Luxury car tax gap

How we estimate and reduce the luxury car tax (LCT) gap for 2022–23.

Published 3 November 2025

Reliability of the luxury car tax gap estimate

How we make sure the luxury car tax gap estimate is reliable.

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Overview of the luxury car tax gap

What makes up the luxury car tax gap population.

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The luxury car tax (LCT) gap population is made up of:

- entities that lodge business activity statements, who have indicated LCT obligations
- entities that report (ad hoc without any registration obligation) only for a credit
- private luxury car importers identified by the Department of Home Affairs (Customs).

The LCT gap forms a part of our overall tax performance program. For more information, see Australian tax gaps and the latest gaps available.

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Latest estimate and trends for the luxury car tax gap

Compare the 2022–23 luxury car tax gap with trends from previous years.

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The luxury car tax (LCT) gap is the difference between the luxury car tax the ATO expects to collect and what we would have collected if every taxpayer was fully compliant with tax law, also known as the theoretical tax liability.

For 2022–23, we estimate a LCT net gap of 3.7% or $43 million. This means more than 96% of the total theoretical tax liability is expected to be collected. Voluntary performance is at 95.1%, an improvement from 92.5% in the previous year.

Gap analysis is more useful for identifying the trend over time – rather than focusing on the absolute gap value for each or any year. This is consistent with the positioning of tax gap estimates for other taxes and is the approach adopted in international tax gap reporting programs. Accordingly, care needs to be taken when looking at individual year tax gap estimates. When viewed as a trend over time, we see that the LCT gap has improved over the past three years with LCT collections growing faster than the overall LCT tax base.

The gap estimates do show volatility over time. Our analysis suggests that the size of this gap is sensitive to movements in macroeconomic factors. These include exchange rates and interest rates, as well as the performance of housing markets. The sensitivity of the LCT gap is further exacerbated by several factors, such as its relatively small tax base and the discretionary nature of luxury car purchases.

The key behaviours contributing to the LCT gap include entities who:

- engage in fraudulent schemes to extract the LCT from the sale of a car via incorrect quoting or claiming LCT refunds
- misuse the provision to quote their ABN when the car may not be trading stock
- deliberately operate outside the system and are reckless towards their obligation to register for LCT
- erroneously or incorrectly classify imported vehicles to avoid paying LCT
- fail to understand their record keeping and reporting obligations due to lack of understanding the LCT legislation.

Table 1: Luxury car tax gap, 2017–18 to 2022–23

Element	2017–18	2018–19	2019–20	2020–21	20
Population	1,946	2,022	2,070	2,203	2,
Gross gap ($m)	146	91	117	72	
Amendments ($m)	21.0	12.4	6.5	7.3	1
Net gap ($m)	125	79	110	64	
Expected tax collections ($m)	691	667	638	872	9
Theoretical liability ($m)	816	746	748	936	1,
Gross gap (%)	17.9%	12.2%	15.6%	7.6%	7.
Net gap (%)	15.3%	10.5%	14.7%	6.9%	6.

Figure 1 shows the trend in the gross and net tax gap estimates over the same period.

Figure 1: Gross and net LCT gap (percentage), 2017–18 to 2022–23

The luxury car tax gross and net gap in percentage terms as outline in Table 1. There is a general decreasing trend across the 2017–18 to 2022–23 period.

For previously published tax gap figures, see [Australian Tax Gaps - Data.gov.au](#)

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ATO action to reduce the luxury car tax gap

How we support our clients to meet their luxury car tax obligations.

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Luxury car tax (LCT) is paid by:

- businesses that sell or import luxury cars
- individuals who directly import luxury cars.

The LCT is imposed only if both the:

- value of the car exceeds the LCT threshold
- sale of the car occurs within 2 years of importation.

Our data and experience show most people try to comply with their LCT obligations. We aim to make it as easy as possible to help them meet their obligations by providing:

- up-to-date information on our website
- education to taxpayers who are newly registered for LCT regarding their record keeping and reporting obligations
- specific advice where requested or where the law is unclear.

We focus on those who actively try to avoid their LCT obligations. Some of the behaviours we are most concerned about include:

- resellers who undercut legitimate dealers on price by evading LCT and GST on luxury car sales
- entities who attempt to pass off private luxury car purchases, for example, a private car collection as a trading enterprise to fraudulently access LCT and GST benefits
- dealers or resellers falsely asserting that luxury cars are being held solely as trading stock when the cars are being used frequently for 'extended' test drives, personal use or informally leased or sold.

Our compliance work targets these behaviours by:

- reviewing new LCT registrants and educating them when they are ineligible to claim LCT refunds
- letting taxpayers know we are targeting arrangements designed to avoid LCT and highlighting the risks of participating in them
- increasing our review of dealers accepting inappropriate Australian business number (ABN) quoting, which facilitates the avoidance of LCT by entities who are ineligible to quote ABN to defer paying LCT
- commenced data-matching of luxury car importation information annually provided by the Department of Home Affairs (Customs) to review the legitimacy of ABN quoted by entities who are outside the system (unregistered) or registered but are ineligible to use the ABN quoting provision
- stopping and verifying LCT refunds and applying administrative penalties to taxpayers who provide misleading or false information
- applying anti-avoidance provisions to artificial and contrived arrangements to avoid payment of LCT
- prosecuting people who undertake fraudulent or criminal activity.

In 2021–22, the ATO increased its focus on fake claims. This fraudulent activity impacted LCT. The unusual growth in LCT refund claims were made by previously unregistered individual entities through lodgments of activity statements. These activities were detected over 2019–20 to 2021–22 and the largest impact was observed in 2021–22. Where detected, the fraudulent claims have been stopped or remediated, with an intensive focus by the ATO currently to recover refunds paid to fraudsters.

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Methodology for estimating the luxury car tax gap

Learn the method we use to estimate the luxury car tax gap.

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Six-step top-down method

We use a 6-step top-down approach to estimate the luxury car tax (LCT) gap. To derive the theoretical LCT payable in any year, our estimate draws on:

- motor vehicle registrations data
- Vendor Field Analytical and Characterisation Technologies System (VFACTS)
- additional internal ATO data.

Due to data quality issues in the registrations data, we apply a clustering approach. The clustering method is a statistical approach used to map price information from the registrations data to sales information from VFACTS. Cars are first separated into groups, or 'clusters', based on similar attributes to produce price distributions within each cluster. We then derive the proportions of the price distributions above the LCT thresholds in each cluster. We map these to the number of sales from VFACTS that fall within those clusters. The prices and volumes are subsequently combined and aggregated to produce an overall estimate of the theoretical tax liability (TTL). The more detailed steps are outlined below.

Step 1: Decode and standardise vehicle data

The Vehicle Identification Numbers (VINs) from the registrations data are decoded to obtain the correct vehicle information, such as make/model configurations and fuel consumption.

This ensures the naming conventions are consistent across vehicles and allows us to compare elements of the sales data. The format and information reported in these data sets are different, which requires significant manual review to obtain the best match possible.

Step 2: Remove LCT-exempt vehicles and LCT from vehicle prices

We remove registrations from the data associated with vehicle types not subject to LCT, such as:

- dealer registrations and transfer registrations
- emergency and commercial vehicles
- registrations older than 2 years from the time of manufacture or importation
- utility vehicles and cars part of the Toyota Landcruiser 70 series.

We then remove the LCT component from the purchase prices of vehicles subject to LCT to obtain the values of the vehicles (inclusive of GST).

Step 3: Develop vehicle clusters and price intervals

We determine vehicle clusters based on the manufacturer, number of cylinders and body type. Our key assumption is that pricing is typically driven by vehicle performance and features. Therefore, the intent of using these separating criteria is to obtain similarly valued cars in each cluster.

Fuel-efficient and non-fuel-efficient cars have different thresholds above which LCT is payable. The LCT thresholds are also different each year. To account for all these factors, the LCT population is split by year, cluster, and whether the car is fuel-efficient or non-fuel-efficient. This allows us to appropriately determine the LCT payable for similar vehicle types.

For each cluster, we derive the representative value of vehicles exceeding the LCT thresholds. To address the issue of the representative price being skewed by high-value cars, the LCT-applicable cars in each cluster are split into 20 intervals.

The representative value of each interval is constructed from the mid-point between the mean and the maximum of the price spread. This assumes that the actual mean lies between the reported mean and the maximum of the reported values.

Step 4: Determine LCT payable for each interval

We estimate the LCT payable for each price interval within a cluster.

To obtain the appropriate values of vehicles that are subject to LCT for each interval or cluster combination, we:

1. Obtain the quantity sold in each cluster from VFACTS
2. Multiply by the proportion of cars in the cluster that meet the relevant LCT threshold (giving the number of LCT-applicable cars in the cluster)
3. Divide by 20 (the number of intervals in the cluster) to give the number of LCT-applicable cars in each interval
4. Multiply by its taxable component. Using the representative value determined from Step 3, the taxable component is the difference between the representative value and the relevant LCT threshold
5. Remove the GST component by multiplying by 10/11
6. Multiply by the LCT rate of 33% to obtain the LCT payable for all units sold in each price interval.

Step 5: Calculate total theoretical liability

The total theoretical liability is determined by aggregating the LCT payable for all price intervals, in all clusters.

Starting in the 2023 financial year, LCT refund and credit amounts are manually subtracted from the TTL. Since the model cannot distinguish between transactions that are LCT-applicable and those that are not, a manual adjustment is made.

Step 6: Calculate gross gap and net gap

The unreported amount is the difference between the theoretical LCT liability and tax reported.

The net gap is calculated by adding non-pursuable debt to the unreported amount. The gross gap is derived by adding amendments to the net gap.

Summary of the estimation process

Table 2 shows the:

- summary of each step of the estimation process
- results for each year.

Table 2: Summary of estimation process for the luxury car 2022–23

Step	Description	2017–18	2018–19	2019–20	2020–21
1-5	Theoretical tax liability ($m)	816	746	748	936
6.1	Less final tax reported ($m)	707	676	647	880
6.2	Equals unreported tax ($m)	109	70	102	56
6.3	Add non-pursuable debt ($m)	15.6	8.4	8.4	8.4
6.4	Equals net gap ($m)	125	79	110	64
6.5	Add ATO compliance adjustments ($m)	21.0	12.4	6.5	7.3
6.6	Equals gross gap ($m)	146	91	117	72
6.7	Gross gap (%)	17.9%	12.2%	15.6%	7.6%
6.8	Net gap (%)	15.3%	10.5%	14.7%	6.9%

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

Limitations

The following caveats and limitations apply when interpreting the LCT gap estimates.

- All vehicle data is mapped by a unique VIN for each vehicle. We match VINs to the information on the specifications of the vehicles based on the first 8 or 9 digits of the VINs rather than the entire 17 digits.
- Resource-intensive data manipulation is required to
  - identify the LCT-applicable population by analysing over 2,000 models in 2022–23 to determine an estimated purchase price (or range) for each new or imported vehicle
  - determine fuel-efficient LCT vehicles by combining the VFACTS and registrations data
  - link transaction-level registrations data to the semi-aggregated VFACTS data.
- Due to some data quality issues, some vehicles may be incorrectly categorised as non-fuel-efficient (or fuel-efficient) or misclassified to a cluster.
- Overall, the estimates can be sensitive to the clustering method applied. There is an element of judgment when grouping the cars based on their likeness.
- At this stage we are uncertain on the shadow economy impacts. More work is required to isolate these amounts.

Updates 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.

Figure 2 displays the net gap from our current model compared to the previous estimates.

Figure 2: Comparison of previously published estimates, 2009–10 to 2022–23 – LCT gap

Our current and previous net gap estimates as outlined in Table 3.

This data is presented in Table 3 below.

Table 3: Current and previous luxury car tax net gap estim (percentage), 2017–18 to 2022–23

Program year	2017–18	2018–19	2019–20	2020–21	2021–22
2025	**15.3**	**10.5**	**14.7**	**6.9**	**6.2**
2024	15.1	10.4	14.6	6.8	6.1
2023	15.8	10.6	14.9	7.7	n/a
2022	8.6	7.9	3.3	n/a	n/a
2021	7.8	9.0	n/a	n/a	n/a
2020	7.8	n/a	n/a	n/a	n/a

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Reliability of the luxury car tax gap estimate

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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, the reliability for this estimate is **medium** with a score of 18.

Figure 3: Reliability rating scale from very low to very high – LCT gap

The reliability rating of medium for the current luxury car tax gap estimate. The rating scale includes very low (1-10), low (11-15), medium (16-20), high (21-25), very high (26-30). The reliability rating is medium, with a score of 18.

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