Goods and services tax gap

How we estimate and reduce the goods and services tax (GST) gap for 2023–24.

Published 3 November 2025

How we make sure the GST gap estimate is reliable.

QC 105673

Overview of GST

What goods and services tax (GST) is and when it is paid.

Published 3 November 2025

GST (goods and services tax) is a broad-based tax at 10% on most goods and services sold or consumed in Australia.

GST commenced in Australia in July 2000 with a 10% GST rate. There have been some changes to the types of goods and services subject to GST. For example, the sale of imported digital products (downloaded movie and games) and digital services (online educational courses and legal advice) became subject to GST in 2017. There has been no change to the GST rate.

Generally, businesses and individuals registered for GST will:

- include GST in the price they charge for their goods and services
- claim credits for the GST included in the price of goods and services they buy for their business.

QC 105673

Latest estimate and trends for the GST gap

Compare the 2023–24 GST gap with trends from previous years.

Published 3 November 2025

2023–24 GST gap estimate

The latest estimate of the overall net goods and services tax (GST) gap is $8.7 billion in 2023–24, or 9.4% of theoretical total GST. This is higher than the estimate from 2022–23 of $8.1 billion, or 9.1% of theoretical total GST. This means that we expect to collect close to 91% of the total theoretical amount of GST. Being a top-down gap estimate, we use economy-wide information from the Australian Bureau of Statistics (ABS) to estimate the total GST liability and compare that to expected GST collections to determine the difference, which is the 'gap'.

What is driving the gap

The increase in the net GST gap for 2023–24 comes from an increase in consumer spending on things where GST applies but non-compliance is relatively high. For example, we saw spending on overall dwelling construction (subject to GST) increasing by 7.1%, which contributed to an overall 4.2% increase in GST liabilities. Offsetting this, expected GST collections (GST payments from suppliers) have been projected to increase at a lower rate of 3.9%. The difference in the 2 reflects a relatively high level of non-compliance on suppliers passing on GST payments from consumers.

The gross gap represents the estimated GST gap before the impact of ATO compliance activities are included. This year the gross gap is estimated to have decreased in percentage terms, now at 12.5% of the total theoretical GST amount in 2023–24 from 12.7% in 2022–23 and 14.4% in 2021–22. The gross gap was higher in these years due to the impact of the spike in activity statement fraud managed under Operation Protego. The fact that more than half of this fraud was stopped 'pre-issue', together with a level of post-issue recoveries, meant the impact on the net gap was not as high as the effect on the gross gap The effect of the spike in fraud (and fraud related amendments) can be seen in Table 1 where the total amendments for 2023–24, $2.9 billion is closer to the amendments reported in 2020–21.

We incorporate the latest available information into our gap estimates including revisions to previously published estimates. This updated information comes from internal sources and external sources such as the ABS which provides important information supporting our estimate of the GST base and theoretical GST.

Figure 1: Gross and net gaps; as percentage of theoretical GST, 2018–19 to 2023–24

The gross and net GST gaps as percentages of theoretical GST as outlined in Table 1.

This gap forms a part of our overall tax performance program. Find out more about the concept of tax gaps and the latest gaps available at Australian tax gaps – overview.

The current top-down model doesn't allow us to estimate the contribution of different market segments to the overall GST gap. Work continues in developing a companion bottom-up GST tax gap model that will provide more market level insights. Our preliminary analysis tells us that the small business market segment is the largest contributor to the GST gap. The estimated share of the small business sector of the GST gap has historically been above 70% in all years.

Table 1 summarises the key GST gap estimates.

Table 1: GST gap, 2018–19 to 2023–24

Element	2018–19	2019–20	2020–21	2021–22	20
Gross gap ($m)	9,020	7,092	6,073	11,547	1
Amendments ($m)	2,599	2,047	2,802	6,461	3
Net gap ($m)	6,421	5,046	3,271	5,086	
Expected collections ($m)	64,849	64,503	69,132	74,928	8
Theoretical liability ($m)	71,271	69,549	72,403	80,014	8
Gross gap	12.7	10.2	8.4	14.4	

(%)					
Net gap (%)	9.0	7.3	4.5	6.4	

Trends over time

Given various assumptions made, methodological improvements and revisions to the underlying national accounts data used, the GST tax gap estimates can take some time to tend towards a central and stable estimate. Gap analysis is therefore more useful for identifying the trend over time – rather than focusing on the absolute gap value for each or any year.

When we look at the trend in the GST gap, we see a decline in the gap during the years impacted by COVID-19. There are a number of factors which may have contributed to this trend. During COVID-19, restrictions saw a shift in consumer spending, with less discretionary spending in sectors where we have historically seen higher prevalence of the cash economy and GST non-compliance (for example, cafes and trades). We also saw a compositional shift in spending, with relatively more spent on non-discretionary, GST-free goods and services such as food, health, education and rent. In addition, we saw a rise in GST lodgments in 2020–21 and 2021–22 as taxpayers needed to ensure registration and lodgment information was up to date to access COVID-19-related stimulus measures. The combination of these 3 factors is considered likely to have put downward pressure of the GST gap.

For previously published tax gap figures, see Australian Tax Gaps - Data.gov.au

QC 105673

ATO action to reduce the GST gap

How we support our clients to meet their GST compliance obligations.

Published 3 November 2025

Managing GST risks and behaviours

Addressing and influencing taxpayer behaviour to maximise voluntary compliance and minimise GST gap remains a priority. Taxpayer actions which impact the GST gap continue to range in severity from honest reporting errors to deliberate non-compliance, and include:

- non-reporting of GST
- under-reporting of GST
- over-claiming of refunds
- non-payment of GST liabilities.

Our compliance programs therefore provide a balance of prevention, early engagement and assurance activities and target higher-risk taxpayers and industries.

We continue our focus on managing GST compliance risks and behaviours impacting the integrity of the GST. Contemporary technology continues to strengthen our ability to manage GST risks including fraud by:

- improving our risk identification process with earlier detection techniques, enabling us to apply differentiated and tailored treatment strategies
- delivering an automated solution to streamline processes related to managing high-risk refunds
- providing staff with a more holistic view of GST lodgment to support a better client experience when engaging with taxpayers.

Where a business activity statement (BAS) lodged online contains an identifiable or likely reporting error, nudge messaging recommending taxpayers check their BAS before lodging their refund is generated. While previously we were legally constrained to process GST refunds in 14 days, recent legislative change means we now have 30 days to process refunds. This allows us more time to detect and investigate potential fraud before a refund is issued.

Helping businesses to get it right

We are committed to helping small businesses get it right to register for GST when required and report their GST transactions accurately. For example, in 2024–25 we commenced work to connect with and help ride-sourcing drivers register for GST and meet their BAS lodgment and reporting obligations. These initiatives will continue as part of our 'helping small businesses get it right' focus.

We are also being transparent where we are concerned that small businesses are getting it wrong, being opportunistic or deliberate on an ongoing basis. We want to help small businesses set up good habits to get it right and stay on track.

To ensure large businesses pay the right amount of GST and to reduce the gap, we have a combination of one-to-one and one-to-many approaches. These include our justified trust assurance programs and advice and guidance strategies. From the 2024–25 year on, we have introduced the *Supplementary annual GST return* for large businesses that have received a GST assurance rating through a GST assurance review. With a focus on their ongoing investment in GST compliance, the information provided in the annual return will enable more tailored and less resource investment for justified trust reviews for many taxpayers.

We prevent compliance issues before they arise, by supporting those who want to do the right thing and helping them reduce mistakes through:

- reminders
- nudges
- improved information on our website
- public advice and guidance.

At the same time, we take a firmer approach with those we detect deliberately evading their GST and other tax obligations.

Closing the gap

We will continue to work towards closing the GST gap by:

- building trust and confidence within the community by implementing strategies under the GST Compliance Program

- achieving GST compliance outcomes from other ATO government funded programs, including the
  - Shadow Economy Advisory Forum
  - Serious Financial Crime Taskforce
  - Phoenix Taskforce.

For more information on the concept of tax gaps, including why and how we measure them, and a summary of the latest available tax gap data, see **Australian tax gaps – overview**.

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Methodology for estimating the GST gap

Learn the method we use to estimate the GST gap.

Published 3 November 2025

Five-step top-down method

We use a 5-step top-down methodology to estimate the goods and services (GST) gap.

Step 1: Compile GST-able consumer spending

The main information used to construct the theoretical GST base is the Household Final Consumption Expenditure data compiled by the Australian Bureau of Statistics (ABS). This is a comprehensive measure of consumer spending.

We remove specific expenditures included in the ABS measure of consumer spending but for which GST concessions or exemptions apply. These expenditures are not part of the estimated theoretical GST base. We base our estimates of these expenditures on Treasury estimates of GST foregone by policy decisions to exempt or concessionally tax certain spending.

Adjustments are made to account for the different treatment of spending associated with international travel.

An adjustment is made to uplift the ABS estimates of shadow economy spending by consumers broadly into line with the more contemporary estimates published by the Black Economy Taskforce in 2017.

Step 2: Add estimates of other components of the GST

There are other components of the GST base which are not part of the ABS measure of consumer spending; but which are subject to the GST. These need to be quantified and separately added into our estimate of the GST base. These include:

- the value of dwelling completions and alterations and additions (both based on ABS published data)
- consumers' share of ownership transfer costs based on ABS data
- an estimate of land sales.

Step 3: Determine theoretical GST liability

The total theoretical GST base estimated above includes the GST (which equals 10% of the GST exclusive price).

We estimate the total theoretical GST liability by dividing the theoretical GST base by 11 (given the fixed GST rate of 10% is incorporated in the estimated GST base).

Step 4: Estimate the net gap

We subtract the actual GST liabilities reported on an accrual basis, including our compliance activities, from the theoretical total GST liability to estimate the net gap.

Mature non-pursuable debt relates to tax liabilities that we believe will never be received by the ATO. Initially all debt, including mature non-pursuable debt, is included in the GST liabilities reported on an accrual. Non-pursuable debt is considered part of the net gap and therefore, we add our best estimate of non-pursuable debt to estimate the net gap including debt. This is the most accurate measure of the tax gap for GST.

Step 5: Estimate the gross gap

Actual GST revenue under the economic transaction method (ETM) framework included the additional liability generated by ATO compliance actions. Hence, we need to add back any compliance amendments to derive the gross tax gap. The gross gap therefore is an estimate of the tax gap before the impact of ATO compliance activity.

The gross tax gap (including debt) is obtained by adding to the net tax gap an estimate of the likely mature level of liabilities raised from ATO compliance activities.

Some of the key assumptions of the methodology include that:

- ABS estimates of consumer spending reliably capture spending by all consumers and households in the observed economy
- Taxation expenditures published annually by Treasury are a reliable indicator of GST foregone associated with policy decisions and can be reliably grossed-up to quantify spending that does not attract the GST. This ensures that our estimates of the GST base align with Treasury estimates of tax foregone on spending not subject to the GST
- Estimated average value of house and land transfers in the ABS data on all transfers is a reliable proxy for the average value of new house and land transfers
- Uplift to the shadow economy adjustment made by the ABS in their published estimates of HFCE reliably captures the impact of the shadow economy on the theoretical GST base
- Share of dwellings construction in aggregate construction is a reasonably reliable way to apportion aggregate ownership transfers costs to consumers
- No adjustment is made for any timing mismatch between the purchase of inputs and the economic activity (final consumption) generating payment of the associated net GST paid to the ATO.

Summary of the estimation process

Table 2a to Table 2e provide a summary of each step of the estimation process and the results for each year from 2018–19 to 2023–24.

Table 2a: Step 1 – Compile GST-able consumer spending (

Calculation	2018–19	2019–20	2020–21	2021–22
ABS estimate of consumer spending ($m)	1,053,608	1,036,184	1,060,205	1,139,810
less rent ($m)	211,207	218,816	226,300	235,629
less other non-GST-able spending ($m)	252,396	239,650	244,820	258,250
less international tourism ($m)	11,891	7,752	301	2,676
plus extra shadow economy uplift ($m)	12,167	11,786	12,081	13,01
Total GST-able consumer spending ($m)	590,281	581,752	600,865	656,266

Table 2b: Step 2 – Add estimates of other components of t

Calculation	2018–19	2019–20	2020–21	2021–22

plus dwellings ($m)	140,686	131,017	132,337	144,808	
plus alterations and additions ($m)	37,933	37,678	43,721	51,912	
plus ownership transfer costs ($m)	15,078	14,591	19,508	27,169	
Estimated GST base ($m)	783,978	765,038	796,431	880,155	9

Table 2c: Step 3 – Estimated theoretical GST ($m)

Calculation	2018–19	2019–20	2020–21	2021–22	2022 2
Estimated theoretical GST ($m)	71,271	69,549	72,403	80,014	89,14

Table 2d: Step 4 – Estimated net gap ($m and %)

Calculation	2018–19	2019–20	2020–21	2021–22	2022 2
less GST liability reported ($m)	65,631	65,804	70,635	77,837	83,08
plus debt ($m)	781	1,300	1,503	2,909	2,05
Net gap ($m)	6,421	5,046	3,271	5,086	8,11

Net gap as share of theoretical GST	9.0%	7.3%	4.5%	6.4%	9.1

Table 2e: Step 5 – Add expected mature compliance result estimate the gross gap ($m and %)

Calculation	2018–19	2019–20	2020–21	2021–22	2022 2
plus amendments ($m)	2,599	2,047	2,802	6,461	3,19
Gross gap ($m)	9,020	7,092	6,073	11,547	11,31
Gross gap as share of theoretical GST	12.7%	10.2%	8.4%	14.4%	12.7

Find out more about our overall research methodology, data sources and analysis for **creating our tax gap estimates** at **Principles and approaches to measuring gaps.**

Limitations

The GST top-down tax gap model relies on various economic aggregates published by the ABS to construct an estimate of the GST base. The reliability of the gap estimates therefore depends on the accuracy and completeness of that data. National accounts data includes a margin of error which imposes some limitations on gap estimates.

Specific issues include:

- Sampling and non-sampling errors may exist
- Underlying data is subject to routine revision by the ABS, which can change the gap estimates and vary historical trend

- Timing differences can exist between the national accounts and GST treatment for certain supplies.

The latest ABS annual national accounts data were released in October 2024 with the ABS revising their previous estimates of consumer spending.

The GST effect of concessions and exemptions are identified and estimated in the annual Treasury Tax expenditures and insights statement. The statement estimates can have a wide range and are not exhaustive, with only major exemptions and exceptions identified.

Updates and revisions to previous estimates

Each year we refresh our estimates for publication in the annual report. Changes from previously published estimates occur for a variety of reasons, including:

- improvements in methodology
- revisions to data (both internal and external)
- additional information becoming available.

This program we have identified better data to estimate the component of the theoretical GST base associated with house and land sales. The improved data significantly increases the value of the land component included in the estimated theoretical GST base; resulting in higher gap estimates than previously published.

The Australian Bureau of Statistics (ABS) regularly updates and revises its estimates of consumer spending, dwelling investment and other aggregates used to construct the GST base. Incorporating these latest data into our gap calculations also results in revisions to our gap estimates.

The ABS generally revise their published estimates for the prior 3 years. However, they also periodically undertake more comprehensive reviews benchmarking against other independent data and resulting in more extensive revisions.

The effects of these changes to methodology and underlying data on our gap estimates are demonstrated in Figure 2.

Figure 2: Effect of data and methodological changes on GST net gap estimates, share of theoretical GST liability, 2014–15 to 2023–24

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

This data is set out in Table 3, shown as a percentage of theoretical GST liability.

Table 3: Effect of ABS revisions and methodological chang previous GST net gap estimates (per cent of theoretical GS liability), 2018–19 to 2023–24

Program year	2018–19	2019–20	2020–21	2021–22	2022–23
2025	9.0	7.3	4.5	6.4	9.1
2024	7.6	6.3	4.3	5.5	9.0
2023	7.2	4.5	2.7	3.6	n/a
2022	7.7	6.3	5.9	n/a	n/a
2021	7.8	7.8	n/a	n/a	n/a
2020	8.1	n/a	n/a	n/a	n/a

QC 105673

Reliability of the GST gap

How we make sure the GST gap estimate is reliable.

Published 3 November 2025

We seek feedback and advice on how we estimate the gap from our external and internal subject matter experts. Based on that advice and their assessment, the reliability rating for these gap estimates is **medium**, with a score of 17.

This gap program we have improved the data applied to more reliably estimate the house and land sales component of the GST base and the timing that they enter the GST base. This likely improves the reliability and accuracy of the gap estimates; especially around quantifying the theoretical fully compliant GST base associated with property transactions.

The Australian Bureau of Statistics (ABS) has also started using its Monthly Household Spending Indicator compiled using aggregated, de-identified card transactions data from participating banks, supermarket transactions data and new vehicle sales data. This is a step forward in terms of coverage, timeliness and accuracy of published data around consumer spending in Household final consumption expenditure, and likely improves the reliability and accuracy of the data underpinning GST top-down gap estimates.

Whilst positive, these improvements are not considered to materially impact the overall reliability of GST gap estimates.

Overall, we therefore recommend that the reliability rating remains at 17 (medium); the same as for the 2023 and 2024 programs.

Figure 3: Reliability rating scale – GST gap

The latest GST gap estimates have a reliability rating of 17 which is medium. The rating scale is from very low (1 and 10), low (11 and 15), medium (16 and 20), high (21 and 25), very high which is a score between (26-30).

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