Print whole section

Large superannuation funds income tax gap

How we estimate and reduce the large super funds income tax gap for 2021–22.

Published 31 October 2024

Latest estimate and trends

Compare the 2021–22 large super funds income tax gap to trends from previous years.

ATO action to reduce the gap

How we support our clients to meet their compliance obligations.

Methodology

What method we use to estimate the large super funds income tax gap.

Reliability

How we make sure the tax gap estimate is reliable.

QC 103207

Latest estimate and trends

Compare the 2021–22 large super funds income tax gap to trends from previous years.

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For 2021–22, we estimate a net gap for large super funds of 1.4% or $195 million. This means we expect to collect over 98% of the income tax that should be paid for the 2021–22 financial year.

Large super funds population

In tax gap estimates, the large super population is all super funds, other than the self-managed super funds (SMSFs) and Small Australian Prudential Regulatory Authority (APRA) funds. Large super funds have thousands or millions of members. Small APRA funds (not included in this analysis) have no more than 6 members and have similar characteristics to SMSFs. These funds are covered in our **Small super funds income tax gap**.

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**.

Overview of the latest estimate

The gross gap has continued to be relatively low over the last 6 years, at 3% or below. For 2021–22, we estimate a gross gap of 2% or $275 million, which is the gap prior to considering the impact of engagement with the ATO. It means 98% is expected to be collected voluntarily from large super funds, or around $13 billion of income tax.

The net tax gap estimate is 1.4%, which means expected collections from large super funds, after amendments, is approaching 99%. Key drivers of these amendments include:

- structured arrangements providing imputation benefits from Australian shares not held (including enhanced share buy backs participation arrangements)
- foreign income tax offsets and source of hedging gains
- apportionment of non-deductible expenses.

Table 1 shows the tax reported, adjustments, gross and net gaps from 2016–17 to 2021–22.

Table 1: Income tax gap – large super funds, 2016–17 to 20

Element	2016–17	2017–18	2018–19	2019–20	202
Population	290	266	246	227	
Gross gap ($m)	330	198	256	227	
Amendments ($m)	119	121	131	91	
Net gap ($m)	210	77	125	136	2
Expected collections ($m)	11,101	12,025	8,431	11,688	21,9
Theoretical liability ($m)	11,311	12,102	8,555	11,825	22,
Gross gap (%)	2.9%	1.6%	3.0%	1.9%	1
Net gap (%)	1.9%	0.6%	1.5%	1.2%	0

Figure 1: Gross and net income tax gap percentage – large super funds, 2016–17 to 2021–22

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

ATO action to reduce the gap

How we support our clients to meet their compliance obligations.

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We work closely with large super funds to help them calculate their tax liabilities. We do this through our justified trust program and providing guidance to help funds comply.

The relatively low tax gap estimate for this group is a result of our engagement with funds and the investment industry more broadly, coupled with the regulatory supervision of this industry. In doing this, we:

- gather intelligence through assurance reviews, industry consultation and our rulings program to identify emerging risks
- focus on preventative action, including treatment strategies to address legal or systemic issues
- work with industry to resolve unsettled interpretive matters to promote willing participation
- help those that have proven they have calculated the right amount of tax that we expect to collect
- take firmer action against those that do not comply with the law.

Our key strategies include:

- our top 100 and top 1,000 tax performance programs to assure that these funds are meeting their obligations with expected collections of income tax through assurance reviews and the next actions program
- engaging early with key industry participants, including custodians and administrative service providers
- continuing our focus on fund governance, including ensuring that funds have adequate controls over third-party data and providing guidance for large super funds, managed funds, and insurance companies on third party data tax controls
- working with Treasury, the Australian Prudential Regulation Authority (APRA), and the Australian Securities and Investments

Commission (ASIC) to support law design and settling areas of interpretative uncertainty

- identifying existing and emerging areas of uncertainty and consulting with industry to develop public advice and guidance to help large super comply, for example:
  - Governance over third party data guide (PDF, 504KB)
  - TD 2024/6 *Income tax: trustee risk reserves - deductibility of payments made by a superannuation fund to its trustee*
  - TA 2020/5 *Structured arrangements that provide imputation benefits on shares acquired where economic exposure is offset through use of derivative instruments*
  - TD 2020/7 *Income tax: can capital gains be included under subparagraph 770-75(4)(a)(ii) of the Income Tax Assessment Act 1997 in calculating the foreign income tax offset limit?*
  - PCG 2018/2 *Propagation arrangements adopted by registrable superannuation entities*
  - TD 2017/24 *Income tax: where an amount included in a beneficiary's assessable income under subsection 99B(1) of the Income Tax Assessment Act 1936 (ITAA 1936) had its origins in a capital gain from non-taxable Australian property of a foreign trust, can the beneficiary offset capital losses or a carry-forward net capital loss ('capital loss offset') or access the CGT discount in relation to the amount?*
- measuring the impact of our activities to give the community a better understanding of the tax and super system in operation.

QC 103207

Methodology

What method we use to estimate the large super funds income tax gap.

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We use a 5-step bottom-up micro-analytical approach to estimate the large super funds income tax gap. This approach incorporates tax assured data and projects future amendments.

Step 1: Calculate amendments

The results of amendments, both ATO and client-initiated, are used to estimate the tax gap for the entire population. We use:

- the actual result of compliance activities, including the amendments from completed audits and reviews
- taxpayer voluntary disclosures
- expected future compliance outcomes for material amounts in dispute
- projected future amendments.

We project future amendments to account for the delay between a tax return being lodged, and any final amendments that may be made. Complex tax cases can take years to resolve so the amendments may not be finalised and issued until several years after the tax return has been lodged.

To account for these future amendments, we use data on the value and timing of past amendments to project amendments we are likely to receive in the future. As we revise the gap in future years, we will use refreshed amendment information to update our amendment results and to improve future projections.

We then aggregate the amendments, including projected amendments, for the population to determine the total amendment result.

Step 2: Integrate tax assured data

We use our tax assured data in our estimation. This allows us to accurately calculate unreported tax and derive a figure for non-detection.

More information about our approach is in Tax assured: gaining confidence the right amount of tax is reported.

Step 3: Calculate unreported tax

Unreported tax is the additional tax we estimate may be raised if we were to undertake compliance activities on the entire population of large super funds. To estimate this, we calculate adjustment factors based on actual and projected future amendments.

These factors are then discounted to account for selection bias. This reflects that our compliance activities are biased towards areas of higher risk than the risk level in the general population.

The factors are then applied to each large super fund in the population to estimate the total amount of unreported tax. The factors may also be discounted where the expected collections by the large super fund have been assured, reflecting our higher confidence in those amounts of expected collections.

Step 4: Estimate non-detection

We uplift the estimates preceding this step to account for non-compliance that is not detected through our compliance activities. We do this by applying uplift factors to the tax amounts based on the level of tax assurance.

Given the confidence we have in tax amounts we have assurance over, we apply a lower non-detection factor to those amounts compared to amounts we have not assured.

Find out more in Ensuring complete estimates: Non-detection.

Step 5: Estimate theoretical liability, gross and net gap

To determine the gross gap, we add:

- total amendments (step 1)
- unreported tax (step 3)
- non-detection (step 4).

We then add the amount of tax voluntarily reported to calculate the theoretical liability.

We then subtract total amendments from the gross gap to determine the net gap.

Summary of the estimation process

Table 2 provides a summary of each step of the estimate for each year. It shows the calculation for each of the steps described from 2016–17 to 2021–22. Steps 1 to 5d are in dollar values, steps 5e and 5f are in percentage values.

Table 2: Estimate summary – large super funds income tax

Step	Description	2016–17	2017–18	2018–19	2019 2
1a	Amendments ($m)	122	122	104	4
1b	Projected amendments ($m)	-3	-1	27	5
1c	Total amendments ($m)	119	121	131	9
2	Tax assured ($m)	9,734	11,248	4,339	4,38
3	Unreported tax ($m)	62	4	59	3
4	Non-detection ($m)	148	73	65	10
5a	Gross tax gap ($m)	330	198	256	22
5b	Tax voluntarily	10,982	11,904	8,299	11,59

	reported ($m)				
5c	**Theoretical liability ($m)**	11,311	12,102	8,555	11,82
5d	**Net tax gap ($m)**	210	77	125	13
5e	**Gross tax gap (%)**	2.9%	1.6%	3.0%	1.9
5f	**Net tax gap (%)**	1.9%	0.6%	1.5%	1.2

Note: Totals may not equal 100% due to rounding.

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

Limitations

The following caveats and limitations apply when interpreting the large super funds income tax gap estimate:

- The estimate doesn't reflect the difference between reasonably arguable positions presented by the ATO and taxpayers where tax law is open to interpretation.
- There is no independent data source that can provide a credible or reliable macroeconomic-based estimate (unlike for some indirect taxes).
- Due to the diverse nature of the market and the complexity of large super funds, it would be impractical to apply a statistical approach based on auditing a random sample of funds with a large enough sample to provide a reliable indication of the tax gap.
- Super funds rely on third-party data to complete tax return data and a failure in corporate governance may result in funds understating their tax position, this could be hiding a larger gross gap than we currently estimate.

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
- our tax assurance activities improve the accuracy our tax gap estimates.

As we continue to work through our justified trust programs, some of our additional assurance activities will be reflected in next years published gap. This will likely have an impact on refreshed estimates of the 2018-19 to 2021-22 tax gap published in future years.

Figure 2: Current and previous net gap estimates for large super funds, 2010–11 to 2021–22

Figure 2 displays our previous and current net gap estimates, as outlined in Table 3.

The data is set out as a percentage in Table 3.

Table 3: Current and previous net gap estimates for large super funds (percentage), 2010–11 to 2021–22

Year	2010–11	2011–12	2012–13	2013–14	2014–15
2024 program	n/a	n/a	n/a	n/a	1.9%
2023 program	n/a	n/a	n/a	n/a	n/a
2022 program	n/a	n/a	n/a	n/a	1.7%

2021 program	n/a	n/a	n/a	2.4%	2.6%
2020 program	n/a	n/a	2.1%	2.7%	2.3%
2019 program	n/a	2.1%	1.3%	2.5%	2.0%
2018 program	1.7%	2.6%	1.4%	1.7%	2.2%

Revisions to these results will be published in future years as further information becomes available. New information generally relates to the later years. By including new information, we can reduce the uncertainty in the estimates for these years and improve the reliability and credibility of our estimates. Given the higher level of uncertainty with later year gap estimates, caution should be taken in extrapolating these results.

QC 103207

Reliability

How we make sure the tax gap estimate is reliable.

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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 rating for this gap estimate is **high** with a score of 22.

Our gap estimates remain sensitive to assumptions made, particularly to non-detection and the selection bias estimated within our compliance approach. Our confidence in the underlying data and population coverage informing the estimates is high.

Figure 3: Reliability rating scale from very low to very high – large super funds income tax gap

Figure 3 is a graph that represents the reliability rating for the current large super funds income tax gap estimate. 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 current large super funds income gap estimate has a rating of 22, which is high.

QC 103207

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Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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