



Alcohol tax gap

How we estimate and reduce the Alcohol tax gap for 2022–23.

Published 1 November 2024

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Overview

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The Alcohol tax gap includes excise and customs duties payable for beer, spirits, and other excisable beverages. It doesn't include wine, which we estimate separately. Find out more about the **Wine equalisation tax gap** or the **Excise on alcohol**.

When estimating the Alcohol tax gap, we look at all entities required to pay alcohol. This includes entities that either:

- manufacture or store excisable alcohol products which are delivered into the Australian domestic market for home consumption (domestic population)
- import excise equivalent goods into Australia (importing population).

The domestic population is identified through excise returns and claims, while the importing population is identified through customs data.

We also examine entities who operate unlicensed or under-report what they deliver into the Australian market. It is these entities that create most of the gap.

Like all excise gaps, when excise rates increase, the value of the gap in dollar terms will increase even if overall levels of compliance remain the same. It is for this reason that we focus on the tax gap percentage when considering the change in the gap between years.

This gap forms a part of our overall tax performance program. Find out more about the **Principles and approaches to measuring gaps**.

Latest estimate and trends

Compare the 2022–23 Alcohol tax gap to trends from previous years.

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For 2022–23, we estimate that around 90.4% or \$7.5 billion of the expected alcohol duty will be collected. This leaves a tax gap of 9.6%, or \$798 million. Around \$709 million or 88.8% of the unreported alcohol duty is because of illicit activity in the shadow economy.


The latest estimate is 0.5 percentage points higher than the previous year. In the 5 years before this year, the Alcohol tax gap has remained steady, at around 9%, even with an increase in market participants, duty rate increases, and an increase in the duty collected.

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

Element	2017–18	2018–19	2019–20	2020–21	2021–22
Population	7,103	7,993	10,218	12,150	11,800
Gross gap (\$m)	689	720	662	695	709
Amendments (\$m)	153	162	64	2	0
Net gap (\$m)	536	558	597	693	709
Expected collections (\$m)	5,534	5,798	6,007	7,004	7,400
Theoretical liability (\$m)	6,070	6,356	6,604	7,697	8,109

Gross gap (%)	11.4%	11.3%	10.0%	9.0%	9
Net gap (%)	8.8%	8.8%	9.0%	9.0%	9

Figure 1: Net tax gap (percentage) – Alcohol tax gap, 2017–18 to 2022–23

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

Our analysis finds the key driver of the Alcohol tax gap is illicit alcohol activity.

There are a number of known **illicit alcohol activities** and arrangements that have been identified. These include:

- unauthorised manufacture and unpaid excise duty
- authorised manufacture with under-reported or unpaid excise duty
- product diversion
- cross-border transactions (smuggling or export diversion)
- deliberate fraud or evasion.

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ATO action to reduce the gap

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We are continuing to implement a range of strategies to improve identification, prevention, and correction of non-compliance, with a focus on illicit alcohol activity.

We have significantly increased compliance activity, resulting in statutory demands being issued for unpaid duty, including to individuals. This is reflected in **Updates and revisions to previous estimates**.

Other examples of our activities include:

- web guidance on the types of activities involving excisable alcohol that attract our attention, including the consequences of non-compliance and where to go to for help
- Taxpayer Alert TA 2021/1 *Retail sale of illicit alcohol* which specifically focuses on arrangements where alcohol retailers are knowingly or recklessly purchasing illicit alcohol for the purposes of resale. This includes the consequences for entities engaging in these arrangements
- proactively engaging with key stakeholders in the alcohol industry at all points of the alcohol supply chain about their obligations relating to the purchase and sale of excisable alcohol on which duty has not been properly paid
- increased imposition of financial securities on new licence and permission holders to protect the excise duty revenue
- monitoring and analysing information we receive regarding entities that may not be compliant with their obligations, particularly where non-compliance is deliberate, and taking compliance action where required
- reviewing and analysing information we receive regarding entities that may not be eligible for automatic remissions under *Excise remission scheme for manufacturers of alcoholic beverages*, and taking compliance action where required
- working closely with other government agencies, including the Australian Border Force and other enforcement and regulatory agencies, to enable a cross agency approach to address the illegal manufacture, importation, and sale of alcohol in Australia
- escalating serious breaches of the excise laws for criminal prosecution.

Methodology

What method we use to estimate the Alcohol tax gap.

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About the approach

We use a 5-step bottom-up channel analysis approach to estimate the Alcohol tax gap. We consider the different channels where non-compliance can occur and make an estimate for each of these.

Step 1: Calculate gap associated with large manufacturers

A small group of large-scale manufacturers pay over 90% of the total alcohol collected each year. Given their contribution, we work closely with these taxpayers to maximise voluntary compliance. We draw on our understanding of their business arrangements to inform the overall estimate.

Step 2: Estimate gap for small manufacturers

We estimate the gap for small-scale manufacturers, sometimes referred to as micro-breweries and micro-distilleries, using risk analysis and operational intelligence. We apply the identified rates of non-compliance to our gap estimate each year.

Step 3: Estimate gap for large scale illicit activity

We estimate the amount of large-scale illicit alcohol activity from operational data and internal expert judgment. Using operational data, we identify the minimum amount of tax lost through large-scale illicit alcohol activity. We then use internal expert judgment to uplift this

amount to account for large-scale illicit alcohol activity we assess is occurring but not detected. This is due to these entities operating in the Shadow Economy and therefore outside the system.

Outstanding statutory demands for unpaid duty related to the large-scale illicit activity sector have been incorporated into this year's revisions, increasing gross gaps and decreasing net gaps for the 2016–17 to 2019–20 period.

Step 4: Estimate gap for small scale illicit activity

We estimate the duty evaded from 2 key sources of non-compliance in relation to small scale illicit alcohol activity:

- illicit home distillation
- undeclared imports from international passenger arrivals.

For illicit home distilling, we use sales data on stills to estimate how much alcohol is produced. We apply assumptions around the volume produced by these stills over time.

For undeclared imports of alcohol (that are excess to international passenger concessions), we estimate a percentage of arrivals that did not declare their excess alcohol and the amount they carried. This allows us to calculate a volume imported and the customs duty evaded. Notably the fall in passenger numbers due to COVID-19 restrictions resulted in a reduced figure in the 2019–20 and 2020–21 years.

Step 5: Consolidate the estimate

The gross gap is the total of steps 1 to 4. It does not consider any amendments or detections. We estimate the:

- theoretical liability by adding together tax reported and unreported tax
- gross gap by subtracting tax voluntarily reported and paid from the theoretical tax
- net gap by subtracting amendments from the gross gap.

Summary of the estimation process

Table 2 provides a summary of each step of the estimation process and the results for each year.

Table 2: Summary of estimation process

Step	Description	2017–18	2018–19	2019–20	2020–21
1	Gap estimated from Large producers	30	24	14	34
2	Gap estimated from Small producers	35	37	38	45
3	Gap estimated from Large illicit	300	322	424	592
4	Gap estimated from Small illicit	77	80	66	23
5.1	Gross gap (\$m)	689	720	662	695
5.2	Gross gap (%)	11.4	11.3	10.0	9.0
5.3	Legal clearances	5,534	5,798	6,007	7,004
5.4	Total theoretical tax	6,070	6,356	6,604	7,697
5.5	Seizures and	153	162	64	2

	compliance activities				
5.6	Non-pursuable debt	95	95	55	0
5.7	Net gap (\$m)	536	558	597	693
5.8	Net gap (%)	8.8	8.8	9.0	9.0

Find out more about our overall methodology, data sources and analysis used for Principles and approaches to measuring gaps.

Limitations

Due to limitations with data, we rely on these assumptions:

- Given the nature of illicit alcohol activity, it is difficult to estimate the amount that it contributes to the gap. To overcome this, for
 - large scale-illicit alcohol activity – we rely on operational data and apply an uplift which is informed by expert judgment
 - small-scale illicit alcohol activity – we apply several assumptions based on research and other data.
- Customs duty paid on alcohol is collected by the Department of Home Affairs. While we can use customs data for parts of our estimate, there are still components of the estimate which relate to non-compliance with paying customs duty which we have limited data for. These limitations mean that we rely on assumptions when forming our estimate.

Accounting for the shadow economy

The large and small illicit alcohol activity components of the gap are attributed to the shadow economy. This captures activity where the participants are deliberately avoiding their obligations to pay duty.

Table 3: Impacts of the shadow economy on the Alcohol tax 18 to 2022–23

Element	2017– 18	2018– 19	2019– 20	2020– 21	2021– 22
Small illicit activity	77	80	66	23	1
Large illicit activity	300	322	424	592	6
Amendments for illicit activity	44	46	0	0	0
Total impact of shadow economy	420	448	490	615	6


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.

Figure 2a: Current and previous net tax gap estimate ranges, 2017–18 to 2022–23

Figure 2b: Current and previous net tax gap estimates, 2017–18 to 2022–23

 The range of previously published estimates ranges. Data is shown in table 4.

The data for both figures is presented in Table 4.

Table 4: Current and previous net Alcohol gap estimates, 2017–18 to 2022–23

Program year	2017–18	2018–19	2019–20	2020–21	2021–22
2024 program (%)	8.8	8.8	9.0	9.0	9.1
2023 program (%)	8.8	8.8	9.0	9.0	9.1
2022 program (%)	9.3	9.3	9.4	9.0	n/a
2022 program (%)	9.1	9.0	n/a	n/a	n/a
2021 program (%)	9.6	n/a	n/a	n/a	n/a

Note: The changes to our estimates over the 2017–18 period reflect updated information attributed to the demand notices highlighted in the 2022 and 2023 period estimates.

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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 **low** with a score of 15.

We are looking to improve the reliability in the future by drawing on further data sources so that we can remove or improve upon assumptions that we use.

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

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