Findings report - Top 1,000 income tax and GST assurance programs

Findings from income tax performance, combined assurance review and GST assurance review programs to 30 June 2025.

Last updated 18 September 2025

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About this report

This report provides our observations and insights through the Top 1,000 program.

Last updated 18 September 2025

We outline our observations from the reviews undertaken in the year to 30 June 2025, how these compare to reviews undertaken in other years, and what we have seen across the Top 1,000 population in our assurance programs.

The Top 1,000 combined assurance program is part of the Tax Avoidance Taskforce, seeking to increase our assurance that large public and multinational groups and APRA regulated superannuation funds are reporting the right amount of income tax and goods and services tax (GST).

The program provides large businesses with an opportunity to gain greater certainty about their tax outcomes and the effectiveness of their tax governance frameworks. It also provides an objective mechanism for large businesses to understand how their tax profile compares to others in the market and their peers.

The program replaces the Top 1,000 income tax performance program that ended in 2020 and the Top 1,000 GST assurance program that ended in 2023. Where taxpayers were assured under either of these programs, the combined assurance program builds on those previous assurance engagements, enabling us to 'top up' our understanding and review improvements and steps taken to address our concerns.

The Top 1,000 program is an important source of intelligence for the Australian Taxation Office. It provides insights into large business that is not possible from analysing income tax returns and business activity statements alone, enabling us to identify emerging issues and providing us with insights into taxpayer behaviour.

This is the seventh year we are publishing our findings report for the Top 1,000 assurance program for income tax. It is the fifth year we are including insights from the Top 1,000 GST assurance program.

Unless otherwise stated, figures quoted in this report are based on total reviews on population taxpayers completed to 30 June 2025.

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Findings report summary

A summary of our observations around assurance ratings for income tax and GST during 2025 and what this report covers.

Last updated 18 September 2025

Latest findings

We have completed 1,176 reviews for income tax on 794 taxpayers that are within the current Top 1,000 population (following the recalibration of the population in 2024). Of these taxpayers, 394 have been reviewed more than once.

As a result of this income tax related work, we note the following.

- **High proportion of population covered.** 82% of the Top 1,000 population have been reviewed under an income tax assurance review at least once. Of the 18% that are not yet reviewed, many of these taxpayers are either under review currently or will be selected for review in coming years.

- **High levels of assurance over taxpayers paying substantial income tax.** Of the $32.8 billion of income tax paid by taxpayers in the Top 1,000 population in the 2023 income year, $29 billion was paid by taxpayers that have achieved a high or medium assurance rating in their latest review. Whilst this rating may not necessarily cover the 2023 income year, it gives confidence that a high proportion of tax paid is by taxpayers achieving medium or high assurance. Additionally, we are confident that we have reviewed a large proportion of taxpayers carrying forward tax losses, and population coverage will increase on these taxpayers in the years ahead.
- **Continuing to see high levels of assurance that the right amount of tax has been paid.** We continue to see high levels of assurance in the Top 1,000 population, with 26% of taxpayers reaching high assurance in their last review, and 89% achieving high or medium assurance. We have high assurance that 32% of significant taxpayers in the Top 1,000 population, being those with turnover exceeding $1 billion, are reporting and paying the right amount of income tax.
- **Continual improvements in compliance and tax governance.** Improvements in the tax risk management and governance framework of Top 1,000 taxpayers continue, with most taxpayers having effectively designed controls in place for the management of tax reporting as at their last review. In reviews undertaken in 2025, 57% of taxpayers achieved a stage 2 or stage 3 rating for tax governance. Improvements are observed in both significant and general taxpayers in the population.
- **We detect and escalate issues of concern for further investigation.** We continue to escalate cases for further review or audit due to specific concerns with identified positions. In the reviews conducted in 2025, 6% were escalated for further action by the ATO. This is a reduction in the number escalated since the start of the combined assurance review program, with 11% of all combined assurance reviews undertaken having been progressed for further review or audit.

Additionally, we have completed 735 reviews for GST on 643 taxpayers that are within the current Top 1,000 population (following the recalibration of the population in 2024). Of these taxpayers, 103 have received an assurance rating more than once.

Based on the outcomes of these GST reviews, we note the following.

- **Increased assurance that the right amount of GST has been paid.** We observed 45% of taxpayers reviewed in 2025 achieving a high assurance rating for GST. This has increased the overall number of taxpayers reviewed through the Top 1,000 assurance program achieving a high assurance for GST to 41%, with 95% achieving an overall high or medium assurance rating for GST.
- **Sustained improvements in GST governance.** The improvements previously observed in GST governance continued in 2025, and as at their last review, 48% of taxpayers assured have achieved a stage 2 or 3 rating. Given the strong correlation between GST governance and correct reporting, this gives us confidence that these taxpayers will continue to report and pay the correct amount of GST.
- **Taxpayers should be continually reviewing their GST compliance.** We continue to see 34% of taxpayers making a voluntary disclosure once notified of a review, and before receiving our recommendations. This suggests that these taxpayers are undertaking self-reviews when notified of the combined assurance review, rather than as part of a regular governance process.

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Top 1,000 engagement

How we engage with the population to improve compliance and give assurance to the community.

Last updated 18 September 2025

The Top 1,000 population

The Top 1,000 population (the population) is made up of the largest 1,000 publicly listed and multinational corporate taxpayers and APRA regulated superannuation funds, excluding those covered by the **Top 100 Program**.

Taxpayers in the population are diverse in terms of their ownership, business models, industries, and size and have substantial economic activity related to Australia. They are key participants in the tax system across corporate income tax, excise, petroleum resource rent tax and GST.

When the Top 1,000 program commenced in 2016 the program covered the largest public and multinational corporate groups and APRA regulated superannuation funds with a group turnover greater than $250 million that were not covered by the Top 100 program. As an increasing number of economic groups exceeded this threshold, we recalibrated the metrics used to determine whether a taxpayer is in the scope of the Top 1,000 assurance program. This ensures we focus on the largest 1,000 taxpayers from the largest economic groups, as was the original intention of the assurance program.

At present, entities with a turnover exceeding $350 million would generally be in the population. Other factors will be relevant such as taxpayer industry, and whether any significant transactions or risks have come to our attention that are best reviewed through the assurance program.

Given the diversity of the taxpayers in the population, in March 2024 we announced that we were **differentiating our approach with Top 1000 taxpayers** based on various factors, including the size of the entity.

Taxpayers in the population are categorised for income tax purposes into either:

- the **Significant** pool, which broadly includes taxpayers that have a turnover of over $1 billion and make up approximately one third of the population, or
- the **General** pool, which includes all other taxpayers in the population.

For superannuation funds, we've tailored our approach further. We'll categorise taxpayers into the Significant pool based on economic group turnover of $5 billion or greater. As announced at the Tax Institute's 2024 National Superannuation Conference, the increased threshold is due to the higher turnover of superannuation funds, with the majority in the population exceeding $1 billion.

For GST purposes, taxpayers are selected at the time of combined assurance review commencement, when the most appropriate GST taxpayer is determined. This is generally the GST taxpayer within the income tax taxpayers' economic group with the most substantial GST throughout.

Based on 2023 tax returns, taxpayers in the population paid about $25.7 billion or 18% of all corporate income tax, with:

- significant taxpayers paying $16.2 billion or 11% of all corporate income tax
- general taxpayers paying $9.5 billion or 7% of all corporate income tax.

A further $7.1 billion of income tax was paid by superannuation funds comprising:

- significant superannuation taxpayers paying $5.1 billion
- general superannuation taxpayers paying $2 billion.

Additionally, in 2023 taxpayers in the population reported and paid about $24.8 billion of net GST or 32% of total net GST collections.

We regularly review the taxpayers that make up the population to ensure we continue to focus on the largest 1,000 taxpayers outside of the Top 100 population. We expect the largest 1,000 taxpayers to be reasonably stable, however economic conditions and events may affect which taxpayers are covered by the assurance program.

Taxpayers that had previously met the criteria for the population and are now outside the largest 1,000 taxpayers will continue to be considered by our risk treatment approaches and may be selected for a specific review of identified tax issues and risks.

Justified trust and transparency

Tax compliance is becoming an important part of the increasing focus among boards, investors, customers or consumers, suppliers, community groups and other stakeholders of how organisations contribute to the communities in which they operate, with many seeing this as an important component of Environmental, Social and Governance (ESG) performance indicators.

Societal attitudes and expectations in Australia and globally, are increasingly encouraging organisations to make more transparent and sustainable business decisions that can lead to long-term growth benefiting all stakeholders. There continues to be calls for organisations to be more transparent about their operations and tax contributions, and to demonstrate that they are participating fairly in the economy.

We have observed that our justified trust ratings are increasingly leveraged by organisations to support their community and ESG credentials as part of their broader social licence to operate. We expect this trend to continue. The objective principles used in the justified trust initiative also serve to enhance the community's understanding about large market compliance, and their ability to differentiate good corporate tax citizens from others. Although there remains a level of non-compliance by some in this population, which we continue to robustly address, the overall level of compliance is very high, and probably much higher than the current broader community understanding. Sharing these ratings can help address this gap for those organisations which have achieved high assurance.

We have seen a small number of Top 1,000 taxpayers sign up to the voluntary tax transparency code. We encourage the continued adoption of tax transparency practices (including the disclosure of assurance ratings), which builds and maintains community confidence that Australia's largest taxpayers are paying the right amount of tax.

Our approach

Justified trust is a concept from the Organisation for Economic Cooperation and Development (OECD).

We introduced the justified trust concept in 2016 and commenced the Top 1,000 income tax performance program as part of the Tax Avoidance Taskforce.

We apply the justified trust methodology and seek to obtain assurance of 4 focus areas.

1. That appropriate tax risk management and governance frameworks exist and are applied in practice. This includes the design of business systems to create, capture and report transactions correctly for GST purposes.

2. That none of the specific income tax or GST risks we have flagged to the market are present.
3. That tax outcomes of atypical, new, or significant transactions are appropriate.
4. That we understand why the accounting and tax results vary. We analyse the various streams of economic activity and how they are treated for taxation purposes. We also analyse the sales, acquisitions, and other data, and compare this to net GST paid.

We commenced the combined assurance program in 2020, with income tax assurance provided alongside a GST risk review. Where there were GST concerns identified, a standalone GST assurance review was undertaken to further explore the GST profile of the taxpayer. From April 2022, we expanded the combined assurance review product such that both income tax and GST began to be assured at the same time.

In March 2024 we introduced a differentiated approach to assuring taxpayers, based on factors such as their size and the levels of assurance already attained.

Under this approach, we assure the income tax reported and paid for all 4 years of the review period for the significant taxpayers. Where a significant taxpayer has achieved an overall high or medium assurance rating and has a stage 2 or 3 tax risk management and governance rating, we will tailor our assurance approach. We will primarily seek objective evidence from the last year of the review period, as well as objective evidence in respect of any significant transactions, events or risks flagged to market in the other years of the review period.

When reviewing general taxpayers, we will have a differentiated approach going forward. When reviewing these taxpayers for income tax, we will look to assure the economic activity in the last year of the review period, as well as any significant transactions, events or risks flagged to market in the other years of the review period. We will also consider any recommendations that were made in previous reviews.

For those general taxpayers that have achieved a stage 2 or 3 tax risk management and governance rating, and the overall assurance rating was medium or high, we'll adopt a lighter touch approach where we will provide an assurance rating covering the last year of the review period, plus any new or significant transactions, events or risks flagged to market in the intervening years.

We also apply a differentiated approach to assuring GST for taxpayers where we already have some assurance as to their reporting for GST through an earlier review, using the responses to the Supplementary annual GST annual report to tailor our engagement.

We have introduced the Supplementary annual GST return for large businesses that have had a GST assurance review. The return covers:

- how you've actioned recommendations, areas of low assurance or red flags outlined by us in your most recent GST assurance review (including subsequent interactions with us)
- whether you've maintained or increased your level of GST governance and if you've had any material business or systems changes that impact your GST control framework since your last GST assurance review
- the reconciliation between your audited financial statements and your annualised business activity statements
- whether you've taken any material uncertain GST positions in the period
- whether you've identified any material GST errors in the period and how these have been rectified, and whether you claimed any material amounts of credits in the period that were referable to earlier periods.

We will assess the information provided in the returns to undertake more targeted and less resource intensive reviews for many taxpayers, including determining that a GST assurance review is not required. This may occur in situations such as:

- a taxpayer has obtained an overall medium or high assurance rating for GST, with a stage 2 or 3 GST governance rating
- where any recommendations or next actions outlined in the previous assurance review have been appropriately addressed
- the information provided enables us to maintain confidence that the investment in GST governance is maintained and GST is correctly reported.

We will continue to provide recommendations to taxpayers on how to improve and what actions the taxpayers should take at the end of the review. Matters may also be escalated for further ATO investigation as part of our next actions program where the identified concern is assessed as requiring ATO intervention to resolve (through review or audit).

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Top 1,000 income tax assurance

Findings from the Top 1,000 income tax performance and combined assurance reviews.

Last updated 18 September 2025

Income tax assurance

The Top 1,000 income tax assurance program ratings and observations.

- Tax risk management and governance
- Significant or new transactions, specific tax risks, and tax risks flagged to market
- Alignment of accounting and income tax outcomes
- Income tax next actions program

From the commencement of the Justified Trust approach in 2016 and until 30 June 2025, we have completed a total of 1,746 income tax assurance reviews covering 1,271 taxpayers.

As the size and composition of the population has changed since commencing the assurance approach for the Top 1,000 in 2016, we have recalibrated our approach to defining **the population**, bringing the focus of the assurance program back to the largest 1,000 taxpayers from the largest economic groups.

For taxpayers currently in the program, as of 30 June 2025 we have completed a total of 1,176 reviews, covering 794 taxpayers in the population. Unless otherwise stated, any reviews completed on taxpayers that are not in the current population are **not included** in our statistics in the detailed sections below.

In 2025 alone we completed 221 reviews, of which 72 were on taxpayers reviewed for the first time.

Population coverage

Graph 1 below shows the review status of taxpayers in the population as of 30 June 2025.

Graph 1: Population review status for current Top 1,000 taxpayers, as of 30 June 2025

Pie chart showing population review status for current Top 1,000 taxpayers to 30 June 2025. 82% assured, 18% not assured. Of the 18% not assured; 4% new entity, new group; 2% new entity, existing group; 5% not yet suitable to review; 7% review in progress.

When looking in greater detail at the taxpayers in the population, we have completed assurance reviews for 82% of the current population, with 18% yet to have a review completed. In respect of the different pools of taxpayers, just 11% of the significant pool are not yet assured as compared to 21% of the general pool. This discrepancy in pool review coverage is a product of the more stable presence of significant taxpayers.

A taxpayer in either pool may have not yet been assured for a variety of reasons, including the following.

- 4% of the population that are not yet assured did not meet the metrics for inclusion in the Top 1,000 assurance program prior to 2025 and will be considered for selection in upcoming years.
- 2% of the population that are not yet assured did not previously meet the metrics for inclusion in the Top 1,000 assurance program prior to 2025 but are part of an economic group with an ongoing population presence. These will be considered for selection in upcoming years.
- 5% of the population that are not yet assured are currently considered not yet suitable for selection, due to various reasons (for example where other ATO compliance activity is in progress, or a related party in the group has an assurance review underway). These taxpayers will be considered for review in upcoming years.

As shown in Graph 1 above, 7% of the population are not yet assured, but have a first review in progress that is not yet complete as of 30 June 2025.

Health of the system

The below table shows the population by latest assurance rating (from any review year in the program since 2016) and 2023 tax figures.

This table demonstrates that while taxpayers not yet assured comprise 18% of the population, these taxpayers cover a proportionally lower share of total business income, tax paid, tax losses carried forward and tax losses deducted. We expect the levels of coverage by the assurance program for each category to increase in the future as we increase the review status of the population.

Population review status by latest rating and 2023 tax figu (nearest hundred million $)

Population status	Latest rating (%)	Total business income (%)	Tax paid (%)	Tax losses carried forward (%)
Assured	**82%**	**$1,152bn (88%)**	**$31.1bn (95%)**	**$98.1bn (89%)**
High	26%	$319.4bn (28%)	$7.8bn (26%)	$44.5bn (45%)
Medium	63%	$733.3bn (64%)	$21.7bn (68%)	$40.6bn (42%)
Low	11%	$99.3bn (8%)	$1.6bn (6%)	$13bn (13%)
Not assured	**18%**	**$162.2bn (12%)**	**$1.7b (5%)**	**$12.2bn (11%)**

This table outlines the tax positions reported and paid in the 2023 year by the current population, based on their rating as at their last assurance review. The assurance ratings of individual taxpayers may not have been attained in respect of the 2023 year (i.e. the 2023 year may not yet have been assured through reviews), but instead uses the latest assurance rating (which could relate to a different year) as a proxy for the population coverage of key tax figures.

Ratings

The overall level of assurance is based on an assessment, having regard to objective evidence, as to whether the taxpayer is considered to have paid the right amount of tax.

We apply consistent rating categories when considering the overall level of assurance.

Ratings categories for overall levels of assurance on income tax

Colour indicator	Rating	Category description
Green circle – Top 100 and 1000 graphs 34×34px	High	We obtained assurance that the taxpayer paid the right amount of Australian income tax for the income years reviewed.
Yellow dot denotes medium assurance rating	Medium	We obtained assurance in relation to some but not all areas reviewed. For those areas not yet assured, further evidence or analysis will be required before we obtain assurance that the taxpayer paid the right amount of Australian income tax.
Orange circle – Top 100 and 1000 graphs 34×34px	Low	We have specific concerns around the taxpayer's compliance with the Australian income tax laws and the amount of Australian income tax paid for the income year(s) reviewed.

Obtaining overall high assurance rating

In the Top 1,000 program, we apply a principled approach to reaching overall high assurance (justified trust). This is based on 2 elements:

1. A quantitative threshold of more than 90% tax assured and economic activity correctly reported.

2. An objective assessment of 7 qualifying factors.

The 7 qualifying factors

1. Tax risk management and governance

When rated, tax risk management and governance is at least at stage 2.

2. Tax risks flagged to market and significant transactions

Any material or significant tax risks flagged to market (Practical compliance guidelines (PCGs), tax alerts, public rulings, including those set out in the Reportable Tax Position (RTP) Category C disclosures) have received at least a medium level of assurance and are not identified as requiring further action based on the information provided.

3. International related party dealings and controlled foreign companies (CFCs)

Any material or significant international related party dealings, profit attribution to permanent establishments and CFCs have received at least a medium level of assurance and are not identified as requiring further action based on the information provided.

4. Losses

Losses, if applicable, have received at least a medium level of assurance. This includes that the commerciality of losses has been appropriately verified.

5. Effective Tax Borne (ETB) / Book to Tax

The ETB calculation and any underlying assumptions or proxies have been verified with the taxpayer. Completion of an ETB calculation will be viewed favourably by the ATO. Where the ETB calculation has not been prepared by the taxpayer, a high assurance rating for alignment between accounting and tax results will be required.

6. RTP schedule

There are no inconsistencies in RTP schedule disclosures that are identified between lodgment of the tax return and finalisation of the review.

7. Cooperative and collaborative behaviour

It has been a cooperative and collaborative process and in working with a taxpayer we have not observed any non-cooperative behaviour.

Provisional high assurance rating

An overall provisional high assurance rating may be possible in limited circumstances. Such circumstances may include where the taxpayer has provided an undertaking and is actively working on addressing a specific design gap in their tax governance framework or there is ongoing compliance activity. Where there is ongoing compliance activity, provided the quantitative threshold is met (inclusive of that unassured issue), the availability of a provisional rating will depend on the nature and stage of the compliance activity.

Overall levels of assurance

The latest assurance rating **for current top 1000 taxpayers** is included in graph 2 below.

Graph 2: Overall assurance ratings for Top 1,000 taxpayers reviewed, as at their latest review as of 30 June 2025

Pie chart showing overall assurance rating, high 26%, medium 63%, low 11%.

As at their last review, 26% of taxpayers have achieved overall high assurance. This means we have assurance that these taxpayers have paid the right amount of Australian income tax for the income years reviewed. Most taxpayers (63%) have achieved overall medium assurance, which gives confidence regarding the tax paid.

The below table shows each taxpayer's latest rating by population pool.

Latest assurance rating by population pool

Assurance ratings	Significant pool	General pool	All Top 1000 taxpayers
High	32%	24%	26%

Medium	58%	64%	63%
Low	10%	12%	11%

Whilst the above includes all reviews done for these taxpayers and does not represent reviews done under the differentiated approach, it is evident that significant pool taxpayers have a higher prevalence of high assurance than general pool taxpayers.

Of the 221 taxpayers reviewed in 2025, 29% obtained an overall high assurance rating, with 65% obtaining a medium assurance rating, and 6% obtaining a low assurance rating. This compares to 159 reviews done in 2024, where 27% obtained an overall high assurance rating, 63% obtained a medium assurance rating, and 9% obtained a low assurance rating. This represents a continued trend where more taxpayers are obtaining high assurance and fewer taxpayers are obtaining low assurance.

Comparison of overall ratings for first and second review

We have reviewed 394 taxpayers in the population more than once. Graph 3 shows the ratings for all taxpayers after their first review, compared to the latest rating for the 394 taxpayers in the population reviewed more than once.

Graph 3: Overall assurance ratings for first review of Top 1,000 taxpayers and overall ratings for Top 1,000 taxpayers after their latest review as of 30 June 2025

Bar graph shows outcomes from 1st review: 794 taxpayers: high assurance 23%, medium assurance 64%, low assurance 13%. Outcomes from latest review: 394 taxpayers: high assurance 33%, medium assurance 61%, low assurance 6%.

This shows that, at a total population level, there is improvement in assurance outcomes for entities reviewed more than once. That is, there is a 10% increase in high assurance and 7% decrease in low assurance.

Graph 4 below compares the latest assurance rating and first rating for **only the taxpayers in the population that have been reviewed more than once**. Graphs 5 and 6 show this same comparison for the significant pool and general pool taxpayers respectively.

Graph 4: Comparison of first and latest overall assurance rating for Top 1,000 taxpayers reviewed more than once as of 30 June 2025

Bar graph shows outcome from first review: high assurance 26%, medium assurance 64%, low assurance 10%. Outcome from latest review: high assurance 33%, medium assurance 61%, low assurance 6%.

Graph 5: Comparison of first and latest overall assurance rating for significant pool taxpayers reviewed more than once as of 30 June 2025

Bar graph shows outcome from first review: high assurance 28%, medium assurance 60%, low assurance 12%. Outcome from latest review: high assurance 41%, medium assurance 53%, low assurance 6%.

Graph 6: Comparison of first and latest overall assurance rating for general pool taxpayers reviewed more than once as of 30 June 2025

Bar graph shows outcome from first review: high assurance 25%, medium assurance 66%, low assurance 9%. Outcome from latest review: high assurance 29%, medium assurance 66% , low assurance 5%.

Graph 4 shows that taxpayers in the population reviewed more than once are more likely to achieve an improved assurance rating. Strong improvement is observed in the significant pool population (graph 5) and some improvement is observed in the general pool population (graph 6). This trend is expected to continue in the years ahead as taxpayers that maintain status in the population settle into more regular review cycles.

Overall assurance rating for reviews completed by industry

Graph 7 shows overall assurance ratings for first time reviews of the population by industry type, as well as the latest result for taxpayers reviewed more than once. High assurance ratings for first time reviews are broadly consistent amongst industries, whilst manufacturing, construction and agriculture, and wholesale, retail and services, continue to have the highest levels of low assurance for first time reviews.

Outcomes for latest reviews for those reviewed more than once are more positive across all industry populations.

Graph 7: Comparison of first and latest overall assurance rating for Top 1,000 taxpayers by industry as of 30 June 2025

Bar graph shows ratings for FS, MCA, MIN, WRS.

You can also view the **overall assurance ratings for reviews completed by industry in table format.**

Note that these groupings:

- align with the industry segments used by the ATO as part of the Corporate Tax Transparency Reporting, except where we have amalgamated the Banking, Finance and Investment (BFI), Insurance (ISR) and Superannuation (SUP) segments into a Financial Services (FS) segment
- are
  - banking, finance and investment, superfunds and insurance (FS)
  - manufacturing, construction and agriculture (MCA)
  - mining, energy and water (MIN)
  - wholesale, retail and services (WRS).

Tax risk management and governance

Tax risk management and governance continues to be a key focus area under the justified trust methodology for large public and multinational businesses.

Documented tax control frameworks that are designed effectively provide a key foundation for our ability to assure that the right amount of tax has been paid. A stage 2 rating for income tax risk management and governance gives us confidence that the tax control framework is designed effectively and is required to obtain overall high assurance.

We look to see whether a fit-for-purpose tax risk management and governance framework is in place, is applied in practice, and tested regularly to ensure it is operating as intended.

We use the following guidance material to consider the existence, design and operation of a tax control framework for income tax, focusing on the 7 key justified trust controls:

- **Tax Risk Management and Governance Review guide**

- **Income tax risk management and governance guidance for top 1,000 taxpayers** (the Supplementary Guide).

The 7 key justified trust controls for income tax are:

1. **Board-level control 1** – Formalised tax control framework
2. **Board-level control 3** – Board is appropriately informed
3. **Board-level control 4** – Periodic internal control testing
4. **Managerial-level control 1** – Roles and responsibilities are clearly understood
5. **Managerial-level control 3** – Significant transactions are identified
6. **Managerial-level control 6** – Documented control frameworks
7. **Managerial-level control 7** – Procedures to explain significant differences.

Ratings

We apply a consistent rating system when reviewing and assessing tax risk management and governance. For more information about how we review tax risk management and governance, refer to **Reviewing tax governance for large public and multinational businesses**.

Stages

Colour indicator	Stage	Category description
Green circle – Top 100 and 1000 graphs 34×34px	Stage 3	The taxpayer provided evidence to demonstrate that a tax control framework exists, has been designed effectively and is operating effectively in practice.
Yellow circle – Top 100 and 1000 graphs 34×34px	Stage 2	The taxpayer provided evidence to demonstrate that a tax control framework exists and has been designed effectively.

Orange circle – Top 100 and 1000 graphs 34×34px	Stage 1	The taxpayer provided evidence to demonstrate a tax control framework exists.
Red circle – Top 100 and 1000 graphs 34×34px	Not evidenced or concerns	The taxpayer has not provided sufficient evidence to demonstrate a tax control framework exists or we have significant concerns with the taxpayer's tax risk management and governance.

Ratings for income tax risk management and governance

Graph 8 shows the income tax risk management and governance rating for the Top 1,000 taxpayers that have been reviewed, as at their most recent review.

Graph 8: Overall income tax risk management and governance ratings for Top 1,000 taxpayers reviewed in their latest review, as of 30 June 2025

Pie chart shows percentage ratings, stage 1 45%, stage 2 47%, stage 3 5%, red flag 2%, not rated 1%.

We continue to see positive shifts in governance ratings, with 57% of the 221 reviews completed in 2025 achieving a stage 2 or stage 3 rating as compared to 52% of all taxpayers at stage 2 or stage 3 as shown in graph 8 above.

Additionally, the table below shows the breakdown of latest governance rating by population pool, demonstrating that significant pool taxpayers are more likely to have achieved a higher governance rating as at their most recent review, with 62% of significant and 47% of general taxpayers reaching a stage 2 or stage 3 rating for governance.

Latest governance rating by Top 1,000 pool

Governance ratings	Significant pool	General pool	All Top 1000 taxpayers

Stage 3	11%	2%	5%
Stage 2	51%	45%	47%
Stage 1	35%	50%	45%
Red flag	1%	2%	2%
Not Rated	2%	1%	1%

Positive progress in ratings is observed when comparing the outcomes for all first-time reviews and the latest review for those covered more than once, as shown in graph 9 below.

Graph 9: Overall income tax risk management and governance ratings for first review of Top 1,000 taxpayers, and overall ratings for Top 1,000 taxpayers after their latest review, as of 30 June 2025

Bar graphs shows outcomes from first review: 794 taxpayers, stage 2 32%, stage 1 62%. Outcomes for latest reviews: 394 taxpayers: stage 2 57%, stage 1 32%.

Graph 10 below provides this comparison in respect of the taxpayers that have been reviewed more than once. Of these taxpayers, 28% obtained a stage 2 rating in their first review, and 57% obtained a stage 2 rating in their latest review.

Graph 10: Comparison of first and latest income tax risk management and governance ratings for Top,1000 taxpayers reviewed more than once as of 30 June 2025

Bar graph shows first review, stage 2 28%, stage 1 67%. Latest review: stage 2 57%, stage 1 32%.

For both comparisons in graph 9 and graph 10, we are seeing increases in stage 2 and stage 3 and a decrease in stage 1 ratings. The increase in taxpayers achieving a stage 2 rating is a trend that has been observed since the introduction of the Supplementary Guide, with many taxpayers now having a Board endorsed commitment to conduct periodic internal controls testing.

We are also observing taxpayers now undertaking periodic internal controls testing, resulting in an increase in stage 3 ratings. We anticipate that the number of taxpayers achieving stage 3 ratings will increase as taxpayers meet their commitment to undertake period internal control testing. Where we observe that taxpayers have not met that commitment, we will consider whether this is appropriate in their circumstances (for example, where there has been a change within the business that requires the governance framework to be updated prior to testing). Alternatively, we may need to consider whether, in the absence of testing being undertaken as per the commitment, BLC4 has in fact been effectively designed or whether a stage 1 rating is more appropriate.

Graphs 11 and 12 demonstrate the same comparison shown in graph 10, but for the significant pool and general pool taxpayers respectively. The trend identified above is observed for both the significant and general pool taxpayer subsets in the population, with significant taxpayers making substantial increases in rating between prior and latest review.

Graph 11: Comparison of first and latest income tax risk management and governance ratings for significant pool taxpayers reviewed more than once as of 30 June 2025

Bar graph shows first review, stage 2 38%, stage 1 57%. Latest review: stage 2 57%, stage 1 24%.

Graph 12: Comparison of first and latest income tax risk management and governance ratings for general pool taxpayers reviewed more than once as of 30 June 2025

Bar graph shows first review, stage 2 23%, stage 1 72%. Latest review: stage 2 57%, stage 1 37%.

Industry comparison

Graph 13 shows the ratings for income tax risk management and governance, for first review rating and the latest rating for those reviewed more than once, on an industry basis. This shows an improvement in governance ratings across all industries.

Graph 13: Comparison of first and latest income tax risk management and governance ratings for Top,1000 taxpayers by industry, as of 30 June 2025

Bar graph shows ratings for FS, MCA, MIN, WRS.

You can also view the overall income tax risk management and governance ratings for all assurance reviews completed by industry in table format.

Areas of focus

The following are the key issues that are arising in our recent reviews and the subject of discussion with taxpayers in their ongoing focus on tax risk management and governance. They build on the comments in prior years about specific board and management level controls, and taxpayers should consider these in conjunction with our Supplementary Guide, and ensure the controls are 'fit for purpose'.

BLC 4: Periodic internal control testing

Whilst we continue to focus on whether taxpayers have effectively designed tax risk management and governance frameworks, now that more taxpayers are achieving a stage 2 rating, we expect an increasing focus on periodic internal control testing in line with the commitment undertaken.

Periodic internal control testing must be undertaken by a suitably qualified reviewer, who is independent of the tax control owner. This can include the internal audit function where that function sits outside of the tax function with separate reporting lines.

Alternatively, the testing may be undertaken by a third party. Determining whether a third party is independent for the purposes of undertaking internal control testing will be a question of fact and degree. It is relevant to consider whether the third party has undertaken any of the responsibilities of the control owners, including where the third party has undertaken the design of any of the tax controls, or the third party has undertaken the income tax preparation work. If they are not considered independent, the taxpayer will not have met the requirements for a stage 3 rating.

In assessing whether a taxpayer has effectively designed and operating tax controls (i.e. has attained a stage 3 rating), we will look to understand the scope and the outcomes of the testing. The scope should be set out in a document put together by the appropriately qualified independent reviewer which has been signed off by the control owners.

To evidence the outcomes of the testing, we need to be provided with:

- the testing methodology and sample size selected
- the types of source documents relied upon by the tester
- the final testing results

- if issues are identified in the testing, an outline of the steps taken to address those issues
- board (or board delegate) acknowledgement of the test results and actions taken to address issues identified.

A taxpayer must have completed the testing to achieve a stage 3 rating and have addressed any issues identified.

Governance over third-party data

Governance over third-party data continues to be a key focus area for investment industry entities. Documented third-party data tax control frameworks that are designed effectively provide a key foundation for our ability to assure that:

- the right amount of tax has been paid
- the right amount of tax attributes have been reported to members or beneficiaries of managed funds.

The **Governance over third-party data** supplementary guide was published in 2022. For reviews commenced after 1 July 2024, we have provided a rating for governance over third-party data to relevant investment industry entities. We expect a stage 2 rating to be the industry standard i.e. all investment industry entities should have effectively designed controls in place.

We have completed 19 reviews that have assessed governance over third-party data. Excluding some where the funds have been, or will be, wound-up and therefore not rated, approximately 70% of those assessed have achieved a stage 2 rating.

We recognise that some entities within the investment industry perform investment and administration functions 'in-house' and do not have a traditional outsourced service provider relationship. However, our expectations for third-party data tax controls apply equally to these entities.

Outlined below are the particular areas of focus and issues we have identified during our reviews.

BLC 3: The Board is appropriately informed

We expect regular reporting to the Board on the performance of outsourced service providers, including whether there have been any material breaches of the service level agreements. We have observed that some reporting templates include limited or no information about the breaches. The Board should be briefed on how the breach was rectified and what controls have been put in place to prevent such a breach from occurring again.

BLC 4: Periodic internal control testing and Principle 4 – Independent assurance of the control environment of outsourced service provider

We observed most entities have commenced or are about to commence their periodic internal control testing or have included third-party data tax controls in the scope of their internal control testing plans.

Providing a copy of the GS007/ASAE 3402 report that does not contain sufficient tax control objectives in scope of the independent assurance report will not meet design effectiveness criteria. Seeking assurance from independent parties in relation to the accuracy of the data received and processed by outsourced service providers under Principle 4 requires the entity to not only obtain a high-quality independent assurance report, but also demonstrate through objective evidence that it reviews and understands the findings. Further, meeting Principle 4 requires evidence of findings and exceptions being reported to the Board, with a remediation strategy if exceptions are identified.

MLC 1: Roles and responsibilities are clearly understood

We have observed a lack of oversight of changes to the IT systems or process improvement activities of outsourced service providers by some entities. We expect the entity's tax function or its external tax adviser to consider the impact of any changes to the systems or process improvements that provide data for tax reporting or tax calculations.

MLC 3: Significant transactions are identified

We have observed that most entities have definitions of 'significant' or 'complex' investments, including both qualitative or quantitative factors. However, criteria as to how the complexity of each investment will be assessed, as well as the escalation and sign off processes, need to be clearly defined.

While most entities have a robust on-boarding tax due diligence process for new investments, exit or dissolution of complex or significant investments may often be overlooked. We recommend a post closure review is conducted to ensure the appropriate tax treatment.

We expect documented controls and processes for the planning, testing and migration of data, as well as a post-implementation check in relation to significant transactions or events where data migration occurs due to, for example:

- a change in outsourced service provider
- outsourcing of in-house functions
- migration of investment platform by outsourced service provider
- successor fund transfer.

Entities need to understand any differences in tax policies and the impact to tax data, and document any changes to the tax return procedures, tax controls and checklists.

MLC 6: Documented control frameworks

Entities need greater processes and controls to ensure the tax policy of the administrator is prepared in accordance with the tax law and reflected in the tax reporting relied upon by the entity, particularly for more complex entities.

We have identified an increase in international investments. Some entities have implemented additional tax controls for complex foreign investments. However, where a custodian provides tax reporting on these foreign investments, the entity needs to understand the custodian's tax controls (the gaps) to review the information provided by offshore investment managers.

Significant or new transactions, specific tax risks, and tax risks flagged to market

We seek to understand and review the income tax treatment of a taxpayer’s business activities, particularly atypical, new or significant transactions. We also review specific tax risks and determine whether concerns we have communicated to the market are present.

Ratings

We apply a consistent rating system when reviewing and assessing the income tax treatment of business activities including significant or new transactions and tax risks flagged to the market.

Ratings categories for tax risk management and governance on income tax

Colour indicator	Rating	Category description
Green circle – Top 100 and 1000 graphs 34×34px	High	We obtained a high level of assurance that the right Australian income tax outcomes were reported in the taxpayer's tax returns.
Yellow circle – Top 100 and 1000 graphs 34×34px	Medium	More evidence or analysis is required to establish a reasonable basis to obtain a high level of assurance.
Orange circle – Top 100 and 1000 graphs 34×34px	Low	More evidence or analysis is required to determine whether a tax risk is present.
Red circle – Top 100 and 1000 graphs 34×34px	Red flag	Likely non-compliance with the income tax law.
–	Out of scope	We have not evaluated this item or have not expressed a rating.

Observations

Outcomes from the review of significant or new transactions and specific tax risks tend to have a significant impact on overall assurance ratings of Top 1,000 taxpayers and are the areas that need the most time and effort in our reviews. The number of areas assured will vary between taxpayers, and the quality of objective evidence provided can have a significant impact on the overall assurance rating.

Obtaining a low assurance rating for a particular risk does not mean that the taxpayer will automatically achieve overall low assurance. The overall rating will be influenced by several factors, including all ratings, nature of the issue and materiality. However, as outlined in our criteria for obtaining high assurance, a low assurance rating for some assurance areas will prevent a taxpayer from being able to achieve an overall high assurance rating. That is, taxpayers with low assurance ratings for these assurance areas will only be able to achieve an overall medium or low assurance rating, depending on the impact of that issue on the tax paid by the taxpayer.

As part of our review, we consider whether there are any public rulings or guidance, including practical compliance guidelines or taxpayer alerts, relevant to the significant or new transaction or specific tax risk. We consider the transaction or risk with respect to the rulings or guidance, and this may impact the intensity of our review.

Our reports outline our view on the tax treatment adopted for each significant or new transaction and specific tax risk and outline any recommendations we have on steps the taxpayers should take to address concerns identified. In some cases, we have escalated our concerns for further investigation by way of an ATO next action.

The latest **Findings report Reportable tax position schedule Category C disclosures** provides the aggregated disclosures made by companies for the 2024 income year. The report provides insights into the types of arrangements large companies are entering into, including arrangements in addition to the following information. We will verify a taxpayers disclosures made in the Reportable Tax Position (RTP) Schedule when assuring the relevant tax risks in our review.

The following sections outline common areas of concern and items that attract our attention. The statistics provided are based on combined assurance review data but are broadly consistent with the outcomes from the Top 1,000 tax performance program.

Transfer mispricing

Transfer pricing is a natural feature of the international tax system, requiring entities to deal with related parties on arm's-length terms. Our concern is where arrangements or transactions are mischaracterised or mispriced, which may result in the tax base being shifted from Australia.

Failure to maintain adequate information to support transfer pricing positions is one of the most common reasons for a taxpayer obtaining a low or medium assurance rating for transfer pricing. Taxpayers need to maintain contemporaneous support for the positions adopted. It should clearly outline the source and evidence relied on to identify the actual circumstances of the related party dealings, including the functions performed, assets used, and risks borne by the entities involved in the transaction.

Concerns arise in respect of an international related party dealing where:

- the taxpayer's functional characterisation or the methodologies they have applied are not appropriate based on the substance of their arrangement resulting in inappropriate profit and tax outcomes
- artificial structuring, bifurcation and risk allocation of the taxpayer that are misaligned with commercial substance and result in the application of inappropriate transfer pricing methodologies
- the taxpayer's comparable data is not reflective of arm's-length outcomes in the facts and circumstances of their arrangement
- there have been changes to the taxpayer's transfer pricing policy or methodologies without an underlying change to the taxpayer's functional characterisation or related party arrangements.

Transfer mispricing (other than financing)

In the combined assurance reviews, about 66% of taxpayers had non-financing related transfer pricing arrangements reviewed. This is the most common assurance area.

This area relates to many dealings, ranging in varying complexity, and covers areas such as:

- inbound and outbound sale and purchase of tangible goods (largest category reviewed)
- management and administration services
- intellectual property and royalties
- licence fees
- sales marketing procurement and shipping arrangements
- provision and receipt of technical services
- research and development services.

The following ratings were issued for transfer pricing (other than financing).

Transfer mispricing (other than financing) – all CARs

Assurance rating	CAR program outcomes
High	19%
Medium	56%
Low and red flag	25% (2 red flag rating)

Taxpayers continue to achieve higher assurance ratings in subsequent reviews, with taxpayers considering the concerns raised in the earlier review and addressing them.

The following ratings were issued with a transfer mispricing (other than financing) assurance area reviewed more than once.

Transfer mispricing (other than financing) – matters reviewed twice

Assurance rating	Rating – first review	Rating – second review
High	15%	18%
Medium	53%	55%
Low and red flag	32% (4 red flag rating)	25% (2 red flag rating)

About 24% of the ATO next action audits, escalated either directly from a Top 1,000 review or from an ATO next actions review, include transfer mispricing issues (other than financing).

Licence fees and royalties continues to be the area that raises the most concern in our reviews, with the outcomes for this sub-category having the highest proportion of low assurance as compared to other sub-categories. In reviews completed in 2025, we continue to have concerns with licence fee and royalty arrangements reviewed, with just 4% achieving high assurance and 40% achieving low assurance. When reviewing this sub-category, we consider whether genuine economic benefits are received by Australian entities in relation to licensed assets for which payment is made to international related parties.

We will also consider the functions performed, assets used, and risks assumed by the relevant entities in connection with the activities that develop, enhance, maintain, protect, and exploit the licenced assets. We will request any analysis undertaken by the taxpayers in their transfer pricing documentation with respect to the Australian operations to determine the level of assurance over these arrangements.

We also continue to identify concerns with arrangements regarding the inbound and outbound supply of goods and services. We will consider these arrangements, where relevant, with regard to Practical Compliance Guideline **PCG 2019/1** *Transfer pricing issues related to inbound distribution arrangements*, including taxpayers' self-assessment of the transfer pricing risk of their arrangements.

Financing (including related party financing)

In the combined assurance reviews, 54% of taxpayers had a financing area of assurance with the majority involving related party arrangements.

The following ratings were issued for financing (including related party financing).

Financing (including related party financing) – all CARs

Assurance rating	CAR program outcomes
High	24%
Medium	48%
Low and red flag	28% (1 red flag rating)

The most common financing arrangements that attracted low or red flag ratings related to interest bearing loans, Redeemable Preference Shares, cash pooling and convertible notes.

We continue to observe higher risk arrangements where pricing and conditions aren't consistent with third-party transactions. We continue to see arrangements that are structured to avoid interest withholding tax or entities that don't meet the eligibility criteria for claimed exemptions from withholding tax. Financing arrangements constitute a key area resulting in ATO next actions.

Other than transfer pricing on license fees and royalties, financing continues to be an area of the highest proportion of low and red flag assurance ratings as compared to other assurance areas.

For taxpayers that have been reviewed more than once, we have observed that there is an improvement in their financing assurance ratings, with less taxpayers being rated as low or receiving a red flag rating in subsequent reviews. The following ratings were issued with a financing area assured more than once.

Financing (including related party financing) – matters reviewed twice

Assurance rating	Rating – first review	Rating – second review
High	22%	23%
Medium	43%	56%
Low and red flag	35% (2 red flag)	21% (1 red flag rating)

Some of the reasons for improvement include implementing recommendations from the previous review. Taxpayers routinely provide their self-assessment against Practical Compliance Guideline PCG 2017/4 *ATO compliance approach to taxation issues associated with cross-border related party financing arrangements and related transactions* and supporting documentation. In some cases, taxpayers have refinanced out of or terminated higher risk arrangements.

We continue to apply the risk assessment framework published in PCG 2017/4 and consider the analysis prepared in transfer pricing documentations to review the arm’s length nature of financing arrangements. We expect taxpayers to provide contemporaneous evidence to support the commercial nature of their arrangements.

Approximately 42% of our combined assurance reviews covered an assurance area/s that related to **PCG 2017/4**. Where assurance areas covering PCG 2017/4 are reviewed more than once, we are witnessing overall improvement in assurance ratings. The ATO was recently successful in the Full Federal Court in relation to the Singtel related party financing case. The favourable decision provides further support to the ATO's existing compliance approach to related party financing and will reinforce the positive assurance trend.

Hybrid mismatch

The full scope of the hybrid mismatch rules are now applicable for most income years being assured. In the combined assurance reviews, 48% of taxpayers have had at least one assurance area covering the hybrid mismatch rules.

The following ratings were issued for the hybrid mismatch rules.

Hybrid mismatch

Assurance rating	CAR program outcomes
High	46%
Medium	33%
Low and red flag	21% (2 red flag ratings)

Since the introduction of the hybrid mismatch rules and the commencement of our assurance of these rules, we have gradually seen the number of taxpayers achieving high assurance increasing. In respect of the reviews completed in 2025, a high assurance rating was achieved for 55% of areas covering hybrid mismatch arrangements. This increase is attributable to preparation, application and retention of appropriate processes and procedures.

When undertaking our assurance reviews, we refer to **PCG 2021/5** *Imported hybrid mismatch rule – ATO's compliance approach* and request evidence to support the processes and procedures taxpayers are taking to ensure compliance with the imported hybrid mismatch rule in Subdivision 832-H. It's important that this evidence is retained and provided when assuring this area.

Inability to provide this evidence is the most common reason for taxpayers achieving a medium or low assurance rating for the hybrid mismatch rules.

Structuring and arrangements designed to reduce Australian tax

We continue to see a small number of arrangements that are structured to reduce or avoid Australian tax in our assurance reviews. In those cases, the low assurance ratings and red flags are sometimes associated with related party transactions or other structured transactions (including third party back-to-back transactions) promoted or designed to achieve Australian tax savings, including the following:

- contrived related party financing arrangements, including the use of financing transactions with special terms designed to either
  - artificially defer or avoid interest withholding tax while having obtained annual Australian income tax deductions
  - avoid or reduce dividend withholding tax upon repayment or redemption of contrived related party financing arrangements
  - otherwise obtain deductions or avoid assessable income including using arrangements designed to circumvent specific thin capitalisation debt and equity classification and hybrid mismatch rules
- related party arrangements designed to recognise costs through recharges or risk shifting
- intangibles arrangements designed to reduce or avoid Australian taxable income and/or reduce or avoid royalty withholding tax, including
  - arrangements of the kind described in Taxpayer Alert TA 2018/2 *Mischaracterisation of activities or payments in connection with intangible assets* or within the scope of Draft Tax Ruling **TR 2024/D1** *Income tax: royalties – character of payments in respect of software and intellectual property rights*
  - intangible migration arrangements falling within the higher risk zones of **PCG 2024/1** *Intangibles Migration Arrangements*
- arrangements or variation of arrangements of the kind described in Taxpayer Alert **TA 2020/4** *Multiple entry consolidated groups*

avoiding CGT – these arrangements broadly involve the transfer of assets to an eligible tier-1 (ET-1) and an ET-1 company exiting, or anticipating exit from, the multiple entry consolidated (MEC) group

- arrangements designed to avoid income being attributable to an Australian permanent establishment
- 'inversion' or the interposition of partnerships or other entities, designed to
  - shift recognition of income or change or mischaracterise the nature of income
  - facilitate related party transactions to obtain Australian tax deductions
  - reduce or eliminate withholding tax
  - avoid the application of targeted or general anti-avoidance measures
- arrangements of the kind described in Taxpayer Alert TA 2020/5 – *Structured arrangements that provide imputation benefits on shares acquired where economic exposure is offset through use of derivative instruments*
- arrangements of the kind described in draft Tax Determination TD 2024/4 – *Income tax: hybrid mismatch rules – application of certain aspects of the 'liable entity' and 'hybrid payer' definitions*.

Where we have identified such arrangements and have concerns, the matters have generally attracted low assurance or red flag ratings and have been escalated for further ATO intervention through appropriate compliance activity.

Anti-avoidance issues escalated either directly from a Top 1,000 review or from an ATO next action review are present in approximately 67% of ATO next action audits, which reflects an increase from prior years.

Tax consolidation including MEC group changes

Our review of tax consolidation including MEC group structuring, acquisitions and disposals resulted in the following assurance ratings during the combined assurance reviews.

Tax consolidation

Assurance rating	CAR program outcomes
High	64%
Medium	26%
Low	10%

Anti-avoidance issues (including MEC restructuring) escalated either directly from a Top 1,000 review or from a next actions review are present in approximately 27% of ATO next action audits, which remains consistent with our observation in recent years.

Some of the issues that we have seen in relation to tax consolidation include changes in membership of Australian tax groups through internal transactions or decisions designed to:

- increase or accelerate deductible losses or depreciation
- generate Australian tax deductions for anticipated asset write offs
- avoid tax on anticipated terminations or disposals
- generate foreign tax credits.

Key issues for acquisitions in relation to the entry allocable cost amount (ACA) calculations and the tax cost setting amount, include:

- inadequate documentation to support the ACA calculations
- acquisition costs incorrectly excluded from the Step 1 amount and treated as blackhole expenditure
- asset characterisation for the purposes of allocating the entry ACA, including other intangible assets that would more appropriately be classified as goodwill but being classified as separate assets for tax consolidation purposes.

Thin capitalisation

The new thin capitalisation provisions contained in Subdivisions 820-AA and 820-EAB of the ITAA 1997 apply for income years commencing on or after 1 July 2023. In addition, the new debt deduction creation rules in Subdivision 820-EAA apply for income years commencing on or after 1 July 2024.

As the new thin capitalisation and debt deduction creation rules are likely to have a significant impact on Top 1,000 taxpayers, this will be a key focus area in combined assurance reviews.

We expect taxpayers are implementing strong processes to deal with the new thin capitalisation provisions, including appropriate consideration of the matters set out in the following guidance products:

- PCG 2025/2 *Restructures and the thin capitalisation and debt deduction creation rules – ATO compliance approach*
- Draft TR 2024/D3 *Income tax: aspects of the third-party debt test in Subdivision 820-EAB of the Income Tax Assessment Act 1997*.

Thin capitalisation continues to be an ongoing focus area for the CAR program, noting that 52% of taxpayers reviewed had a thin capitalisation risk.

The following ratings were issued for thin capitalisation which largely relate to the operation of the thin capitalisation rules prior to introduction of the above amendments.

Thin capitalisation – all CARs

Assurance rating	CAR program outcomes
High	76%
Medium	14%
Low and red flag	10% (1 red flag rating)

This area had a higher proportion of high assurance than other review areas. Most taxpayers relied on the safe harbour debt test.

In relation to the 10% of reviews with low or red flag ratings for thin capitalisation, the outcome continues to be attributable to some of the following reasons:

- unable to provide evidence for the safe harbour calculations or incorrectly calculated the safe harbour
- concerns with the application of the arm's-length debt test, including contrary interpretative positions, inadequate

documentation and evidence

- concerns with the application of the worldwide gearing method.

For taxpayers that have been reviewed more than once, we have observed that there is an improvement in their thin capitalisation assurance ratings. The following ratings were issued for the combined assurance reviews with a thin capitalisation assurance area reviewed more than once.

Thin capitalisation – matters reviewed twice

Assurance rating	Rating – first review	Rating – second review
High	68%	78%
Medium	20%	15%
Low and red flag	12% (2 red flag rating)	7% (0 red flag rating)

Losses

Revenue and capital losses continue to be an area that we commonly review. We seek to understand the origin of the losses and focus on utilisation of losses (continuity of ownership and business continuity tests), transfer of losses and available fraction calculations.

For the combined assurance reviews, the following ratings were issued for losses.

Losses – all CARs

Assurance rating	CAR program outcomes
High	69%
Medium	22%
Low	9%

Low assurance ratings continue to arise because of insufficient evidence to support the utilisation of the losses (in particular, satisfaction of the business continuity test) and available fraction calculations (including market valuations of entities that joined the TCG or MEC group).

For taxpayers that have been reviewed more than once, we have observed that there is an improvement in their losses assurance ratings.

Uniform capital allowances (UCA)

When assuring capital allowance claims, we consider the systems and governance processes adopted, as well as the supporting evidence provided.

For the combined assurance reviews, the following ratings were issued for UCA.

UCA – all CARs

Assurance rating	CAR program outcomes
High	48%
Medium	41%
Low	11% (2 red flag rating)

For taxpayers that have been reviewed more than once, we have observed that there is an improvement in their UCA assurance ratings. Most of the UCA reviews that obtained low or red flag assurance included recommendations for client next actions. The common issues identified include:

- inadequate documentation to support self-assessed effective lives of Division 40 assets and disclosure errors in tax returns
- incorrect asset classification and deductions claimed in relation to Division 40 and Division 43
- capital improvements versus repairs and maintenance
- incorrect low-value pool deductions.

Capital gains tax (CGT)

CGT events were assured in 41% of combined assurance reviews.

The following ratings were issued for CGT.

CGT – all CARs

Assurance rating	CAR program outcomes
High	67%
Medium	22%
Low	11% (1 red flag)

Of those that achieved a low assurance, the key issues included:

- concerns of the rollover exemptions or reductions
- active foreign business asset exemption – Subdivision 768-G
- market valuations supporting the cost base of assets (such as goodwill and intangible assets)
- the calculation (or evidence) of proceeds and insufficient evidence to support the CGT calculation.

Collective Investment Vehicle (CIV) specific issues

MIT/AMIT Eligibility

A fit-for-purpose tax risk management and governance framework is one area where we have continued to identify frequent specific issues for managed investment trusts (MITs) and attribution managed investment trusts (AMITs) that have an impact on specific tax issues. These include MIT and AMIT annual eligibility testing as part of the annual tax return preparation, lodgment and self-assessment process and documented controls for the management of Unders and Overs for AMITs.

Documented processes, procedures and controls within an entity's tax control framework are needed to ensure these critical CIV specific risks are managed and mitigated consistently year on year.

Distribution reporting

We have maintained a strong focus on beneficiary reporting, to increase our level of assurance that these flow through vehicles are reporting the right amount of tax attributes to members such that they are able to report the right amount of income tax. Specific attention was dedicated to the identification of errors in AMMA statements/SDS and AIIR data and subsequent rectification.

Losses

We also scrutinized and highlighted the need for Funds to maintain appropriate records regarding loss generation, carry forward and utilisation with a focus on ensuring sufficient information is maintained to facilitate assurance in future years.

Superannuation fund specific issues

Structured arrangements that provide imputation benefits

Through our assurance activities, we have observed that certain large superannuation funds utilise derivative instruments to rebalance their economic exposure to Australian equities. In some instances, we are concerned that taxpayers may adopt a position that their short derivative exposures relate to all shares held in a company, whereas the facts suggest the exposures relate only to a subset of those shares.

In reviewing these arrangements, we consider the following factors:

- whether Australian shares were acquired contemporaneously with the establishment of short positions
- whether derivatives were used to shift economic exposure from Australian equities to other asset classes, and
- the pattern and duration of the derivative positions.

Our review of large superannuation funds found that while some funds had used derivatives to reduce exposure to Australian equities, this was broadly limited in scale and/or typically short-term or sporadic in nature.

To promote interpretative clarity and voluntary compliance, we are developing:

- a draft Taxation Determination outlining our views on when a derivative has a sufficient nexus to a parcel of shares for the purposes of determining whether the taxpayer maintains the requisite risk exposure to be entitled to franking credits, and

- a draft Practical Compliance Guideline providing guidance to large superannuation funds and collective investment vehicles (with total business income exceeding $250 million) on risk indicators associated with the use of derivatives that may attract our attention.

Project costs

We have observed many superannuation funds have either no, or insufficient, documented tax policies to correctly identify and characterise costs relating to projects that provide enduring benefits. This results in outgoings being treated as deductible under section 8-1 of the Income Tax Assessment Act 1997 rather than forming part of a cost base or claimed under black hole expenditure provisions. We have concerns some project costs of a capital nature are on-charged to superannuation funds by way of an increase in administration expenses.

We have also observed that where some funds do have documented tax policies, these policies don't always reflect the Commissioner’s view on labour costs related to creating capital assets as expressed in Taxation Ruling TR 2023/2 *Income tax: application of paragraph 8-1(2)(a) of the Income Tax Assessment Act 1997 to labour costs related to the construction or creation of capital assets*.

Of funds reviewed in 2025, 47% included project costs as an area of assurance, with 67% achieving a low assurance rating. Where we have low assurance over the claiming of outgoings relating to project costs, we have recommended clients implement or amend tax policies on project costs. We will follow up on the steps taken to address our recommendations before, or at the time of, our next review.

Corporate limited partnership distributions

We have observed an over reliance on third-party data to treat the components of corporate limited partnerships according to distribution statements, often where the characterisation of the distribution may not match the underlying economic activities. The distribution statements appear to display a potential over representation of return of capital characteristics. We expect superannuation funds to take steps to ensure amounts reported as capital and income reflect the underlying economic activities.

Over 68% of funds reviewed in 2025 included corporate limited partnerships as an area of assurance, with 31% achieving a medium assurance rating, and 69% at low assurance.

The release of the **Third Party Data Supplementary Guide**, and our assurance activities are intended to mitigate the risk by demonstrating better practices for obtaining relevant information to appropriately characterise distributions. We will consider further ATO engagement where appropriate, and follow up on the steps taken to address our recommendations before, or at the time of, our next review.

Alignment of accounting and income tax outcomes

We analyse the differences between the accounting and income tax results and seek to understand and explain any variances.

Ratings

We apply a consistent rating system when reviewing and assessing the alignment of accounting and income tax outcomes.

Ratings categories for alignment with income tax

Colour indicator	Rating	Category description
Green circle – Top 100 and 1000 graphs 34×34px	High	We understand and can explain the various streams of economic activity and why the accounting and income tax results vary.
Yellow circle – Top 100 and 1000 graphs 34×34px	Medium	Further analysis and explanation are required to understand the various streams of economic activity and/or why the accounting and tax results vary.
Orange circle – Top 100 and 1000 graphs 34×34px	Low	We identified concerns from our analysis of the various streams of economic activity

		and/or why accounting and tax results vary.
Red circle – Top 100 and 1000 graphs 34×34px	Red flag	We do not understand and cannot explain the various streams of economic activity and/or why accounting and tax results vary.

Graph 14 shows the overall alignment of accounting and income tax ratings for the Top 1,000 taxpayers that have been reviewed, as at their most recent review.

Graph 14: Overall alignment of accounting and income tax ratings for Top 1,000 taxpayers reviewed, in their latest review, as of 30 June 2025

Pie chart showing overall accounting and income tax ratings, high 90%, medium 9%, low 1%.

The below table shows the latest alignment rating for taxpayers in the population by pool.

Latest alignment rating by Top 1000 pool

Rating	Significant pool	General pool	All Top 1000 taxpayers
High	90%	90%	90%
Medium	9%	9%	9%
Low	1%	1%	1%

Graph 15: Alignment of accounting and income tax ratings for first reviews of Top 1,000 taxpayers and alignment of accounting and income tax ratings for Top 1,000 taxpayers after their latest review as of 30 June 2025

Bar graph shows outcomes from first reviews, 794 taxpayers high 87%, medium 12%. Outcomes from latest reviews, 394 taxpayers, high 93%, medium 7%.

Graph 16: Comparison of first and latest alignment of accounting and income tax ratings for Top 1,000 taxpayers reviewed more than

once as of 30 June 2025

Bar graph shows first review, high 86%, medium 13%. Latest review, high 93%, medium 7%.

Observations

Most Top 1,000 taxpayers achieved a high assurance rating (86%) for the alignment between accounting and income tax in their first review.

As shown in graph 16, we continue to see improvements in outcomes for taxpayers that have been reviewed more than once, with increased high assurance ratings from 86% (first reviews) to 93% (second reviews) as well as a decrease in low assurance ratings in latest reviews.

As compared to assurance and governance ratings, general and significant taxpayers have near-identical ratings for alignment between accounting and tax results.

We generally obtain high assurance over reported income and expenses as most taxpayers have audited financial statements and we can reconcile the financial statements with the starting profit and loss before tax disclosed in the relevant income tax return. The provision of detailed statements of taxable income has enabled us to obtain assurance over the adjustments from accounting results to calculate the taxable income and tax payable figures.

This is more challenging for MEC groups, foreign bank branches and stapled groups but we find that taxpayers have been able to provide sufficient evidence for us to understand the variances between the accounting and tax results.

For those taxpayers that don't achieve high assurance for this pillar of Justified Trust, the concerns continue to be due to the inability to provide detailed workpapers to support the permanent and timing differences.

We are also identifying CIV specific issues around alignment between accounting and tax results and the reconciliation of total net income/determined trust components to the accounting profit or loss. Accounting profit or loss is reported in the tax return before temporary and permanent adjustments for tax purposes are made to determine the total net income/determined trust components. These are undertaken for both ToFA and other arrangements for tax purposes.

Working papers are required to identify and provide details as to the purpose and reason (including the legal basis) for each adjustment made for tax purposes to enable an evidenced reconciliation.

These should include for ToFA adjustments, the applicable default or ToFA election utilised with reference to the financial accounts, and for other items the reason for the adjustment and the matching of the adjustments from the financial accounts. For example, black hole expenditure claims require evidence to support the value and incurrence of the expenditure and legal reasoning for the treatment under Division 40-880 of the ITAA 1997 for tax purposes, distinct from the identifiable deduction for accounting purposes from the financial statements and the reversal.

Where the financial accounts are consolidated, the working papers are required to provide a methodology to demonstrate the deconstruction including a breakdown of amounts applicable to each entity included within the financial statements, identifying the accounting profit or loss attributable to the entity under review and every other entity consolidated for financial accounting purposes.

Income tax next actions program

Where we identify concerns, we will notify taxpayers of our recommendations or any steps the taxpayer needs to undertake.

Client next actions

For ‘Client next actions’, we require the taxpayer to confirm the steps taken to address our concerns and recommendations. We may follow up the steps a taxpayer has taken at the next assurance review, or we may follow up a specific issue earlier. We will outline an expected timeframe for the follow up enquiry and expect taxpayers to provide further information in a timely manner.

ATO next actions

If we identify concerns that require further intervention through an ‘ATO next action’, we will indicate the matters that will be escalated for further review. We will notify taxpayers at the end of the combined assurance review if we are going to conduct further investigations through the ATO next actions program. We provide guidance to taxpayers as to how to prepare for the follow up engagement and what to expect. Preparation will assist with the earlier resolution of the matter.

ATO next actions are not assurance reviews. Next actions are a more intensive ATO investigation and can include specific or comprehensive income tax risk reviews and audits.

When the ATO engages with a taxpayer for ATO next actions, we focus on the issues that are of the greatest concern to us, such as issues that received a red flag or low assurance rating in the taxpayer's assurance report.

ATO next action outcomes

For all combined assurance reviews completed in 2025, approximately 6% of cases had at least one issue escalated for ATO next actions. This is lower than the number escalated since the commencement of the combined assurance review program, with around 11% of reviews having been escalated. This is also a decrease in escalations from the 2024 financial year, with around 9% of reviews completed in 2024 escalating to ATO next actions.

The number of taxpayers referred under the combined assurance review program is significantly less than the number escalated in the earlier Top 1,000 tax performance program, where approximately 24% of taxpayers reviewed in a streamlined assurance review were escalated for further ATO action.

Since the beginning of the assurance program, we have completed ATO next actions engagements with over 278 taxpayers, and there are 78 engagements on hand as of 30 June 2025.

For these engagements in progress, 38% are risk reviews and 62% are audits. We continue to progress issues to audit, and we are also seeing more cases move directly to audit from an assurance review as our sophistication of detecting and knowing which issues require deep investigation has improved. In 2025, 60% of cases that have been escalated from an assurance review had progressed straight to an audit.

The risks addressed in ATO next actions engagements include transfer mispricing, related party financing, mischaracterisation with respect to payments for goods and services, structuring to avoid withholding tax, and not meeting the eligibility criteria to claim exemptions from withholding tax.

During 2025, we completed 35 ATO next actions engagements. Of these, 54% resulted financial outcomes and 11% were escalated to audit. The remaining engagements resulted in outcomes such as:

- further explanation provided by taxpayers satisfying our enquiries
- education of taxpayers and changes in taxpayer behaviour.

How to prepare for an ATO next actions engagement

We encourage taxpayers to prepare for their ATO next actions engagement. This includes preparing evidence to demonstrate they have addressed the actions noted in their assurance report and documented the steps that they have taken.

Taxpayers that choose not to adopt the recommendations in their assurance reports are encouraged to provide evidence supporting their position.

The better prepared and more open and transparent a taxpayer is, with contemporaneous evidence to support positions, the more likely the ATO next actions engagement can be resolved within a shorter timeframe. Taxpayers can also reduce their penalty exposure and it is less likely the matter will progress to an audit.

Most taxpayers do work with us to resolve identified concerns. The following are factors that are more likely to expedite resolution:

- provision of additional evidence requested in the Top 1,000 combined assurance review report
- amending the tax outcomes associated with the arrangement to reflect the ATO view, for example, moving to low-risk zones on areas covered by our practical compliance guides (provided no deeper structural issues exist).

The following are some factors which we are seeing that are more likely to entrench dispute or delay resolution:

- general statements of commercial purpose particularly where debt is introduced, or business operations are fundamentally changed
- vague or contestable evidence supporting classification of payment streams

- offers to reprice arrangements in exchange for not considering anti-avoidance rules
  - anti-avoidance rules are not used as a negotiation point
  - where anti-avoidance concerns are raised, full and detailed analysis will be needed (supported by provision of evidence).

QC 67407

Top 1,000 GST assurance

Findings from the Top 1,000 GST assurance review program and combined assurance reviews.

Last updated 18 September 2025

GST assurance

Since we commenced assuring taxpayers in respect of GST in 2019 as of 30 June 2025, we have completed 893 assurance reviews, covering 800 taxpayers.

As the size and composition of the population has changed since commencing the assurance approach for the Top 1,000 in 2016, we have recalibrated our approach to defining **the population**, bringing the focus of assurance program back to the largest 1,000 taxpayers from the largest economic groups.

For taxpayers currently in the program, as of 30 June 2025, we have completed 735 reviews, covering 643 taxpayers in the population. Unless otherwise stated, any reviews completed on taxpayers that are not in the current population are **not included** in our statistics in the detailed sections below. In 2025 alone we completed 158 reviews, of which 113 were on taxpayers reviewed for the first time.

Given the increasing number of taxpayers that we are reviewing for a second time for GST, and with the introduction of the Supplementary annual GST return, we will be taking a more tailored approach to our GST assurance reviews. Going forward, our approach to reviews for taxpayers that have previously been assured will be to assess the responses provided by taxpayers and consider whether the responses provided in the return, together with the assurance already attained in prior assurance reviews, continues to give us confidence that the taxpayer is correctly reporting and paying GST. We will then tailor our engagement appropriately.

In some circumstances, this may mean that an assurance review is not undertaken. For example, where a taxpayer has already been assessed as having an effectively designed GST risk management and governance framework (i.e. has achieved a stage 2 for GST governance), has no outstanding ATO or client next actions from their review, there have been no significant changes to their business or systems, and the taxpayer has undertaken a reconciliation between financial statements and BAS reporting, we may not undertake an assurance review. Similarly, we may undertake limited reviews of specific areas, such as the outcomes of periodic internal control testing where the taxpayer has indicated in their Supplementary annual GST return that this has been completed.

Health of the system

The below table shows the current population by latest assurance rating (from any review) and 2023 GST paid. This table outlines the GST reported and paid, as well as the GST throughput, in the 2023 year by the current population, based on their rating as at their last assurance review. The assurance ratings of individual taxpayers may not have been attained in respect of the 2023 year (i.e. the 2023 year may not yet have been assured through reviews), but instead uses the latest assurance rating (which could relate to a different year) as a proxy for the population coverage of key tax figures.

GST population latest rating and 2023 tax figures (nearest hundred million $)

Latest assurance rating	Latest rating (%)	Net GST (%)	GST throughput (%)
High assurance	41%	$5.3bn (44%)	$38bn (39%)

Medium assurance	54%	$6bn (50%)	$44.5bn (57%)
Low assurance	5%	$0.8bn (6%)	$4.3b (4%)

Ratings

The overall level of assurance is based on an assessment, having regard to objective evidence, as to whether the taxpayer is considered to have paid the right amount of GST.

We apply consistent rating categories when considering our overall level of assurance.

Ratings categories for overall levels of assurance on GST

Colour indicator	Rating	Category description
Green dot	High	We obtained assurance that the taxpayer paid the right amount of GST for the scope and period of this review.
Yellow dot	Medium	We obtained assurance in relation to some but not all areas within the scope reviewed. For those areas not yet assured, further evidence and/or analysis will be required before we obtain assurance that the taxpayer paid the right amount of GST.
Orange dot	Low	We have specific concerns around the taxpayer's compliance with the GST laws and the amount of GST paid relevant to the period and scope of this review.

Obtaining overall high assurance rating

In the Top 1,000 program, we apply a principled approach to reaching overall high assurance (justified trust). This is based on 2 elements:

1. A quantitative threshold of more than 90% tax assured and economic activity correctly reported

2. An objective assessment of 5 qualifying factors.

The 5 qualifying factors

1. Tax risk management and governance

Tax risk management and governance is rated at least a stage 2.

2. Tax risks flagged to market

Any material or significant tax risks flagged to market (Practical compliance guidelines (PCGs), taxpayer alerts) reviewed in the combined assurance review must each receive at least a medium level of assurance and not require any further ATO next actions based on the information provided.

3. New, significant transactions and specific tax risks

Any material new or significant transaction reviewed in the combined assurance review must each received at least a medium level of assurance and not require any further ATO next actions based on the information provided.

4a. Alignment between accounting and tax results – GST Analytical Tool (GAT)

The GAT calculation and any underlying assumptions or proxies have been verified with objective evidence provided by the taxpayer. The GAT calculation has not highlighted any new areas of concern and is rated as high assurance.

4b. Correct Reporting (predominantly input taxed suppliers only)

The results of the e-audit, third-party data testing and transaction testing have been verified with objective evidence provided by the taxpayer. The data and transaction testing has not highlighted any new areas of concern and is rated as high assurance.

5. Cooperative and collaborative behaviour

The taxpayer has been engaged and collaborative throughout the process and in working with the taxpayer we have not observed any non-cooperative behaviour.

Overall levels of assurance

This year we have seen an increase in the number of taxpayers where we have assurance that they have paid the right amount of GST, with 41% of taxpayers assured now at overall high assurance at their last review. The majority of taxpayers (54%) have a medium overall assurance rating, and 5% have a low assurance rating (refer to graph 17).

In 2025 alone, 45% of reviews on taxpayers in the population achieved a rating of high assurance, which is higher than the result than for all reviews to date.

We have now reviewed 103 taxpayers for GST more than once. With the introduction of the Supplementary annual GST return, in coming years we anticipate there will be a reduction in the intensity and number of assurance reviews being undertaken for taxpayers that have already been assured. Where these taxpayers are still in the population, their ratings as at their last review remain in the analysis below.

Graph 17: Overall assurance ratings for all GST assurance reviews for Top 1,000 taxpayers reviewed as at their latest review as of 30 June 2025

Pie graph shows percentage ratings, high assurance 41%, medium assurance 54%, low assurance 5%.

Comparison of first and latest review overall ratings

We have now reviewed 103 taxpayers for GST more than once. Graph 18 shows the ratings for all taxpayers after their first review, compared to the latest rating for the 103 taxpayers reviewed more than once.

Graph 18: Overall GST assurance ratings for first review of Top 1,000 taxpayers and overall GST assurance ratings for Top 1,000 taxpayers after their latest review as of 30 June 2025

Bar graph shows outcomes from first review, 396 taxpayers, high assurance 34%, medium assurance 61%, low assurance 5%. Outcomes from latest review, 103 taxpayers, high assurance 55%, medium assurance 41%, low assurance 4%.

Graph 19 below shows the comparison for overall GST assurance ratings for those reviewed more than once. As can be seen, there is substantial improvement in rating for these taxpayers.

Graph 19: Comparison of first and latest overall GST assurance ratings for Top 1,000 taxpayers reviewed more than once as of 30 June 2025

Bar graph shows first review, high assurance 26%, medium assurance 70%, low assurance 4%. Latest review, high assurance 55%, medium assurance 41%, low assurance 4%.

Overall assurance rating for reviews completed by industry

Graph 20 shows latest overall assurance ratings for the entire population split by Industry. We continue to see lower levels of high assurance in the wholesale, retail and services industry.

Graph 20: Latest overall assurance rating for Top 1,000 taxpayers by industry as of 30 June 2025

Bar graph shows assurance ratings for FS (33) high 35%, medium 60%, MCA (79) high 58%, medium 37%, MIN (54) high 42%, medium 55%, WRS (230) high 32%, medium 63%.

Note that the graph shows the overall assurance ratings by the number of taxpayers for the following key industry groupings:

- manufacturing, construction and agriculture (MCA)
- financial services (FS) (banking, finance and investment, superfunds, and insurance)
- wholesale, retail and services (WRS)
- mining, energy and water (MIN).

Tax risk management and governance

Tax risk management and governance is a key focus area. As a transactional tax that is data driven, it is important that there is a strong, board-endorsed tax governance framework and that it is 'lived' in practice.

We consider the existence, design and operation of a tax control framework for GST focusing on the 8 controls set out in the **GST Governance, Data Testing and Transaction Testing Guide** (GST Guide).

The GST Guide provides guidance to help taxpayers conduct a self-review of their tax control frameworks for GST purposes. Our reviews focus on the following controls aligned with the justified trust objectives:

1. **Board-level control 1 (BLC 1)** – Formalised tax control framework
2. **Board-level control 3 (BLC 3)** – The board is appropriately informed
3. **Board-level control 4 (BLC 4)** – Periodic internal control testing
4. **Managerial-level control 1 (MLC 1)** – Roles and responsibilities are clearly understood
5. **Managerial-level control 3 (MLC 3)** – Significant transactions are identified
6. **Managerial-level control 4 (MLC 4)** – Controls in place for data
7. **Managerial-level control 6 (MLC 6)** – Documented control frameworks
8. **Managerial-level control 7 (MLC 7)** – Procedures to explain significant differences.

For GST, our key focus is on BLC 4, MLC 4, MLC 6 and MLC 7 as they directly impact the correct reporting of GST.

Ratings

We apply a consistent rating system when reviewing and assessing tax governance. We consider the existence, design and operation of a tax control framework for GST. During the review, we refer to the initial areas of focus set out in the GST Guide before their review starts.

Ratings

Colour indicator	Stage	Category description
Green dot	Stage 3	The taxpayer provided evidence to demonstrate that a tax control framework exists, has been designed effectively and is operating effectively in practice.
Yellow dot	Stage 2	The taxpayer provided evidence to demonstrate that a tax control framework exists

		and has been designed effectively.
Orange dot	Stage 1	The taxpayer provided evidence to demonstrate a tax control framework exists.
Red dot	Not evidenced or concerns	The taxpayer did not provide sufficient evidence to demonstrate a tax control framework exists or we have significant concerns with the taxpayer's tax risk management and governance.

The tax governance ratings for the GST assurance reviews for taxpayers reviewed up to the end of June 2025, as at their most recent review, are in graph 21.

Graph 21: Overall GST tax risk management and governance ratings for Top 1,000 taxpayers reviewed in their latest review, as of 30 June 2025

Pie chart shows percentage ratings, stage 1 52%, stage 2 42%, stage 3, 5%, not rated 1%.

In graph 21, most taxpayers (52%) achieved a stage 1 for GST tax governance, as at their last review.

In the last 12 months we have continued to see a high number of taxpayers with effectively designed GST governance, with 44% of those reviewed in 2025 achieving a stage 2 rating. Further, 5% of taxpayers reviewed achieved a stage 3 rating for governance, having been able to provide evidence that their controls are operating effectively. We expect to continue to see this positive shift in governance ratings for GST.

We have also continued to observe an increase in taxpayer willingness to develop board approved GST testing plans and, in the absence of a plan, a board endorsed commitment to undertake controls testing within a 3–5 year rolling audit period. This increase in providing such commitments for BLC4 is the main driver contributing to the increase in stage 2 ratings for governance in GST.

A stage 1 rating for governance is the most significant reason preventing taxpayers from achieving overall high assurance for GST. For reviews completed in 2025, 41% of taxpayers that achieved an overall medium assurance rating would have reached an overall high assurance rating had they achieved a stage 2 for governance.

Graph 22 below shows the prior and latest governance rating for taxpayers that have been reviewed more than once. As can be seen, there is a substantial increase in the proportion of taxpayers reaching a stage 2 or stage 3 rating, from 28% for the prior review rating to 58% in their latest review.

Graph 22: Comparison of first and latest GST tax risk management and governance ratings for Top 1,000 taxpayers reviewed more than once as of 30 June 2025

Bar graph shows first review, stage 2 27%, stage 1 71%, red flag 1%. Latest review, stage 3 13%, stage 2 46%, stage 1 40%.

Areas of focus

The way in which a taxpayer's systems create, capture, collate and report GST is fundamental to the correct reporting of their GST obligations. The ATO considers the GST governance and tax control framework supporting this is one of the most significant focus areas for a GST assurance review because incorrectly reported transactions can often lead to significant GST effects over time. For example, an error in the way a supply is coded for GST purposes can extrapolate to significant GST shortfalls when replicated through large volumes of sales.

The following observations are common issues for taxpayers to focus on and improve on to address their GST risk management and governance frameworks. These are specific observations from our recent reviews, and taxpayers should consider these in conjunction with the GST Governance, Data Testing and Transaction Testing Guide

In addition to these comments, we note that as more taxpayers are reaching a stage 2 rating for their GST risk management and governance framework, we are observing that more taxpayers have started to undertake periodic internal control testing and expect that more taxpayers will commence carrying out periodic internal control testing, which includes the GST fundamental and common controls.

When assessing whether a taxpayer has GST controls that are operating effectively, we will first confirm that the controls are designed effectively, either by considering any changes to the controls since our earlier review, or where we haven't previously rated those controls at stage 2, by examining the objective evidence to support a stage 2 rating.

Taxpayers should ensure they have assessed their GST controls as meeting the requirements for design effectiveness by reference to the GST Governance, Data Testing and Transaction Testing Guide prior to commencing periodic internal control testing.

Common controls

Five controls are referred to as the 'common controls' (BLC1, BLC3, MLC1, MLC3 and MLC7) because the design elements are equally as critical for both income tax and GST, and there are common features in the way these controls are evidenced. In situations where these common controls are not at a stage 2 for GST, it is typically due to a control being designed for income tax, but that design doesn't extend to GST.

We are observing that more taxpayers are addressing the GST aspects of the common controls whilst designing the income tax controls and consequently an increasing number of taxpayers are obtaining stage 2 for the GST specific aspects of these common controls.

MLC 3: Significant transactions are identified

Taxpayers are generally able to sufficiently describe significant transactions and provide relevant risk criteria, i.e. non-monetary, reputational risk, etc., however, we observed that taxpayers do not always define the materiality threshold for significant transactions in monetary terms. To achieve a stage 2 for MLC 3 it is necessary that the control specifies the monetary threshold in dollar terms either a prescribed dollar value or a calculation that results in a dollar value.

BLC 4: Periodic internal control testing

The majority of taxpayers are achieving a stage 2 rating for BLC4 through the provision of a commitment to undertake periodic internal control testing, in line with Table 1 of the GST Governance, Data Testing and Transaction Testing Guide (GST Guide), and to develop their detailed periodic internal control testing plan at a later date prior to commencing the actual controls testing.

We have increased our focus on the completeness of such commitments, specifically in relation to scope of the testing, timing, independence and reporting of testing outcomes. It is crucial that

BLC4 is designed effectively at a stage 2 before commencing any testing program.

We require that periodic internal control testing must be undertaken by a suitably qualified reviewer, who is independent of the tax control owner. This can include the internal audit function where that function sits outside of the tax function with separate reporting lines.

Alternatively, the testing may be undertaken by a third party. Determining whether a third party is independent for the purposes of undertaking internal control testing will be a question of fact and degree. It is relevant to consider whether the third party has undertaken any of the responsibilities of the control owners, including where the third party has undertaken the design of any of the tax controls, or the third party has undertaken the BAS preparation work. If they are not considered independent, the taxpayer will not have met the requirements for a stage 3 rating.

To evidence the outcomes of the testing, we need to be provided with:

- the testing methodology and sample size selected
- the types of source documents relied upon by the tester
- the final testing results
- if issues are identified in the testing, an outline of the steps taken to address those issues
- board (or board delegate) acknowledgement of the test results and actions taken to address issues identified.

A taxpayer must have completed controls testing for all the GST controls (i.e. the fundamental and common controls) and have addressed any issues identified to achieve a stage 3 rating and have a plan to continue testing into the future.

MLC 4: Controls in place for data

We are increasingly observing that taxpayers generally have robust controls in place for data in relation to GST tax code set-up/maintenance for their accounts payable and accounts receivable functions i.e. for supplies and acquisitions made in the normal course of business. However, we continue to observe that taxpayers need to focus on ensuring that there are appropriate fully documented procedures in place for addressing:

- manual adjustments that are outside the usual ledgers, including unusual or 'one-off' transactions, manual adjustments to correct errors and routine end of month or year-end adjustments
- the implementation and maintenance of customer, vendor and product master files.

MLC 7: Documented control frameworks

Taxpayers are generally able to describe the procedures for the monthly reconciliation of the BAS outcomes with the general ledger.

However, we observed that most taxpayers do not undertake an annual reconciliation between the BAS outcomes and the audited financial statements, and for those that do undertake this reconciliation the process is not generally fully documented. Including this reconciliation in a governance framework, combined with reporting the outcomes of the reconciliation in the Supplementary annual GST return, may reduce the intensity of future GST reviews for most taxpayers.

Significant and new transactions, specific tax risks and tax risks flagged to market

We review the GST treatment of the taxpayer’s business activities, particularly significant and new transactions. We also review risks or concerns communicated to the market to determine if they are present.

Ratings

We apply a consistent rating system when assessing the GST treatment of taxpayer’s business activities.

Ratings

Colour indicator	Rating	Category description
Green dot	High	We obtained a high level of assurance that the right GST outcomes were reported in the

		taxpayer's BAS for the scope and period of this review.
Yellow dot	Medium	More evidence or analysis is required to establish a reasonable basis to obtain a high level of assurance.
Orange dot	Low	More evidence and analysis is required to determine whether a tax risk is present.
Red dot	Red flag	We have concerns there is non-compliance with the GST law.
–	Out of scope	We have not evaluated this item and not expressed a rating.

Observations

The following areas are key GST risk areas that result in corrections to returns and the need to correct GST reported and paid.

Common GST risks in incorrect reporting of supplies and acquisitions arise from inadvertent errors. Often such errors are identified from a taxpayers' self-review of its systems and reporting of GST and result in the taxpayer voluntarily disclosing a GST shortfall for tax periods both within and outside the tax periods being reviewed.

It is important for businesses to have good governance and control frameworks in place that detect and remediate errors on a regular basis (even if not material in dollar terms). The transactional nature of GST means that undetected errors can compound to material amounts unless identified and addressed. We have also received voluntary disclosures where errors have occurred in relation to one-off transactions that are not core business activities.

We continue to encourage taxpayers not to wait for ATO engagement reviews to commence to undertake a review of their GST reporting. We observed that 34% of taxpayers in 2025 made voluntary disclosures upon being notified of a review starting and throughout the progress of the combined assurance review. This has decreased compared to 2024 where 40% of taxpayers submitted a voluntary disclosure.

For taxpayers reviewed in 2025, approximately 30% obtained a low assurance or red flag rating across one or more assurance areas. Of all significant and new transactions, specific tax risks and tax risks flagged to market assured for GST during 2025, approximately 8% were rated as low assurance or red flags. These predominantly related to the following 5 key areas.

Staff expenses

In respect of reviews undertaking in 2025, 14% of ratings for staff expenses obtained a low assurance rating or red flag. These were primarily due to:

- errors in reporting GST on post tax employee contributions, i.e. not accounting for GST on sums received
- incorrectly treating an acquisition as creditable, such as incorrectly claiming input tax credits on non-deductible entertainment expenses.

This trend is consistent with prior years, and one taxpayers should focus on given the interaction with other taxes such as fringe benefits tax and income tax.

Classification of supply of GST-free goods

We continue to observe taxpayers incorrectly classifying taxable supplies as GST-free with 40% of issues that received a separate assurance rating for this risk area in 2025 obtaining a low or red flag assurance rating, primarily in respect of the supply of the following products in 2025:

- medical aids and appliances, including
  - wound care products where the products are widely used in the community by people without illness or disabilities
  - compression socks where the products are designed for, or widely used by, people in the general community to prevent illness or injury, or legs and feet from getting tired and swollen from prolonged standing
  - products that have a sun protection factor (SPF) but are not marketed principally for use as a sunscreen, such as a skin cream with an SPF that is also marketed as 'hydrating' and 'colour correcting', or a lip balm with an SPF that is also marketed to treat dry, chapped lips.
- food and beverages, including

- food marketed as a prepared meal
- fruit and vegetable juice beverages that do not consist of at least 90% by volume of juices of fruits or vegetables.

We observe that incorrect classification of products is driven by a number of factors:

- insufficient governance controls around onboarding of new products
- failure to undertake regular reviews of the product master list to identify incorrect treatments
- incorrect interpretation of the GST legislation relating to the products
- reliance on the GST treatment by the supplier without undertaking due diligence to determine the correct GST classification of the products.

Recent public advice and guidance has been published to assist taxpayers with their GST classification decisions, including the following.

- GSTD 2024/D2 *Goods and services tax: supplies of sunscreen*. The draft Determination provides guidance to help determine when sunscreen products are ‘marketed principally for use as sunscreen’. This is particularly relevant for contemporary products with dual features, for example, sunscreens with moisturiser or tint. It also makes it easier for suppliers of sunscreen products across a supply chain to determine the GST classification of their product.
- GSTD 2025/1 *Goods and services tax: supplies of food of a kind marketed as a prepared meal*. The determination
  - outlines the Commissioner's view on the meaning of 'food of a kind marketed as a prepared meal' by reference to the principles in the Simplot Australia decision
  - explains how the key principles from the decision apply across the broad range of products where this issue commonly arises
  - provides practical common examples to help illustrate these principles

- – outlines impact on existing ATO public advice and guidance products, including the updates we've made to the **Detailed Food List** (DFL) Public Ruling
  – provides a method statement and compliance approach with examples to assist taxpayers in determining whether salad products are likely to be food of a kind marketed as a prepared meal
  – includes a transitional compliance approach to the GST treatment of certain categories of prepared meal products for tax periods ending on or before 31 December 2025.

We also published a **Self-review checklist for small to medium businesses** and **Self-review guide for medium to large business** to provide taxpayers with practical step-by-step guidance to:

- undertake regular self-review of the GST classification of their supplies
- assess the robustness of business system processes and controls that directly impact the decisions on GST classification of supplies.

Financial supplies

The following issues have been identified as areas of concern in respect to making financial supplies, with 17% of ratings in respect of financial supplies in 2025 receiving a low assurance or red flag rating for at least one of these issues:

- the application of Financial Acquisition Threshold (FAT) to determine whether input tax credits can be recovered on costs, specifically in relation to mergers, demergers, company acquisitions, initial public offerings or other similar activities involving share transactions
- application of Division 78 on claiming a decreasing adjustment on settlement payments where general insurers do not have adequate controls in place to verify the input tax credit entitlement of the insured used in calculating decreasing adjustments
- claiming Reduced Input Tax Credits (RITCs) on costs without fully considering whether those costs are eligible for a RITC, including mixed supplies under IT outsourcing contracts
- not applying the reverse charge provisions to services provided to it by overseas based branches or associated entities, for example,

information technology and administration related support services

- general insurers not having adequate controls in place to verify and sense check the input tax credit entitlement of the insured used in calculating decreasing adjustments.

We encourage taxpayers, specifically those who do not make routine input taxed supplies, to focus on the application of the FAT in relation to one-off merger and acquisition type transactions, and those in the insurance sector to focus on the application of Division 78 and input tax credit entitlements.

We refer taxpayers impacted by the above issues to consider ATO guidance published in relation to:

- Goods and Services Tax Ruling **GSTR 2003/9**: financial acquisitions threshold
- **Application of the reverse charge provisions – findings of reviews**
- Goods and Services Tax Ruling **GSTR 2004/1**: *Goods and services tax: reduced credit acquisitions*
- **ATO expectations on how you support your reduced input tax credit claims on complex information technology outsourcing agreements.**

Attribution including rebates, discounts and adjustments

We continue to observe that taxpayers continue to make routine accounting and attribution errors, with 40% of ratings relating to attribution in 2025 receiving a low assurance or red flag rating. Areas where we commonly identify concerns include:

- incorrectly treating adjustment events associated with supplies made in previous periods, for example, in the provision of volume rebates
- incorrectly attributing supplies to later tax periods
- incorrectly claiming input tax credits without supporting documentation
- accounting and BAS reporting errors.

Recipient created tax invoices (RCTIs)

We continue to observe an ongoing compliance issue with respect to RCTIs, with approximately 14% of taxpayers that received a separate assurance rating for RCTIs in 2025 receiving a low assurance or red flag rating in respect of this issue due to:

- there being no valid RCTI agreement in place with suppliers, either as a stand-alone agreement or embedded in the invoice
- no robust procedures being in place for ongoing monitoring that suppliers continue to be registered for GST.

Legislative Instrument LI 2023/20, A New Tax System (Goods and Services Tax): Recipient Created Tax Invoice Determination 2023 was issued in 2023, outlining the requirements for issuing RCTIs.

We have also issued **guidance** on RCTI arrangements to support compliance, including the responsibilities of an RCTI issuer to ensure you meet all the requirements.

Alignment of tax and accounting outcomes

We analyse the differences between the BAS outcomes and accounting outcomes and seek to understand and explain the various streams of economic activity and how they are treated for GST by applying the GST Analytical Tool (GAT). This provides an objective basis to obtain greater assurance.

The GAT is a compulsory element of the combined assurance review, other than for taxpayers predominantly making input taxed supplies. For these taxpayers, such as those in the financial services sector, we continue to undertake data and transaction testing to provide assurance for GST instead of the GAT.

For all other taxpayers we use the GAT, combined with limited transaction testing, to provide assurance, identify key risk areas and assess whether GST is correctly reported.

Ratings

We apply a consistent rating system when reviewing and assessing the alignment of tax and accounting outcomes, which is outlined below.

Ratings

Colour	Rating	Category description

indicator		
Green dot	High	We understand and can explain why the various streams of economic activity and the accounting and income tax results, and accounting and GST results, vary.
Yellow dot	Medium	Further analysis and explanation is required to understand the various streams of economic activity and/or why the accounting and income tax, and accounting and GST results vary.
Orange dot	Low	We identified concerns from our analysis of the various streams of economic activity and/or why accounting and income tax, and accounting and GST results vary.
Red dot	Red flag	We do not understand and cannot explain the various streams of economic activity and/or why accounting and income tax, and accounting and GST results vary.

The ratings for the alignment between tax and accounting area arising in the GST assurance reviews completed are shown in graph 23.

Graph 23: Overall GST alignment of accounting and tax assurance ratings for Top 1,000 taxpayers reviewed, in their latest review, as of 30 June 2025

Pie chart shows percentage ratings, high 75%, medium 19%, low 4%, red flag 1%.

We continue to observe the majority of taxpayers achieving a high assurance rating for the GAT, with 80% of taxpayers reviewed in 2025 and applying the GAT being able to explain any differences with reference to objective evidence.

We have observed that taxpayers who are undertaking the GAT for a second time are able to substantially complete the GAT.

Taxpayers undertaking the GAT for the first time are typically able to complete the revenue side of the GAT and generally only seek assistance from the assurance team to complete the acquisition side.

A low assurance or red flag for the GAT typically occurs where a taxpayer has made minimal or no attempt to complete the GAT. Where this occurs, a taxpayer is not able to achieve an overall high assurance rating.

We have published guidance to support taxpayers when considering the application of the GAT:

- GST Analytical Tool (GAT) FAQ
- Top 1,000 GAT example.

Data and transaction testing

We will undertake data and transaction testing for taxpayers that predominantly make input taxed supplies, such as financial services (including life insurance) industry taxpayers, in combined assurance reviews. For these entities, we don't use the GAT in our combined assurance reviews but use data and transaction testing to assess correct reporting.

Data testing involves running numerous pre-determined tests against a defined data set to identify reporting errors and exceptions for further investigation or correction. Transaction testing involves tracing an identified transaction from its source documentation through to the financial reports to confirm the accuracy of the GST treatment, calculation and reporting of the transaction. Where errors and exceptions are identified, further investigation or correction will be necessary.

For financial services entities and insurers, we have published bespoke tests that can be used to get greater confidence in correct reporting, see GST data tests for the financial services and insurance industry.

GST next actions

At the conclusion of a combined assurance review, if we have identified areas of concern, we will either provide recommendations for the taxpayer to undertake or we may consider intervention through a formalised ATO next actions product.

Where a specific error or risk has been identified, we will typically make recommendations for the taxpayer to action (referred to as a client next action), and in some instances outline an expected timeline by which we will require the taxpayer to advise us of what they have done to address those recommendations.

In respect of GST, this is our most frequently used approach to addressing concerns identified. In considering what a taxpayer has done to address our concerns, we will also consider what the taxpayer has done to ensure the error doesn't continue into future tax periods, such as how governance controls have been strengthened. Where we see errors continue into future years, this is likely to impact on our consideration of administrative penalties and interest applied.

Where we identify a concern that we consider requires further ATO review, we will escalate this issue for a GST risk review or audit. Less than 1% of taxpayers reviewed in 2025 were escalated for further ATO action in respect of GST. This is a slight reduction in escalation rate as compared to 2% in the 2024 year.

Appendix 1 – Published guidance

To assist taxpayers in preparing for a combined assurance review, we provide the following published guidance.

- Top 1,000 combined assurance program
- Tax risk management and governance guides
  - Tax risk management and governance review guide
  - Tax risk management and governance
  - GST governance, data testing and transaction testing guide
  - Governance over third-party data (large super funds, managed funds and insurance companies)
- Outline of typical questions and areas of enquiry
  - Typical questions in a Top 1000 combined assurance review
- GST analytical tool – Top 1,000 GST assurance program.

Ratings tables – Top 1,000 income tax and GST assurance programs

Tables detailing data supporting the overall assurance ratings for the Top 1,000 income tax and GST assurance programs.

Last updated 18 September 2025

Tables 1 and 2 detail the data used in Graph 7: Comparison of the first and latest overall assurance rating for reviews completed by industry as of 30 June 2025.

Table 1: overall assurance rating for first reviews completed by industry as of 30 June 2025

Industry	FS	MCA	MIN	WRS
Population total	160	143	93	398
Low assurance	9%	15%	11%	15%
Medium assurance	71%	64%	68%	60%
High assurance	20%	21%	22%	25%

Table 2: overall assurance rating for latest reviews completed by industry as of 30 June 2025

Industry	FS	MCA	MIN	WRS
Population total	65	77	44	208
Low assurance	2%	10%	5%	5%
Medium assurance	68%	47%	68%	63%
High assurance	31%	43%	27%	32%

Tables 3 and 4 detail the data used in Graph 13: Comparison of first and latest overall income tax risk management and governance ratings for reviews completed by industry, as of 30 June 2025.

Table 3: overall income tax risk management and governance ratings for first reviews completed by industry, as of 30 June 2025

Industry	FS	MCA	MIN	WRS
Population total	160	143	93	398
Not rated	1%	0%	0%	0%
Red flag	0%	6%	5%	4%
Stage 1	43%	66%	71%	66%
Stage 2	53%	30%	22%	28%
Stage 3	3%	0%	1%	0%

Table 4: overall income tax risk management and governance ratings for latest reviews completed by industry, as of 30 June 2025

Industry	FS	MCA	MIN	WRS
Population total	65	77	44	208
Not rated	3%	1%	3%	0%
Red flag	0%	6%	8%	1%
Stage 1	14%	23%	44%	39%
Stage 2	76%	64%	41%	53%
Stage 3	7%	7%	6%	0%

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