5,909 million) reflecting compliance activity associated with Operation Protego.

Lower GST gap outcomes during and after COVID-19 are consistent with the experience reported in the United Kingdom as well as a range of countries in the European Union. A common theme seems that higher GST/VAT compliance may have resulted from government responses to the COVID-19 pandemic including support measures which alleviated cash flow pressures and were often contingent on up-to-date tax arrangements.

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ATO action to reduce the gap

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We are constantly working to minimise the GST gap and maximise voluntary compliance by addressing and influencing taxpayer behaviour. A range of taxpayer actions can affect the GST gap, including:

- non-reporting of GST
- under-reporting of GST
- over-claiming of refunds
- non-payment of GST liabilities.

These behaviours range in severity from honest reporting errors to deliberate non-compliance.

Our compliance programs usually have a balance of prevention, early engagement and assurance activities. They are targeted to higher risk taxpayers and industries.

We continue to focus on managing GST compliance risks and behaviours that impact the integrity of the GST. This year we strengthened our ability to manage GST risks including fraud, by using contemporary technology to:

- improve our risk identification process with techniques that detect risks earlier, enabling us to apply differentiated and tailored treatment strategies
- deliver an automated solution, streamlining processes related to managing high-risk refunds
- support a better client experience by providing staff with a more holistic view of GST lodgment when engaging with clients.

To ensure large businesses pay the right amount of GST and to reduce the gap, we have a combination of one-to-one and one-to-many approaches. These include our justified trust assurance programs and advice and guidance strategies.

Where a business activity statement (BAS) lodged online contains an identifiable reporting error, we generate nudge messaging recommending clients check their BAS before they lodge their refund.

A key focus area in the 2023–24 ATO Corporate Plan is to improve small business tax performance with a digital-first approach. To encourage enhanced integration that supports high-quality, system generated tax guidance to minimise errors, increase confidence and

promote right-time reporting and payment. This work is aligned to the OECD Tax Administration 3.0 vision and the ATO Digital Strategy.

Our key opportunity areas to reduce the tax gap include increasing confidence and certainty in the system and increasing digitalisation to reduce errors and mistakes. Additionally, we have commissioned several GST-related pilots to focus on opportunities that may drive improved small business tax performance.

We prevent compliance issues before they arise by supporting those who want to do the right thing and helping them reduce mistakes through reminders, nudges, improved information on ato.gov.au and public advice and guidance.

We take a firmer approach with those we detect deliberately evading their GST and other tax obligations.

We embed our GST work programs across all taxes, to deliver more effective and efficient risk management and enhance the taxpayer experience.

We will continue to work towards closing the gap by:

- building trust and confidence within the community by implementing strategies under the GST Compliance Program
- achieving GST compliance outcomes from other ATO government funded programs including the Shadow Economy, Serious Financial Crime and Phoenix Taskforces.

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Methodology

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We use a 4-step top-down methodology to estimate the GST gap.

Step 1: Construct theoretical GST base using expenditure data

Starting with the Australian Bureau of Statistics (ABS) estimate of household final consumption expenditure (HFCE), we add estimates of expenditure for the following items which are subject to the GST:

- new private dwellings investment expenditure (based on investment in new dwellings, alterations and additions)
- consumers' share of ownership transfer costs
- a proportion of land sales.

Step 2: Subtract spending where GST concessions or exemptions apply

We then remove specific expenditures included in the ABS measure of HFCE but for which GST concessions or exemptions apply. These expenditures are not part of the theoretical GST base.

These include:

- expenditures that are exempt or concessionaly taxed, such as food and education
- input-taxed supplies, such as rent
- certain financial supplies and reduced GST credits
- concessions for entities with turnover less than \$75,000 (\$150,000 for not-for-profit entities).

The residual amount is our estimate of the theoretical GST base subject to GST.

Step 3: Determine theoretical GST liability

The total theoretical GST base estimated above consists of the GST exclusive price and the appropriate GST (which equals 10% of the GST exclusive price).

We estimate the total theoretical GST liability by dividing the theoretical GST base by 11 (given the fixed GST rate of 10% is incorporated in the estimated GST base).

Step 4: Consolidate the gap estimates

We subtract the actual GST liabilities reported on an accrual basis, including our compliance activities, from the theoretical total GST liability to estimate the net gap.

Non-pursuable debt is considered part of the net gap. Therefore, we add this amount back to estimate the net gap including debt. This is the most accurate measure of the tax gap for GST.

We obtain the gross gap (including debt) by adding the liabilities raised from our compliance activities to the net gap estimate.

Some of the key assumptions of the methodology include:

- HFCE represents all Australian consumption by households. No additional uplift for the shadow economy has been applied other than those incorporated into the ABS estimates. The ABS currently makes an upwards adjustment to a number of the HFCE components to account for under-reporting of sales. These adjustments made by the ABS aggregate to around 0.4% of their HFCE estimate.
- No adjustments have been made for timing issues in some of the National Accounts aggregates used to quantify total theoretical GST revenue, despite some known conceptual misalignments in private dwelling investment.
- The estimates of each HFCE component not subject to GST are derived from various Tax Benchmarks and Variations Statements and Household Expenditure Surveys. The compositional shifts in spending caused by the COVID-19 pandemic are quite dynamic and may not be adequately reflected in the data.

Summary of the estimation process

Table 2 provides a summary of each step of the estimation process and the results for each year, from 2015–16 to 2020–21.

Table 2: Summary of the GST gap estimation process

Step	Description	2016–17	2017–18	2018–19	2019–20
1 to 3	Total theoretical tax liability (\$m)	64,861	67,879	69,879	67,554
4	Less final GST reported (\$m)	61,811	64,308	65,630	65,798
4.1	Equals final GST liabilities not reported	3,050	3,570	4,249	1,756
4.2	Add non-pursuable debt (\$m)	672	695	768	1,274
4.3	Net gap with debt estimate (\$m)	3,722	4,265	5,017	3,031
4.4	Add compliance outcomes and taxpayer adjustments (\$m)	2,599	2,672	2,869	2,175
4.5	Equals gross gap with debt	6,321	6,937	7,887	5,206

	estimate (\$m)				
4.6	Gross gap (%)	9.7	10.2	11.3	7.7
4.7	Net gap (%)	5.7	6.3	7.2	4.5

Find out more about our overall research methodology, data sources and analysis for creating our tax gap estimates.

Limitations

The GST top-down tax gap model relies on various ABS economic aggregates to construct a proxy for the GST base. The reliability of the gap estimates therefore depends on the accuracy and completeness of that data. National Accounts data includes a margin of error and imposes some limitations on gap estimates.

Specific issues include:

- Sampling and non-sampling errors may exist.
- Underlying data is subject to revision, which can vary historical trend results and the estimated GST gap.
- Timing differences can exist between the National Accounts and GST treatment for certain supplies.

The latest ABS national accounts data were released in October 2022. The ABS made a number of revisions to their previous estimates of HFCE. Some components were revised higher and others lower; but in aggregate HFCE was increased. These revisions therefore overall increased the:

- theoretical GST base
- theoretical GST liability
- estimated tax gaps.

This impact alone increased the estimated tax gaps for 2020–21 by around \$320 million.

In addition, concessions and exemptions are identified and estimated in the Treasury Tax Benchmarks and Variations Statement. The

statement estimates can have a wide range and are not exhaustive, with only major exemptions and exceptions identified.

Accounting for shadow economy activity in a top-down model

The theoretical GST liability is based on macro aggregates compiled by the ABS. Where relevant, these have been adjusted upwards to include an indicative impact of the shadow economy.

Reflecting this, we make no further adjustment for the shadow economy when calculating the theoretical GST liability and resulting tax gap. This means our estimates include a component due to the shadow economy.

Estimating the size of the shadow economy can only be done with a significant margin of error. In times of economic shock such as we have experienced during COVID-19 the range of uncertainty relating to such estimates is likely to increase. The current approach by the ABS assumes that the non-observed economy is around 0.4% of HFCE; with that markup relative to HFCE constant over time. To the extent that this assumption does not hold, this can have a material impact on estimates of consumption and in turn our GST gap estimates.

Updates and revisions to previous estimates

Each year we refresh our estimates in line with the annual report. Changes from previously published estimates occur for a variety of reasons, including:

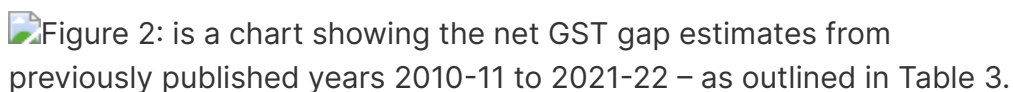
- improvements in methodology
- revisions to data
- additional information becoming available.

Periodically, information collated and analysed by the ABS is updated or revised. For the GST gap estimate, this means changes to the underlying data will influence the outcomes of our analysis.

The ABS generally revise their annual benchmarks for the prior 3 years. However, they periodically undertake more comprehensive reviews resulting in more extensive revisions.

The effects of these changes to methodology and underlying data on our gap estimates are demonstrated at Figure 2.

Figure 2: Effect of ABS revisions and methodological changes on previous GST net gap estimates, 2010–11 to 2021–22

Figure 2: is a chart showing the net GST gap estimates from previously published years 2010-11 to 2021-22 – as outlined in Table 3.

This data is set out in Table 3, shown as a percentage of theoretical GST revenue.

Table 3: Effect of ABS revisions and methodological changes on previous GST net gap estimates (as a percentage of theoretical GST liability), 2010–11 to 2021–22

	2010–11	2011–12	2012–13	2013–14	2014–15
2023 Program	n/a	n/a	n/a	n/a	n/a
2022 Program	n/a	n/a	n/a	n/a	n/a
2021 Program	n/a	n/a	n/a	8.4	8.9
2020 Program	n/a	n/a	n/a	7.3	7.5
2019 Program	n/a	n/a	7.7	7.3	7.1
2018 Program	n/a	8.1	7.4	7.1	7.4
2017 Program	7.1	7.0	5.7	6.1	6.7

2016 Program	7.0	7.0	5.8	6.1	6.5
2015 Program	6.8	7.7	7.1	6.5	n/a

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Reliability

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We seek feedback and advice about how we estimate the gap from our external and internal subject matter experts. Based on the advice and assessment, the reliability rating for this estimate is **medium** with a score of 17.

Uncertainty as to the impact of the economic disruption due to the COVID-19 pandemic and its impact on the shadow economy increases the range of uncertainty with respect to our estimates.

The annual measure of the GST liability is influenced by differences in the timing of sales and purchases across the production chain. This is amplified when there is a sharp reduction in demand. The timing mismatch has been heightened across 2019–20 and 2021–22 and so we have smoothed the GST liability to better align with the theoretical GST base.

Tax gap estimates are exposed to all of these influences. For this reason, we have downgraded the reliability of our estimates from 18 last year to 17 this year. The overall reliability remains **medium**.

Figure 3: Reliability rating scale – GST gap

"Figure 3: This image is a graph that represents the reliability rating for the current GST tax gap estimates. The rating scale includes:
- Very low which is a score between 0 and 10 - Low which is a score between 11 and 15 - Medium which is a score between 16 and 20 - High which is a score between 21 and 25 - Very high which is a score between 26 and 30. The graph shows the GST gap estimate has a rating of 17 which is medium."

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