Large Corporate Tax Gap
Frequently Asked Questions

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What is a 'tax gap'?

A 'tax gap' is the difference between the total amount of tax that should, in theory, be collected if everyone was fully compliant with the Australian Taxation Office's (ATO) interpretation of existing laws and what is actually collected. The application of tax law can be unclear and there can be genuine differences of interpretation between taxpayers and the ATO.

Why has the ATO released a large corporate tax gap?

The tax gap is regarded by the ATO as an important indicator of the overall health and effectiveness of the tax system. Comparisons between gaps across the economy can be helpful in terms of providing guidance to the ATO in determining its priority risks and where to invest its resources.

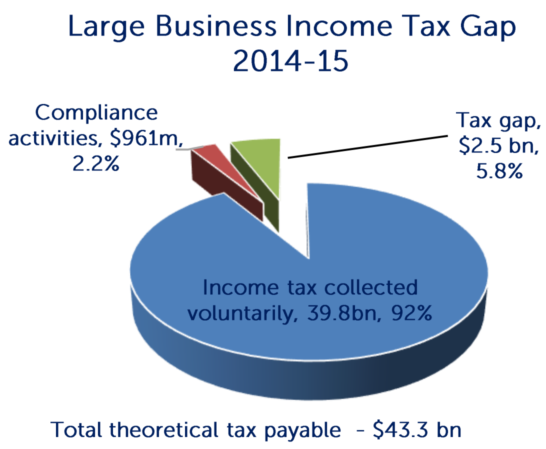
The ATO currently publishes tax gap estimates for GST, pay as you go withholding, excise on alcohol, fuel and tobacco, luxury car tax, the wine equalization tax and the superannuation guarantee.[1] Details of these tax gaps can be accessed here.

In 2014 the ATO made a commitment via the House of Representatives Standing Committee on Tax and Revenue to estimate gaps for the remaining taxes and programs it administers. **The release of the large corporate income tax gap for those corporates with gross turnover greater than $250 million represents the first of these income tax gap estimates.**

The ATO plans to release estimates for other areas of the tax system, including small business and individuals, once it is satisfied they are reliable and credible. The ATO's commitment to release tax gap estimates for these other sectors of the economy are expected to show that tax avoidance (and in the case of the black economy, tax evasion), is potentially a much larger problem in other sectors of our economy than it is in the large corporate market.

How much is the large corporate tax gap and what does it tell us?

The ATO's net income tax gap for large corporates in 2014-15 is estimated to be $2.5 billion (5.8%) on a theoretical income tax due of $43.3 billion. In its accompanying commentary, the ATO confirms that 92% (or $39.8 billion) of income tax revenue was reported and paid voluntarily and 2.2% (or $961 million) was collected via compliance activity, leaving a 5.8% (or $2.5 billion) 'gap'. **From all indications, 94% collected voluntarily and by compliance activity is around global best practice, and many countries aspire to this level of compliance.**[2]



[1] The estimated 2010–11 Goods and Services Tax (GST) gap was first released in the Commissioner of Taxation Annual Report 2012–13. In the 2013-14 Annual Report the Luxury Car Tax (LCT) estimate was also published. Wine Equalisation Tax (WET), Excise Duty for petrol and diesel, PAYG withholding and Fuel Tax Credits (FTC) followed in the Commissioner of Taxation Annual Report 2014-15. The superannuation guarantee gap was released on 29 August 2017.

[2] Commissioner Chris Jordan's address to the National Press Club, 5 July 2017

How does the ATO's corporate tax gap estimate compare with other corporate tax gap estimates?

The ATO's large corporate tax gap estimate is significantly less than other published estimates of the income tax gap for large corporates, which have ranged from $6 billion to $30 billion.

The ATO as the administrator of the tax system has access to an extraordinary level of data that is not available to the public. The ATO also has unfettered access to information from large corporates operating in Australia through its various ongoing compliance programs and information gathering powers. The ATO has utilised this data and its knowledge of the large corporate sector in its estimate of the large corporate tax gap and has had its assessment of the large corporate tax gap reviewed by an independent expert panel. Details of the ATO's tax gap methodology can be accessed here.

These factors stand in contrast to estimates of the corporate tax gap published by others, which can only be described as rough estimates based on publicly available data.

If tax gap estimates are to be looked upon as contributing to an informed debate around the tax system and the contribution large corporates make to that system, then the ATO's tax gap estimates must take precedence over those that are based on guesstimates and potentially inaccurate assumptions.

Can a tax gap ever be zero?

Tax gaps exist in all countries and are driven by a multitude of factors that are impossible to control. These include economic, cultural and human factors, globalisation, complexity in business and legal systems, clarity of the tax law, the quality and quantity of tax administrators, the behaviour of those who take aggressive tax positions and genuine misunderstandings and errors. Given these factors, **no tax system has, or ever will have, zero gaps.**[3]

Does a tax gap estimate represent revenue the community has missed out on?

Tax gaps are by their nature difficult to estimate. They rely on assumptions that attempt to account for the complexities within tax systems as well as behavioural issues. In other words, they do not simply represent revenue foregone as a result of aggressive tax practices, tax avoidance or tax evasion. For example, the Australian tax gap estimate for the large corporate groups includes amounts for differences arising because of the tax law being unclear and for differences of interpretation of the tax law between taxpayers and the ATO. It would therefore be **misleading to claim that a tax gap estimate is a direct representation of revenue the community has missed out on**.

If you have any further questions about the large corporate tax gap, feel free to contact the Corporate Tax Association on (03) 9600 4411.

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The Corporate Tax Association is the key representative body for major companies in Australia on corporate tax issues.

Our vision is to achieve an internationally competitive and robust corporate tax system under which large corporates willingly meet their tax obligations in a timely and transparent manner.

For more information please refer to the CTA website at: Corporate Tax Association

[3] Commissioner Chris Jordan's address to the National Press Club 5 July 2017