USING TAX GAP DATA TO IMPROVE TAX ADMINISTRATION

At a recent conference, ATO Second Commissioner Jeremy Hirschhorn outlined how the ATO is transforming tax administration by using tax gap data collected. Essentially, the tax gap is just an estimate of the difference between the amount of tax the ATO collects and what it would have collected if every taxpayer was fully compliant with tax law. According to the latest tax gap estimates from the 2019-20 income year, the overall tax gap was $33.4bn or 7% of the tax that should have been reported.

"Tax gaps focus us on the right things so we can sustain a reliable revenue system for our communities for the long term."

This comprehensive tax gap program firstly divides the tax gaps into 3 categories, consisting of transaction-based tax gaps, income-based tax gaps, and administered program gaps. These categories are further divided into sub-categories. The transaction-based tax gap encompasses the GST, Luxury Car Tax, and fuel excise tax gaps, among other things. The income-based category contains the most sub-categories including FBT, high wealth, large corporate groups, super fund, and businesses in general. The administered program category includes information on fuel tax credits and PAYG withholding.

Partnering together to achieve your objectives

The ATO typically uses two broad methods to estimate tax gaps, the top-down or bottom-up methods. The top-down approach is more suited to indirect or volumetric taxes and involves using external aggregate data including National Accounts data or industry data to come up with a theoretical tax liability. The bottom-up approach is more suited to direct taxes and uses internal administrative data such as random enquiry, compliance and illustrative data to extrapolate tax gaps.

Due to the detailed nature of the tax gap program, the ATO now has a clearer understanding of the difference between the taxes actually being paid and collected, as well as the driver of these gaps. According to Mr Hirschhorn, the data and insights allow the ATO to focus its attention on sustainably reducing the tax gap, which not only includes action to reduce the gaps, but also actions to maintain certain tax gaps to prevent back-sliding of progress.

Going forward, the ATO is moving away from reporting liabilities raised and cash collected to a more sophisticated measure of reporting revenue based on its action and the consequences of that action in the following categories:

- revenue from traditional audit actions and stopping incorrect claims and refunds;
- revenue from preventative actions and from improvements in voluntary compliance from previous interactions;
- revenue from actions that are designed to addressed late or non-lodgment; and
- sustained effect of those interventions.

By publishing details of the tax gaps, the ATO hopes to increase trust and confidence of key stakeholders and taxpayers in order to increase voluntary compliance and improve tax performance. Rather than have to rely on enforcement activities such as raising tax assessments and collecting audit yield. For example, the approach that the ATO is taking for small businesses and individuals includes publishing insights gained from audits that detail types of issues its seeing and related actions to encourage voluntary compliance.

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