Goods and services tax gap

How we estimate the goods and services tax (GST) gap.

Published 1 November 2024

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Overview

What GST is and when it is paid.

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GST is a consumption tax at 10% on most goods and services sold or consumed in Australia. GST is levied on imported goods, services and digital products.

GST commenced in Australia in July 2000 with a 10% GST rate. There have been some changes to the goods and services subject to the GST but there has been no change to the GST rate.

Generally, businesses and other organisations 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.

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Latest estimate and trends

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

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The latest estimates indicates an increase in the estimated net tax gap to $7.9 billion in 2022–23 (9% of theoretical GST) up from $4.4 billion (5.5%) in 2021–22. This means that expected collections from businesses and organisations are likely to be around 91% of theoretical GST. The increase in the net gap reflects stronger growth in GST liabilities (11.8%) than in tax expected to be paid (7.8%). The net gap estimates incorporate our best current estimates of mature non–pursuable debt for each year, including the impact of COVID-19 and Operation Protego.

As the economy recovered from the COVID-19 recession, the estimated GST base recorded 2 years of strong growth in 2021–22 (9.8%) and 2022–23 (11.8%). Growth in the GST base outperformed growth in tax expected to be paid in both 2021–22 (8.4%) and 2022–23 (7.8%). The weaker growth in tax expected to be paid partly reflects the relatively large estimates of non-pursuable debt for both years. As a result, the net gap is estimated to have increased in both 2021–22 and 2022–23.

The estimated gross gap is measured before the impact of ATO compliance activities are considered. The gross gap is estimated to have risen sharply from $10.8 billion in 2021–22 before a more moderate increase to $11.2 billion in 2022–23. As a share of theoretical GST the gross gap fell from 13.6% in 2021–22 to 12.6% in 2022–23, reflecting the strong growth in the GST base. The large increase in 2021–22 reflected a record high level of amendments of $6.4 billion – around $3.7 billion of which related to Operation Protego. Significantly lower amendments associated with Operation Protego in 2022–23 returned aggregate amendments for that year to more normal levels and moderated the uplift in the gross gap (relative to the net gap).

Given the nature of the fraud we assume that the ATO's ability to recover these refunds is lower than other GST debt. This results in an uplift in estimated non-pursuable debt which is contributing to the lower growth in revenue expected to be paid.

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

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**.

Table 1: GST gap, 2017–18 to 2022–23

Element	2017–18	2018–19	2019–20	2020–21	2
Gross gap ($m)	8,056	8,200	6,573	6,146	1(

Amendments ($m)	2,662	2,855	2,200	3,016	6
Net gap ($m)	5,394	5,345	4,373	3,130	4
Expected collections ($m)	63,610	64,852	64,499	69,127	7
Theoretical liability ($m)	69,004	70,197	68,872	72,257	79
Gross gap (%)	11.7	11.7	9.5	8.5	
Net gap (%)	7.8	7.6	6.3	4.3	

Figure 1 displays the gross and net gap as a percentage of theoretical liability over the same period.

Figure 1: Gross and net GST gaps; as percentage of theoretical GST, 2015–16 to 2022–23

Figure 1 is a chart showing the gross and net GST tax gap as a percentage of theoretical GST from 2015–16 to 2022–23 – as outlined in Table 1.

The GST base and theoretical GST recorded consecutive years of record strong growth in both 2021–22 (9.8%) and 2022–23 (11.8%). This reflects:

- Compositional shifts in consumer spending towards goods and services which attract GST resulted in GST-able consumer spending (up 13.5%) growing significantly faster than non-GST-able consumer spending (up 9.9%). This continues to reverse the experience through the COVID-impacted years where spending that did not attract the GST (especially on more non-discretionary items such as housing, health and education) outperformed.
- The dwelling investment component of the GST base also recorded 2 years of strong growth by historical comparison – increasing by 12.2% in 2021–22 and by 9.4% in 2022–23.

- International tourism is largely GST-free and has rebounded strongly as international travel resumed post-COVID. The reduction in the estimated GST base due to the removal of international tourism nevertheless remains well below historical levels in 2022–23.

Expected GST collections grew strongly in both 2021–22 (8.4%) and 2022–23 (7.8%). This reflected:

- Excluding the impact of non-pursuable debt, aggregate GST revenue grew by 10.2% in 2021–22 and by 6.4% in 2022–23. This was driven mainly by GST revenues collected by the ATO; with Customs-related revenue relatively flat.
- As highlighted above, the sharp increase in non-pursuable debt, largely associated with Operation Protego, constrained revenues for both 2021–22 and 2022–23.
- After an extended period of modest growth, expected voluntary collections increased by 13.1% in 2022–23. Expected voluntary contributions represented around 87.4% of theoretical GST in 2022–23; above the share reported for 2021–22 (86.4%) but below the shares reported in the COVID-impacted years.
- Underlying amendments have been relatively stable across 2020–21 through 2022–23. Amendments associated with Operation Protego spiked in 2021–22 pushing total amendments to an historical high (around $6.4 billion).

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ATO action to reduce the gap

How we support our clients to meet their compliance obligations.

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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 clients.

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. We are also working with large businesses to introduce supplementary annual GST reporting on their ongoing investment in GST compliance. The new annual return will help ensure the ATO can maintain assurance over taxpayers and prioritise compliance resources.

Where a BAS lodged online contains an identifiable or likely reporting error, nudge messaging recommending clients check their BAS before lodging their refund is generated. Consultation and initiatives to provide a digitalised future supporting small business is a key focus area of the ATO corporate plan 2024–25. This encourages enhanced integration that supports high-quality, system-generated tax guidance to:

- provide certainty, increasing confidence
- minimise errors

- promote right-time reporting and payment.

This work is aligned to the Organisation for Economic Co-operation and Development (OECD) Tax Administration 3.0 vision and the ATO Digital Strategy.

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 ato.gov.au
- 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.

We will continue to work towards closing the 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, Serious Financial Crime and Phoenix taskforces.

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

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Methodology

What method we use to estimate the GST gap.

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4-step top-down method

We use a 4-step top-down methodology to estimate the GST gap.

Step 1: Construct theoretical GST base with expenditure data

Starting with the Australian Bureau of Statistics (ABS) estimate of household final consumption expenditure (HFCE), we add estimates of other expenditure that are subject to GST to:

- new private dwellings investment expenditure (based on ABS published data on investment in new dwellings, alterations and additions)
- consumers' share of ownership transfer costs based on ABS data
- a proportion of land sales.

Step 2: Subtract expenditures where GST does not apply

We then remove specific expenditures included in the ABS measure of HFCE but for which GST concessions or exemptions apply. These expenditures are not part of the theoretical GST base.

These include:

- expenditures that are exempt or concessionally taxed, such as food and education
- input-taxed supplies, such as rent
- certain financial supplies and reduced GST credits
- concessions for entities with turnover less than $75,000 ($150,000 for not-for-profit entities).

The residual amount is our estimate of the theoretical GST base subject to GST.

Step 3: Determine theoretical GST liability

The total theoretical GST base estimated above consists of the GST exclusive price and the appropriate 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: Consolidate the gap estimates

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.

Non-pursuable debt is considered part of the net gap. Therefore, we add this amount back to estimate the net gap including debt. This is the most accurate measure of the tax gap for GST.

We obtain the gross gap (including debt) by adding the liabilities raised from our compliance activities to the net gap estimate.

Some of the key assumptions of the methodology include:

- The ABS estimates of HFCE reliably capture spending by households in the observed economy. See below for assumptions about non-observed or shadow economy spending by households.
- No adjustments have been made for timing issues in some of the national accounts aggregates used to quantify total theoretical GST revenue, despite some known conceptual misalignments in private dwelling investment.
- The estimates of each HFCE component not subject to GST are derived from various Tax expenditures and insights statements published annually by Treasury. This ensures that our estimates of the GST base align with Treasury estimates of tax foregone on spending not subject to the GST.

Summary of the estimation process

Table 2 provides a summary of each step of the estimation process and the results for each year, from 2017–18 to 2022–23.

Table 2: Summary of the GST gap estimation process

Step	Description	2017–18	2018–19	2019–20	2020–2
1 to 3	**Total theoretical tax liability ($m)**	69,004	70,197	68,872	72,25
4	**Less final GST reported ($m)**	64,308	65,633	65,799	70,63
4.1	**Equals final GST liabilities not reported**	4,696	4,564	3,072	1,62
4.2	**Add non-pursuable debt ($m)**	699	781	1,301	1,50
4.3	**Net gap with debt estimate ($m)**	5,394	5,345	4,373	3,13
4.4	**Add compliance outcomes and taxpayer adjustments ($m)**	2,662	2,855	2,200	3,01
4.5	**Equals gross gap with debt estimate ($m)**	8,056	8,200	6,573	6,14
4.6	**Gross gap (%)**	11.7	11.7	9.5	8.
4.7	**Net gap (%)**	7.8	7.6	6.3	4.

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

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 vary historical trend results and the estimated GST gap.
- 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 2023 with the ABS revising a number of previous estimates of HFCE.

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.

Accounting for shadow economy activity in a top-down model

The top-down GST gap model relies extensively on macroeconomic data published by the ABS to estimate the GST base. We have consistently applied the ABS estimates of HFCE as published, without further adjustment. As a result, the reliability of the estimates depends on the accuracy and reliability of the ABS data; and critically its estimates of the non-observed or shadow economy.

Estimating the size of the shadow economy in normal economic times is subject to significant uncertainty resulting in a wide margin for error. Divergent impacts associated with COVID-19 have increased the range of uncertainty relating to contemporary shadow economy estimates.

Reflecting this uncertainty and the higher estimates published by the Black Economy Taskforce,[1] we now consider it prudent to reflect a more contemporary view of the shadow economy into the GST gap. The purpose of this updated adjustment is not to provide precise estimates of the shadow economy as it relates to HFCE, but to move towards estimates that better reflect the impact of the shadow economy on the GST gap estimate.

This methodological change increases the estimated net gap by $1.4 billion in 2022–23 and by relatively similar amounts in earlier years.

Table 3: GST net gap, 2017–18 to 2022–23

Element	2017–18	2018–19	2019–20	2020–21	2021–22
Net gap based on ABS shadow economy ($m)	4,301	4,218	3,280	2,003	3,183
Net gap based on ABS shadow economy (%)	6.3	6.1	4.8	2.8	4.1
Net gap based on ABS & BETF shadow economy ($m)	5,394	5,345	4,373	3,130	4,395
Net gap based on ABS &	7.8	7.6	6.3	4.3	5.5

BETF shadow economy (%)					

We have commenced dialogue with the ABS on these and related issues with a view to supporting revised estimates of the shadow economy using data we collect through our administration of the GST system.

To support this, over the past few years, we have been developing a new bottom-up model to estimate the GST gap using microdata generated by operational (risk-based) audits. Indicative estimates using the bottom-up approach suggest the GST net gap is higher than those from the top-down model which further supports our assumption that the shadow economy is understated in the top-down analysis. The estimates generated by a bottom-up approach will complement the top-down estimates and greatly enhance our understanding of the GST gap and its key drivers.

It is envisaged that estimates based on the bottom-up approach will be published next year.

Updates and revisions to previous estimates

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

- improvements in methodology
- revisions to data
- additional information becoming available.

The ABS regularly updates and revises its estimates of HFCE, dwelling investment and other aggregates used to construct the GST base. Incorporating these latest data into our gap calculations results in revisions to our gap estimates. All top-down gap estimates relying on macroeconomic data are subject to this risk.

The ABS generally revise their annual benchmarks for the prior 3 years. However, they periodically undertake more comprehensive reviews resulting in more extensive revisions.

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

Figure 2: Effect of ABS revisions and methodological changes on previous GST net gap estimates, 2010–11 to 2021–22

Figure 2 is a chart showing the net GST gap estimates from previously published years 2010–11 to 2021–22 – as outlined in Table 3.

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

Table 4: Effect of ABS revisions and methodological chang
cent of theoretical GST liability), 2013–14 to 2022–23

Program year	2013–14	2014–15	2015–16	2016–17	2017–18
2024	n/a	n/a	10.1	7.3	7.8
2023	n/a	n/a	8.3	5.7	6.3
2022	n/a	n/a	8.8	6.3	6.8
2021	8.4	8.9	10.2	8.4	7.8
2020	7.3	7.5	8.2	6.9	7.3
2019	7.3	7.1	8.2	7.2	7.3
2018	7.1	7.4	8.7	7.9	n/a
2017	6.1	6.7	7.3	n/a	n/a
2016	6.1	6.5	n/a	n/a	n/a

2015	6.5	n/a	n/a	n/a	n/a

1 The Black Economy Taskforce considered that the black economy was likely around 3% of contemporary nominal GDP in 2017; compared with the ABS continuing to apply adjustments totalling around 1.5% of nominal GDP.

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Reliability

How we make sure the tax gap estimate is reliable.

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

Uncertainty of the economic disruption due to the COVID-19 pandemic and its impact on the shadow economy increases the range of uncertainty to our estimates.

The annual measure of the GST liability is influenced by differences in the timing of sales and purchases across the production chain. This is amplified when there is a sharp reduction in demand.

Our GST tax gap estimates are exposed to all of these influences. We downgraded the reliability rating for last year's GST gap estimates to reflect these influences. As the recovery away from the COVID-19 pandemic continues these influences on the reliability of the ABS data diminishes. For this reason, we have left the reliability unchanged at 17 for this year's estimates. The overall reliability remains **medium**.

Figure 3: Reliability rating scale – GST gap

This image is a graph that represents the reliability rating for the current GST tax gap estimates. The rating scale includes: - Very low which is a score between 0 and 10 - Low which is a score between 11 and 15 - Medium which is a score between 16 and 20 - High which is a score between 21 and 25 - Very high which is a score between 26 and 30. The graph shows the GST gap estimate has a rating of 18 which is medium.

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