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The total tobacco tax gap estimates both evasion of excise equivalent customs duty from imported tobacco, and evasion of excise duty from domestically grown tobacco, as compared with customs duty paid on legal imports of tobacco. Importantly, we have undertaken the traditional tobacco tax gap analysis for 2023-24 to continue the current time trend series.

However, the ATO has excluded the estimated tobacco tax gap from the reported results for the overall tax gap performance measure for the following reasons:

- The Australian Border Force collects all tobacco customs duty. All tobacco tax revenue is from tobacco customs duty. There is no legal domestic production of tobacco (on which excise duty is payable).
- As the evaded excise duty on domestically grown illicit tobacco (for which the ATO is responsible) is a relatively small component of the overall illicit tobacco gap, the total tobacco gap is not considered an appropriate measure of the ATO's performance. This is because the ATO's ability to materially influence the overall size of the illicit tobacco market is limited given its responsibilities and recognising that compliance activities are delivered across government.

Separately, we have assessed our current estimate of the tobacco tax gap as unreliable and are now undertaking a review of the method. The key reason for this decision is due to research undertaken by

University of Queensland on the biomarkers of tobacco leaf consumption in samples of waste water throughout Australia. The preliminary analysis of the University of Queensland's waste water sample results suggests that the total tobacco market and therefore the total illicit market is significantly higher than what we have previously estimated.

Extensive work on the illicit tobacco market is being performed elsewhere in government, including by the Office of the Illicit Tobacco and E-cigarette (ITEC) Commissioner (using a waste water based methodology). The ATO is working with ITEC and Australian Border Force who are providing more comprehensive and consistent reporting on the size of both the illicit tobacco and e-cigarette markets and estimates of excise and excise-equivalent customs duty evaded. This will include exploring with ITEC whether it is possible to isolate a reliable estimate of excise duty evaded on illicit tobacco from domestic crops, which would be a more appropriate performance measure for the ATO.

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Latest estimates and findings for the tobacco tax gap

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2023–24 tobacco tax gap estimate

The tobacco market includes both legal and illicit tobacco for sale. We estimate the total size of the tobacco market at 7,104 tonnes in 2023–24, 43% lower than what it was in 2018–19. Using our traditional methodology, we estimate that 1,741 tonnes of illicit tobacco was consumed in the 2023–24 year. This represents \$3.2 billion of combined customs and excise duty theoretically payable that has been evaded.

The Illicit Tobacco Taskforce (ITTF or taskforce), led by the Australian Border Force (ABF), works across several government agencies to combat the [illicit tobacco market](#). Illicit tobacco includes international imports and domestically sourced tobacco. ABF is responsible for the excise equivalent customs duty payable on imported tobacco and tobacco products. The ATO is responsible for excise duty payable on domestically grown or manufactured tobacco (or both).

Despite the efforts of the taskforce, illicit tobacco is still increasing. We estimate approximately 25% (1,741 tonnes) of all tobacco for sale in the 2023-24 year was illicit.

The combined duty value would have been \$3.2 billion. This gives rise to a net tax gap of 19.6%. Of the \$3.2 billion, we estimate that:

- \$2.9 billion customs duty (90%) was evaded through illicit importation
- \$0.3 billion excise duty (10%) was evaded through illicit domestic production.

We estimate a gross gap of 3,505 tonnes, or 39.5%. This is the amount of illicit tobacco that attempted to enter the Australian market. It includes the tobacco seized and the amount undetected that made it to market.

Note: Vapes, e-cigarettes and other similar items, including those containing nicotine, are not subject to excise and excise equivalent customs duty and are not part of the tax gap estimate.

Table 1 shows the revenue impacts of these events over the last 6 years.

Table 1: Tobacco tax gap, 2018-19 to 2023-24

Element	2018-19	2019-20	2020-21	2021-22	2023-24
Duty paid (\$m)	12,147	12,781	14,264	12,659	12,659
Gross gap – illicit tobacco	1,744	2,118	3,991	5,203	6,211

attempted to enter the market (\$m)					
Seizures – illicit tobacco seized before entering the market (\$m)	708	784	2,090	2,860	3,5
Net gap – undetected illicit tobacco that made it to market (\$m)	1,036	1,334	1,901	2,343	2,7
Potential tobacco market – all legally imported and attempted illicit tobacco supply in the absence of government intervention	13,891	14,899	18,255	17,862	18,9
Net gap (%)	7.5	9.0	10.4	13.1	14
Gross gap (%)	12.6	14.2	21.9	29.1	3

Figure 1 shows the gross and net gap in percentage terms, as outlined in Table 1.

Figure 1: Gross and net tobacco tax gap percentages, 2018–19 to 2023–24

The gross and net gap in percentage terms, as outlined in Table 1.

Consistent with prior years estimates published by the ATO, this estimate uses a channel-based bottom-up method. Recent data suggests that this methodology underestimates the size of the tobacco market and as a result the methodology is under review. See [Reliability of the tobacco tax gap estimate](#) for further information. This published estimate helps retain the existing time series of the current method, but the ATO is working with the recently-established office of the Illicit Tobacco and E-cigarette Commissioner who are providing more comprehensive and consistent reporting on the size of both the illicit tobacco and e-cigarette markets, and estimates of excise and excise equivalent customs duty evaded.

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ATO action to combat illicit tobacco

Our estimates of excise and excise-equivalent customs duty evaded include work by the ATO, ABF and other government agencies against illicit tobacco.

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Illicit Tobacco Taskforce

On 1 July 2018, the Illicit Tobacco Taskforce (taskforce) was established as part of new reforms. Under the combined power of these government agencies, the taskforce fights back against organised criminals operating multimillion dollar crime syndicates in the shadow economy.

The taskforce draws on the expertise and advanced capabilities of the:

- Australian Taxation Office (ATO)
- Australian Border Force (ABF)
- Department of Home Affairs
- Australian Criminal Intelligence Commission (ACIC)
- Australian Transaction Reports and Analysis Centre (AUSTRAC)
- Commonwealth Department of Public Prosecutions (CDPP) and law enforcement partners.

The taskforce uses enhanced investigative and intelligence gathering methodologies to disrupt illicit activity by:

- targeting international and domestic supply chain vulnerabilities through enhanced data analysis and identifying priority illicit tobacco networks using a counter networking approach
- targeting the criminal economy and responding to large profits realised by organised criminals in cooperation with the Criminal Assets Confiscation Taskforce and the Serious Financial Crime Taskforce
- using specialist law enforcement capabilities
- using the data-mining and financial analysis capabilities of AUSTRAC and the ATO to trace illicit financial flows from domestic and international trafficking
- working closely with the CDPP to prepare cogent briefs of evidence in both the criminal and civil (proceeds of crime) jurisdictions
- working with domestic and international law enforcement and customs bodies to leverage additional capabilities and support.

The taskforce's achievements demonstrate the effectiveness of Australia's enhanced approach in tackling illicit tobacco in the community. To guide our approach, we use the experiences of other countries including the United Kingdom, the strategic insights of ACIC and the findings of the Shadow Economy Taskforce.

ATO domestic illicit tobacco response

Under our current approach, we estimate that illicit imported tobacco accounts for around 90% of the total illicit market. This means around 10% of the illicit market is estimated to be sourced from domestically grown tobacco crop. Through the taskforce, multiple agencies have responsibility for tobacco compliance activities (seizures). The ATO has responsibility for the detection and seizure of domestically grown crops.

Complementing our support to the taskforce, we conduct additional operations to seize and destroy domestically grown and manufactured illicit tobacco crops. No licenses have been issued to manufacture tobacco domestically since 2015.

We receive referrals from the taskforce and state law enforcement partners and tip-offs from industry and the community.

Between 1 July 2018 and 30 June 2025, our Illicit Tobacco Team completed 97 operational activities. These included 19 Illicit Tobacco Taskforce (whole of government) operations, 34 ATO- specific operations and 44 state law enforcement support operations.

These operations resulted in:

- 647 acres of illicit tobacco crops located, seized and destroyed with a total weight of 392,835 kilograms
- 39,998 kilograms of loose-leaf tobacco located, seized and destroyed
- 28,548,751 cigarettes located, seized and destroyed
- total estimated excise duty foregone value of \$782 million

The domestic response also includes some small funding for ATO auditors who support the taskforce with the financial analysis relating to priority illicit tobacco network targets.

Tobacco legislation

The legislation under Division 308 of the *Taxation Administration Act* 1953 has been used widely to deter illicit tobacco operations. Results from the 97 (up from 90) operational activities include:

- 48 (up from 44) briefs of evidence being referred to the Commonwealth Director of Public Prosecutions
- 31 (up from 27) convictions in relation to tobacco related offending

- 13 (up from 9) prosecution matters still proceeding through the court system.

Sentences have ranged from 4-months imprisonment (suspended for 12 months conditional on good behaviour) to 3-years imprisonment (eligible for parole after 2 years and 3 months).

Communication approaches

Our communication approach focuses on the ATO (and other partner agencies under the taskforce) to demonstrate our effectiveness in dealing with domestically grown and manufactured illicit tobacco.

We use a range of communication tactics, including media releases, to let people know about the risks of being associated with the illicit tobacco trade. This increases community awareness and ensures people continue to refer illicit tobacco crops to state or federal law enforcement agencies or the ATO.

We also use targeted communications to inform the community about key risk areas, including known tobacco growing hotspots, criminal prosecutions and even the involvement of serious organised crime. We also promote the important work of the taskforce, ATO and our law enforcement partners in undertaking search warrants, crop destruction as well as crop-to-shop strategies to address illegal tobacco in retail stores.

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Methodology for estimating the tobacco tax gap

Learn the method we use to estimate the 2023–24 tobacco tax gap.

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Method to estimate the tobacco tax gap

We use a 5-step model-based bottom-up method to estimate the tobacco tax gap. This approach considers the different ways tobacco can make it onto the Australian market and estimates the amount of illicit tobacco in each channel.

This approach is the most suitable given the body of cross-agency seizure data available. Data is sourced from:

- Home Affairs – international sea and air cargo and international post supply channels
- ATO – domestic chop-chop manufacture
- ATO and Home Affairs – customs warehouses (reflecting the involvement of both agencies in administering this part of the system).

Figure 2: Administrative responsibility and supply channels for illicit tobacco

The administrative responsibilities and supply channels for illicit tobacco: ATO administers domestic chop-chop and warehouse leakage, and the Department of Home Affairs (Australian Border Force) manages warehouse leakage, international postage, international passengers, and sea and air cargo.

Step 1: Estimate illicit tobacco arriving through importation

We estimate how much illicit tobacco is imported in the following 3 parts. Then we add the parts together to estimate the net amount before any seizures.

Volume of undetected illicit tobacco making it to the market

The Australian Border Force (ABF) provided intelligence for 2015–16 on tobacco seizures that excluded targeted detections and high-risk seizures. We used this to inform the volume of undetected illicit tobacco making it to the market.

Each subsequent year we use the total of undetected imported illicit tobacco that made it to market from the previous year as a base. That is done by combining Steps 3 and 5. We adjust this quantity based on

comparing illicit to legal purchase prices. A widening price gap indicates illicit tobacco supply is increasing.

Substitution for illicit supply lost through moving the taxing point upstream

These changes have effectively eliminated duty evaded through the warehousing system from 2018–19 onwards. But the availability of illicit tobacco is increasing. This demonstrates that suppliers have expanded through existing channels.

We have reflected this by increasing the undetected illicit tobacco in the importation channel by some of the illicit tobacco previously supplied through warehousing. See [Step 3](#) for more detail.

Illicit tobacco seizures by ABF

This is the actual volume of illicit tobacco detected and seized by ABF.

Step 2: Estimate the size of domestic chop-chop cultivation

Licences are no longer issued for tobacco manufacture in Australia for either commercial or personal use. All tobacco grown in Australia is illicit.

We are responsible for managing the domestic manufacture of tobacco. We conduct crop seizures in partnership with other agencies such as the ABF and state police.

We estimate the tobacco supplied in this channel in 2 parts.

In the first part, we analyse the value of seizures, risk and intelligence referrals and create an uplift factor. This covers domestically manufactured tobacco that has not been detected or reported to authorities. We develop this uplift through referencing under-reporting of crime statistics from the [Australian Institute of Criminology](#) .

In the second part, we substitute for illicit supply lost through moving the taxing point upstream from warehousing to point of importation. These changes have effectively eliminated duty evaded through the warehousing system from 2018–19 onwards. But the availability of illicit tobacco is increasing. This demonstrates that suppliers have expanded through existing channels.

We have reflected this by increasing the undetected illicit tobacco in the domestic manufacture channel by some of the illicit tobacco previously supplied through warehousing. See [Step 3](#) for more detail.

Step 3: Analyse the licensed warehouse system

Before July 2019 most excise equivalent customs duty on imports was deferred until it exited a licensed warehouse. Goods that entered 'underbond' were held in the warehouse system and the duty was payable when it left the warehouse.

While the tobacco was legally imported, duty evasion could occur when it entered the warehouse system but exited without excise equivalent customs duty being paid. It could occur because of:

- theft
- goods for export being diverted
- incorrect weights recorded during importation.

We would do an inventory reconciliation to understand the size of the problem.

From 1 July 2019, importers can no longer transfer tobacco into a bonded warehouse. They now must pay all duty and tax liabilities when tobacco enters the country.

These changes have effectively eliminated duty evaded through the warehousing system from 2018–19 onwards. But the availability of illicit tobacco is increasing. This demonstrates that suppliers have expanded through existing channels.

We have increased illicit tobacco supplied through the other channels to reflect this. See [Steps 1 and 2](#).

We did not increase it by the full amount that had previously been lost through the warehousing system. This is because some illicit suppliers would have stopped their activity when another channel was not available.

Step 4: Compare total illicit amounts to legal clearances

We combine the estimates from Steps 1 to 3 to get the total of illicit tobacco from all the supply channels in Australia.

In total, 5,363 tonnes of tobacco were legally cleared in 2023–24. Adding the illicit amount gives the amount theoretically subject to tobacco duty.

A portion of this would not be realistically recoverable even if the illicit market was eliminated. This is because illicit tobacco smokers would likely smoke less if they had to buy more expensive legal tobacco.

Step 5: Deduct seizures to determine net gap

In Step 5 we deduct the total of ATO and ABF illicit tobacco seizures from the gross gap to determine the net gap. This includes seizures across the sea and air cargo channels, international post and domestic crop destructions.

Summary of the estimation process

Table 2 below shows each step of the estimation process. The results are given by tonnes and dollar value, as well as the gross and net gap percentages.

Table 2: Applying the methodology for tobacco duty tax gaps

Step	Description	2018–19	2019–20	2020–21	2021–22
1a	Estimate of illicit tobacco importations (tonnes)	1,367	1,375	2,299	2,881
1b	Estimate of illicit tobacco importations (\$m)	1,441	1,739	3,522	4,606
2a	Estimate of illicit	287	300	306	374

	domestic chop-chop cultivation (tonnes)				
2b	Estimate of illicit domestic chop-chop cultivation (\$m)	302	379	469	598
3a	Analysis of licenced warehouse leakages (tonnes)	0	0	0	0
3b	Analysis of licenced warehouse leakages (\$m)	0	0	0	0
4a	Gross gap (total Step 1-3) (tonnes)	1,654	1,675	2,605	3,255
4b	Gross gap (total Step 1-3) (\$m)	1,744	2,118	3,991	5,203
4c	Legal clearances of tobacco (tonnes)	11,520	10,110	9,310	7,918
4d	Legal clearances of tobacco (\$m)	12,147	12,781	14,264	12,659
4e	Total theoretical clearances	13,174	11,785	11,915	11,173

	of tobacco (tonnes)				
4f	Total theoretical clearances of tobacco (\$m)	13,891	14,899	18,255	17,862
5a	Seizures and compliance outcomes (tonnes)	671	620	1,364	1,789
5b	Seizures and compliance outcomes (\$m)	708	784	2,090	2,860
5c	Net gap (gross gap less seizures and compliance) (tonnes)	983	1,056	1,241	1,466
5d	Net gap (gross gap less seizures and compliance) (\$m)	1,036	1,334	1,901	2,343
5e	Gross gap (%)	12.6%	14.2%	21.9%	29.1%
5f	Net gap (%)	7.5%	9.0%	10.4%	13.1%

Limitations

For each of the 3 core components of the model, the following limitations apply:

Sea, air and international post statistical model

The methodology assumes the sampling data set is a truly random sample. Where the sampling method has changed from the original design, the methodology analyses the relationship differences between the historic and current intervention activities.

Domestic chop-chop analysis

The excuse duty forgone figure is approximate given the high-level nature of some of the referrals. Judgment is required regarding the likely yield for given acreages under cultivation. This includes plant spacing, the quality of crop management regarding fertiliser and pesticides and the quality of seed.

Warehouse analysis

Included for historical purposes. Previously warehouse analysis was contingent on the quality of data entry by each warehouse licensee or customs broker. Keying or inventory errors may affect the result. This reconciliation may not detect under-reporting of physical quantities of tobacco into the data system.

Pricing

The calculation of the available illicit tobacco in the market relies on the relative price differences between legal and illicit tobacco.

Legal tobacco market suppliers

The revenue integrity of large tobacco companies is monitored through transaction assurance warehouse checks, our client relationship management framework and continuing intelligence and monitoring activities. We assume any excise lost from legal market suppliers is immaterial.

Theoretical tax

Tobacco excise duty realistically recoverable

We recognise that illicit tobacco smokers may smoke less if they must pay the higher legal price that includes tobacco duty. This would impact on the amount of tobacco duty realistically recoverable if the illicit market was eliminated.

Gross gap is the amount of illicit tobacco attempting to enter the market.

If all work to combat illicit tobacco stopped, it is likely that the same volume of illicit tobacco would outstrip consumer demand and the profits would fall, making it less attractive for illicit suppliers.

Likewise, if all tobacco attempted to enter the market was legal the volume would decline. This is because the profits would decline due to excise equivalent customs duty paid. We see this behaviour through the decline of legal importations.

See our glossary of terms used in tax gaps.

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.

There have been no changes to the method this year. This method has been assessed as unreliable and is now under review.

Figure 3 shows the net gap from our current model compared to the previous estimate.

Figure 3: Current and previous tobacco duty tax gap estimates, 2015–16 to 2023–24

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

Table 3: Current and previous tobacco net gap % estimate

Program year	2015–16	2016–17	2017–18	2018–19	2019–20
2025	4.9	5.4	6.3	7.5	9.0

2024	4.9	5.4	6.3	7.5	9.0
2023	4.9	5.4	6.3	7.5	9.0
2022	4.9	5.4	6.3	7.5	8.9
2021	4.9	5.4	6.3	6.3	6.2
2020	4.9	6.6	6.5	6.0	n/a
2019	5.5	5.0	5.0	n/a	n/a
2018	5.6	n/a	n/a	n/a	n/a

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Reliability of the tobacco tax gap estimate

How we assess reliability.

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This year, the ATO has performed its traditional analysis on the total tobacco gap using the existing channel-based bottom-up method. However, preliminary data from a University of Queensland research project that is looking at the biomarkers of tobacco leaf consumption in samples of waste water throughout Australia suggests that the total tobacco market and therefore the total illicit market is significantly higher than what we have previously estimated.

With this information, we now assess this tobacco tax gap estimate as unreliable and are undertaking a review of the methodology. We

caution using this information as it is no longer a sufficiently credible or meaningful estimate of the illicit tobacco market in Australia.

We are working closely with ITEC who are developing more comprehensive and consistent reporting on the size of both the illicit tobacco and e-cigarette markets and estimates of excise and excise equivalent customs duty evaded.

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