



Australian Government
Australian Taxation Office

OECD INTERNATIONAL ACADEMY FOR TAX CRIME INVESTIGATION VAT/GST FRAUD INVESTIGATIONS PROGRAMME

SHINING LIGHT ON THE VAT/GST SHADOW ECONOMY

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The **shadow economy** refers to dishonest and criminal activities that take place outside the tax and regulatory system. It reduces available funding for essential community services such as health care, disaster response, education, transport and infrastructure.

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- > Paying cash-in-hand to avoid obligations
 - > Not registering
 - > Not reporting or underreporting income
 - > Exaggerating expenses
 - > Underpayment of wages
 - > Identity Fraud
 - > VISA fraud
 - > VAT/GST and duty fraud

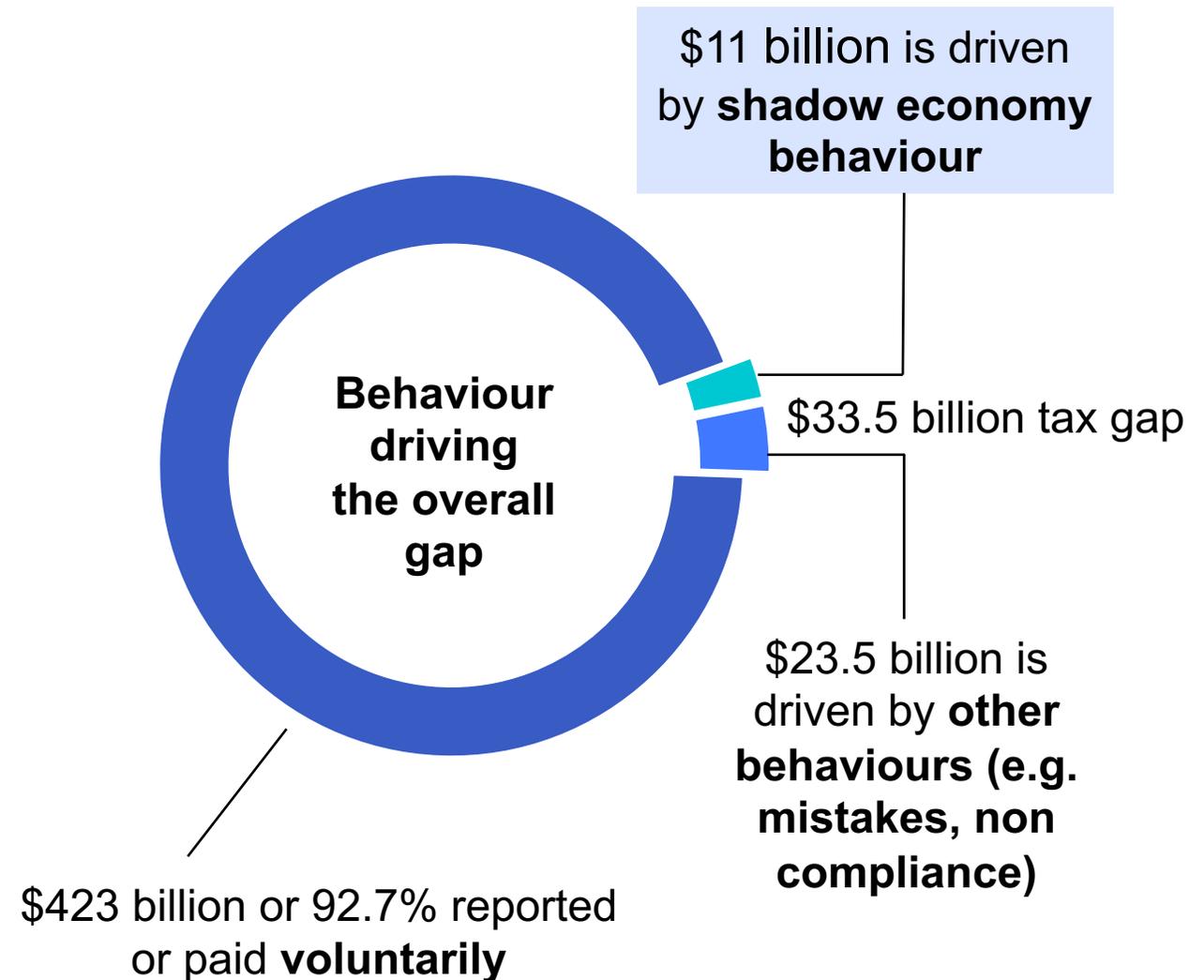
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- > Illegal drugs and tobacco
 - > Illegal phoenixing (deliberately going out of business to avoid obligations)
 - > Sham contracting (presenting an employment relationship as contracting)
 - > Unregulated gambling
 - > Dealing in counterfeit goods
 - > Money laundering

The taskforce estimates the broader economic effect of the entire shadow economy is up to \$50 billion or about 3% of national gross domestic product is lost from the Australian economy each year.

The ATO Tax Gap program also provides a measure of the impact of the shadow economy. In 2018-19, across the entire Australian tax and superannuation system:

- > Around \$428 billion was paid voluntarily – 92.7% of the revenue we expected
- > The overall tax gap across the system is estimated at \$33.5 billion or 7.3%.
- > More than one third of this can be attributed to shadow economy behaviour.

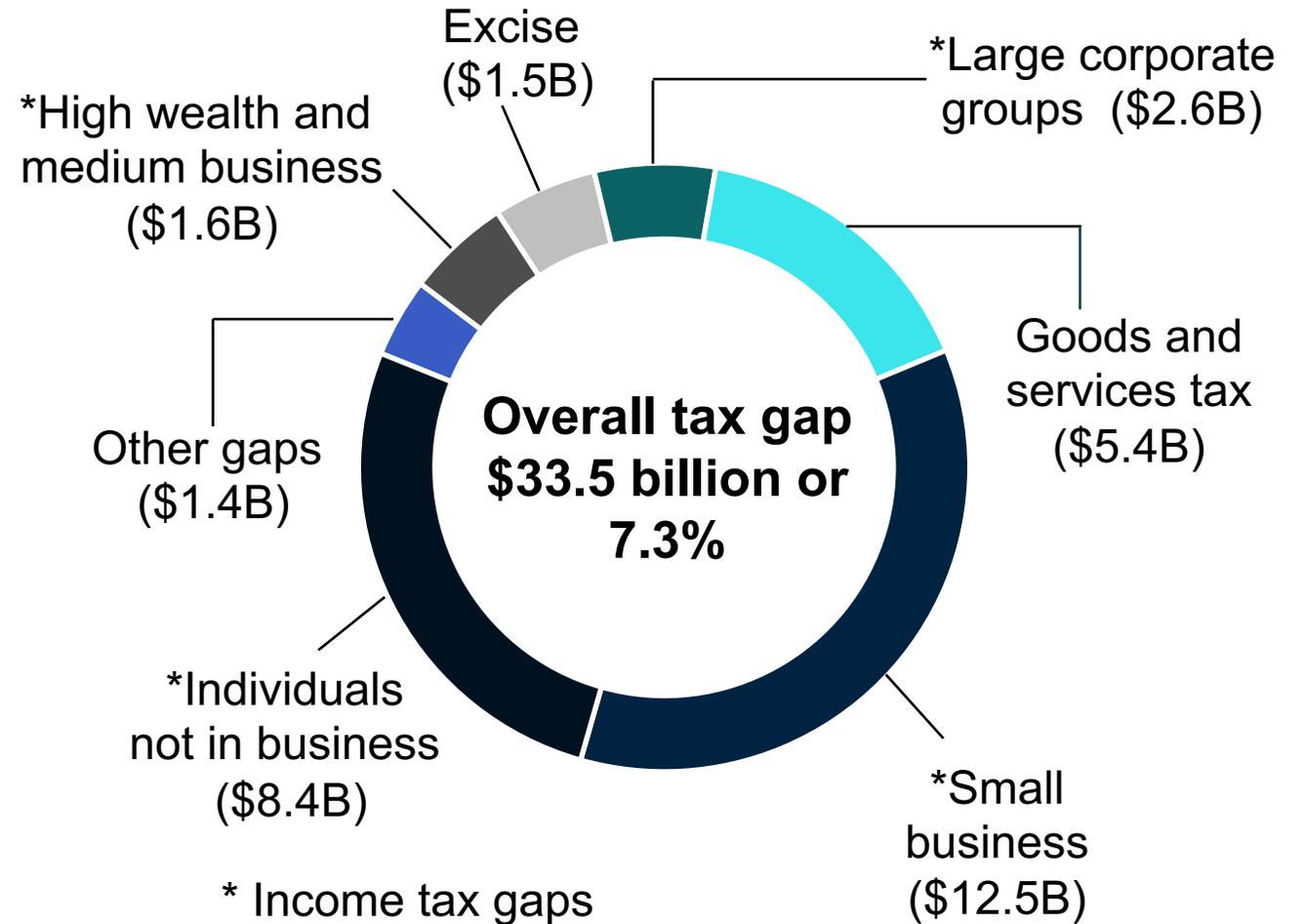
Around \$11 billion in tax is missing each year as a result of the shadow economy.



Of the overall \$33.5 billion tax gap, 86% is from:

- > Individuals not in business
- > Large corporate groups
- > Goods and services tax, and
- > Small business.

Small business taxpayers are the most significant contributors to the overall gap, but not all of this is driven by shadow economy behaviour.



The random enquiry program used to inform the tax gap has found:

Small businesses that report correctly are usually...

✓ **Keeping good records and conducting regular reconciliation processes**



✓ **Seeking advice from a tax professional when they need it**



✓ **Using technology to help them run their business**



When small businesses get it wrong it's usually in one of three ways...

✗ **Not declaring all income**



✗ **Not accounting for private use of business assets/funds**



✗ **Not understanding tax obligations**

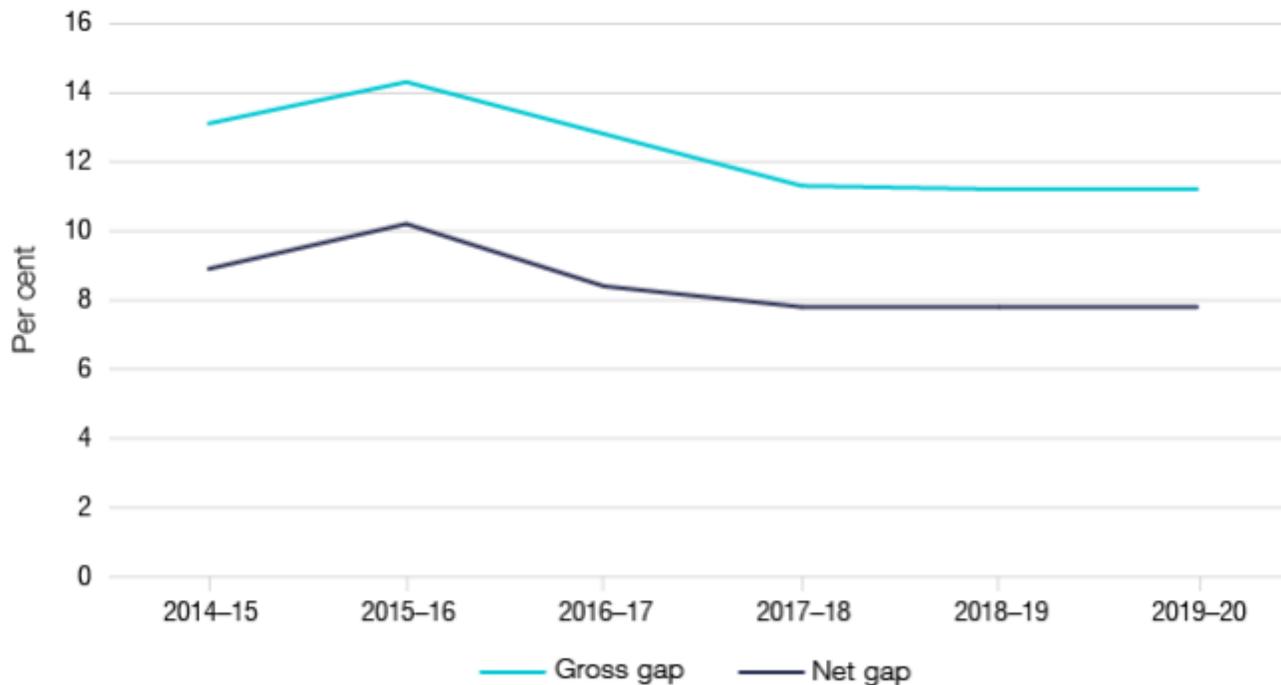


What have we learnt?

- > A large percentage of the population want to do the right thing and our job is to make it easy for them to do so.
- > We need to ensure we are striking the right balance in our treatment strategies.
- > Tackling the shadow economy will help us to close the tax gap.

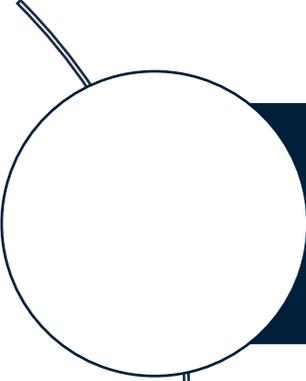
For 2019–20, it is estimated the GST net gap to be \$5.3 billion or 7.8% of total theoretical GST revenue. In other words, it is estimated that businesses paid over 92% of the total theoretical GST revenue payable in 2019–20. The gross gap (the gap before taxpayer compliance amendments) was \$7.5 billion or 11.2% of total theoretical GST revenue.

Figure 1: Gross and net GST gap percentage, 2014–15 to 2019–20

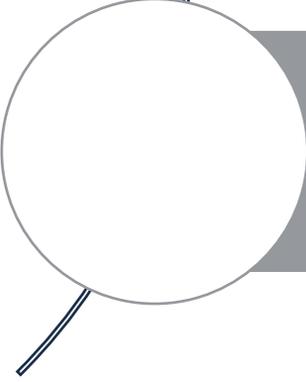


The following table provides the latest shadow economy findings for transaction based taxes in Australia:

Transaction-based program	Shadow economy estimation	Tax effect 2015–16	Tax effect 2016–17	Tax effect 2017–18
Alcohol excise (\$m)	Illicit channels only	522	526	552
Tobacco excise (\$m)	All channels	676	1,136	1,332
GST (\$m)	1.5% of theoretical liability	956	1,002	1,043
Total transaction-based tax effect (\$m)	Total of above	2,154	2,664	2,927
Proportion of all transaction taxes (%)	Ratio	2.2	2.6	2.7



Do you measure the tax gap in your jurisdiction?



Do you know roughly what it is?



- > The Black Economy Taskforce handed down a final report in October 2017.
- > The Report included 80 recommendations to tackle the shadow economy.
- > The government allocated \$402 million in funding over 4 years to the ATO to implement recommendations made by the Black Economy Taskforce.
- > The program is funded from 1 July 2018 to 30 June 2022.
- > As part of this program, the ATO uses five integrated strategies and more than 30 projects to tackle the shadow economy.



Increased
visibility of
enforcement
activities



Using data &
technology to
better target
shadow
economy



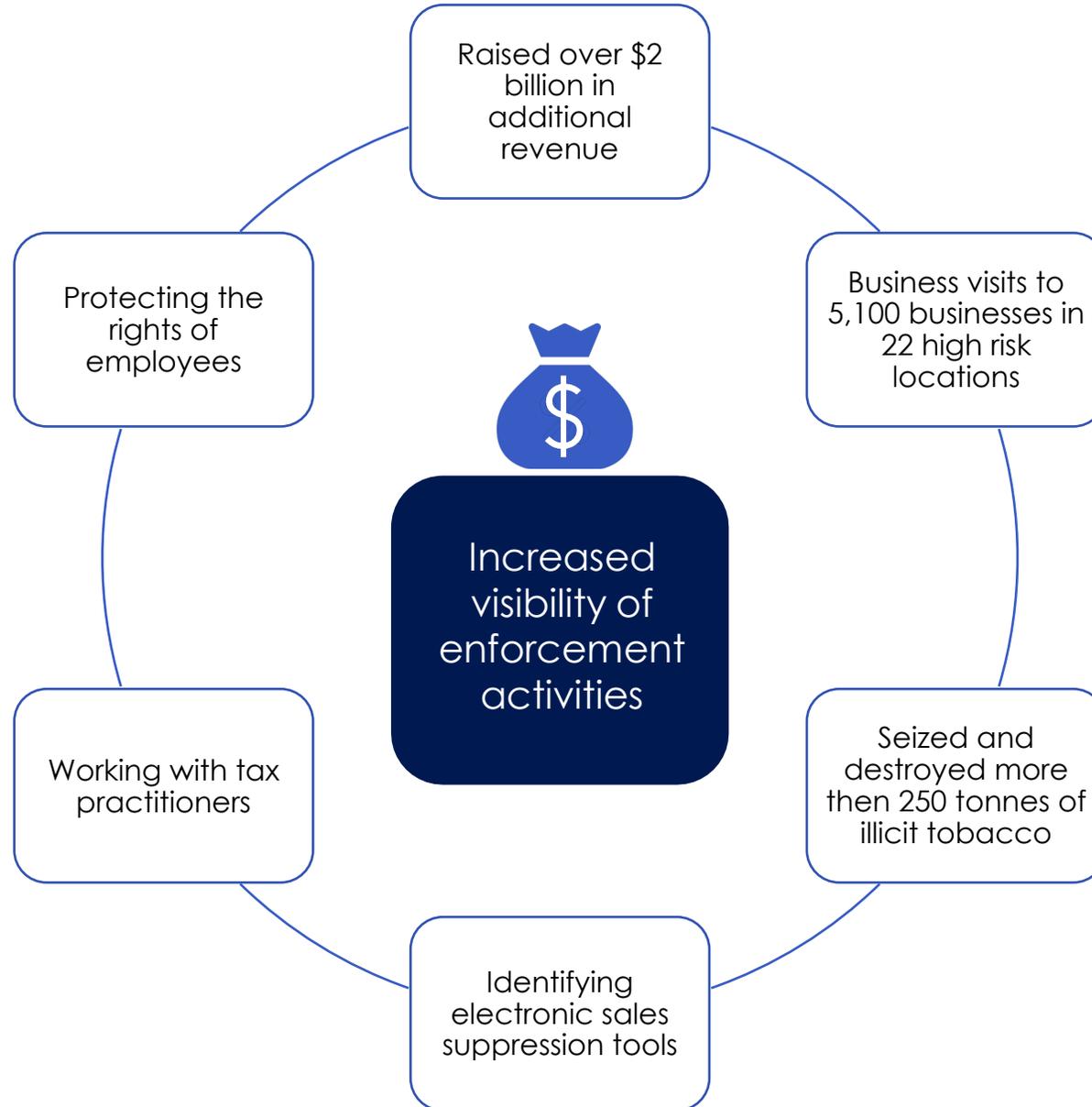
Prevention
and
education
strategies

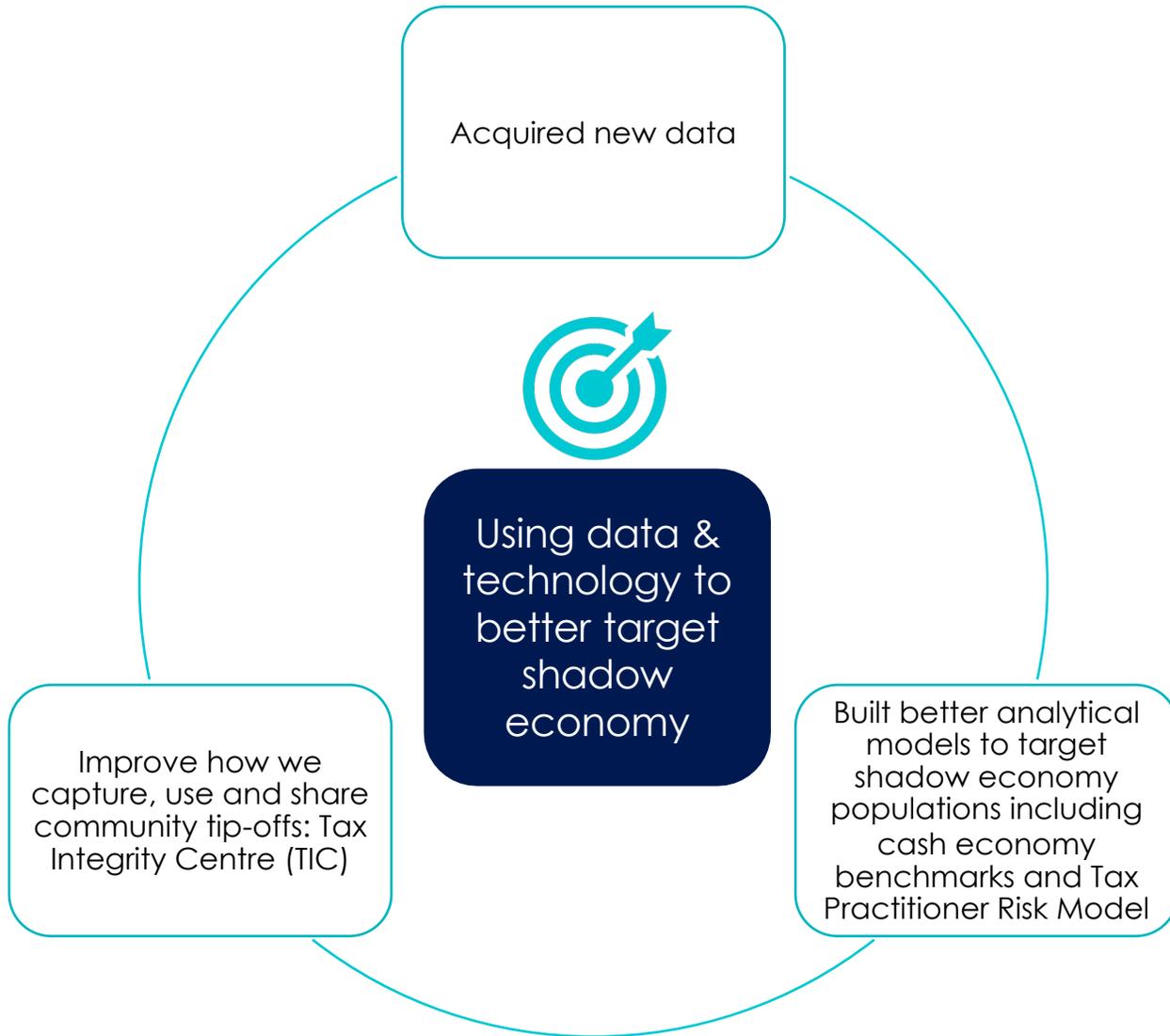


New law
and policy
measures



Black
Economy
Standing
Taskforce

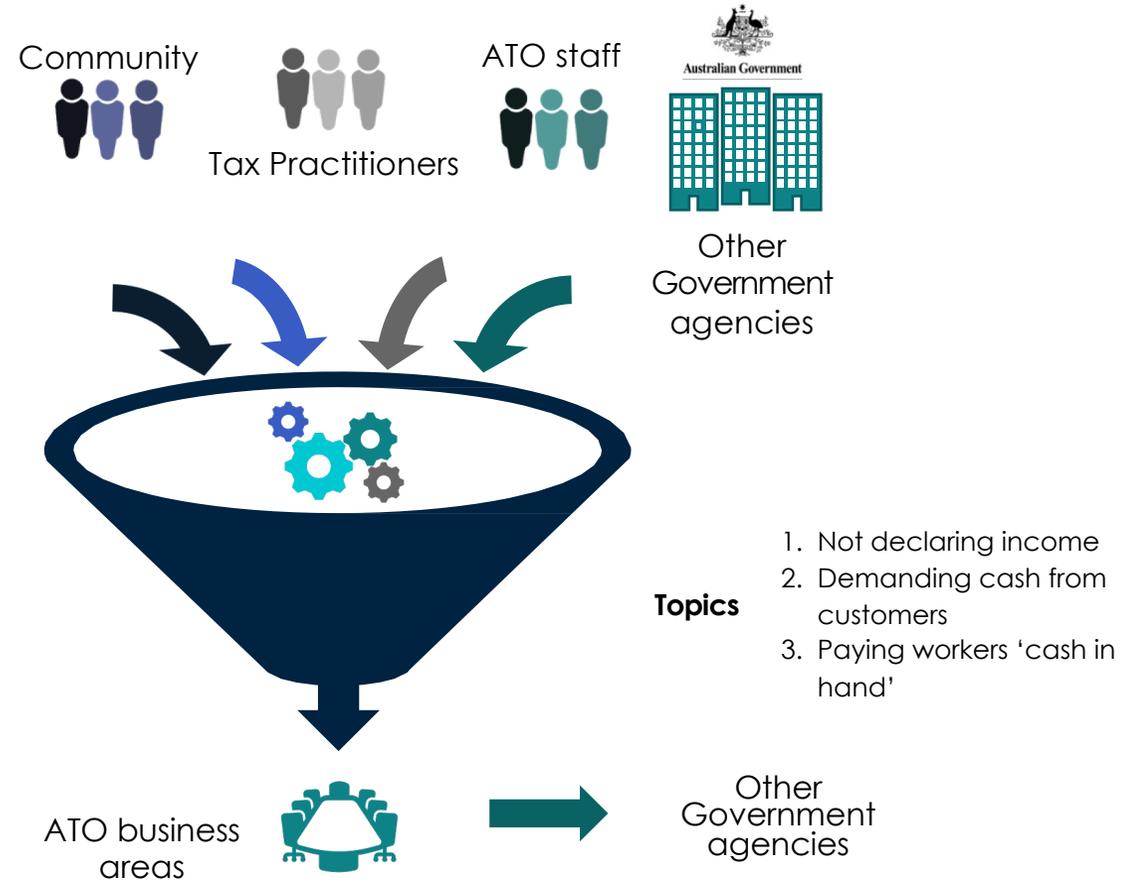




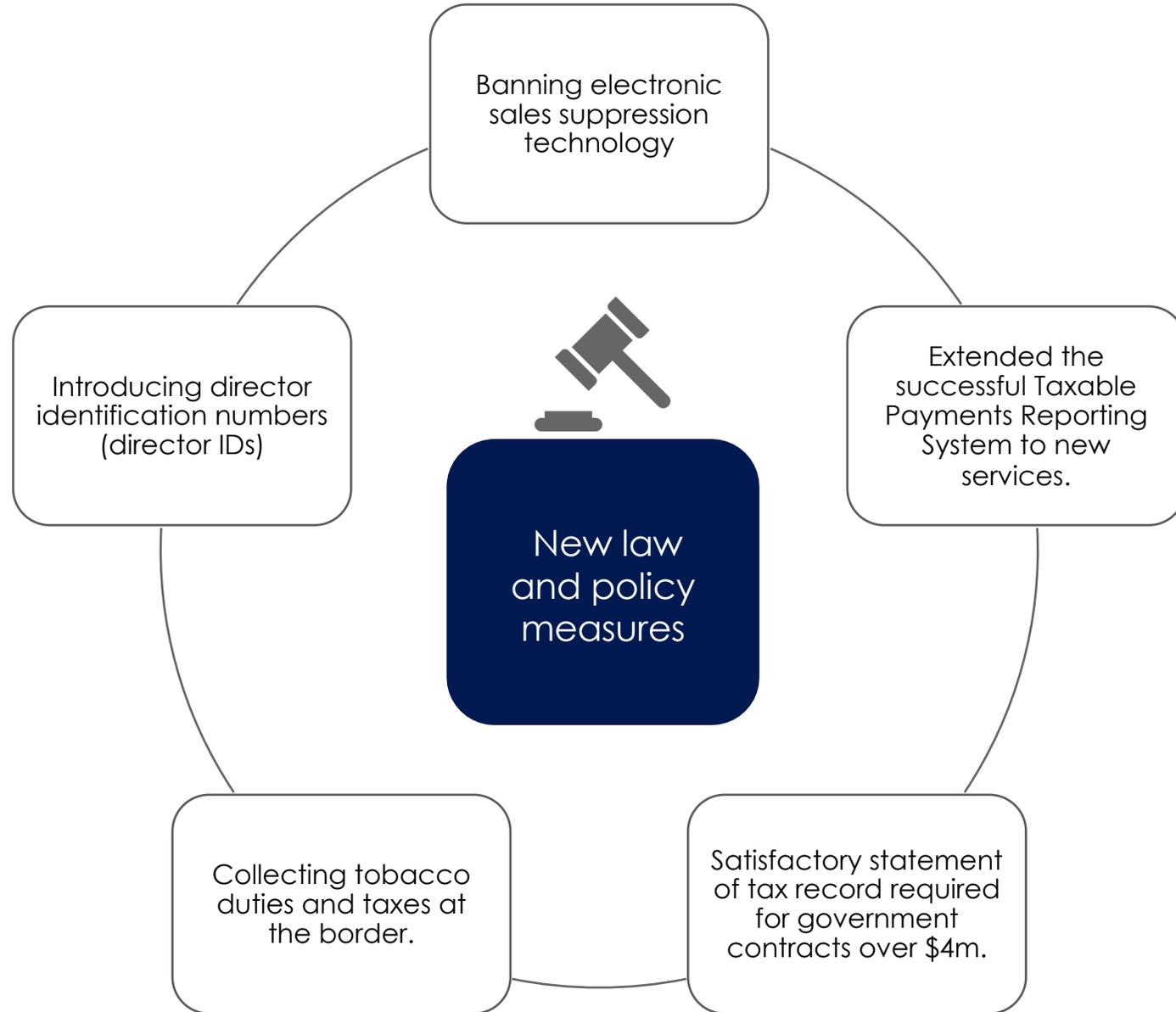
Tax Integrity Centre: Community Tip-offs

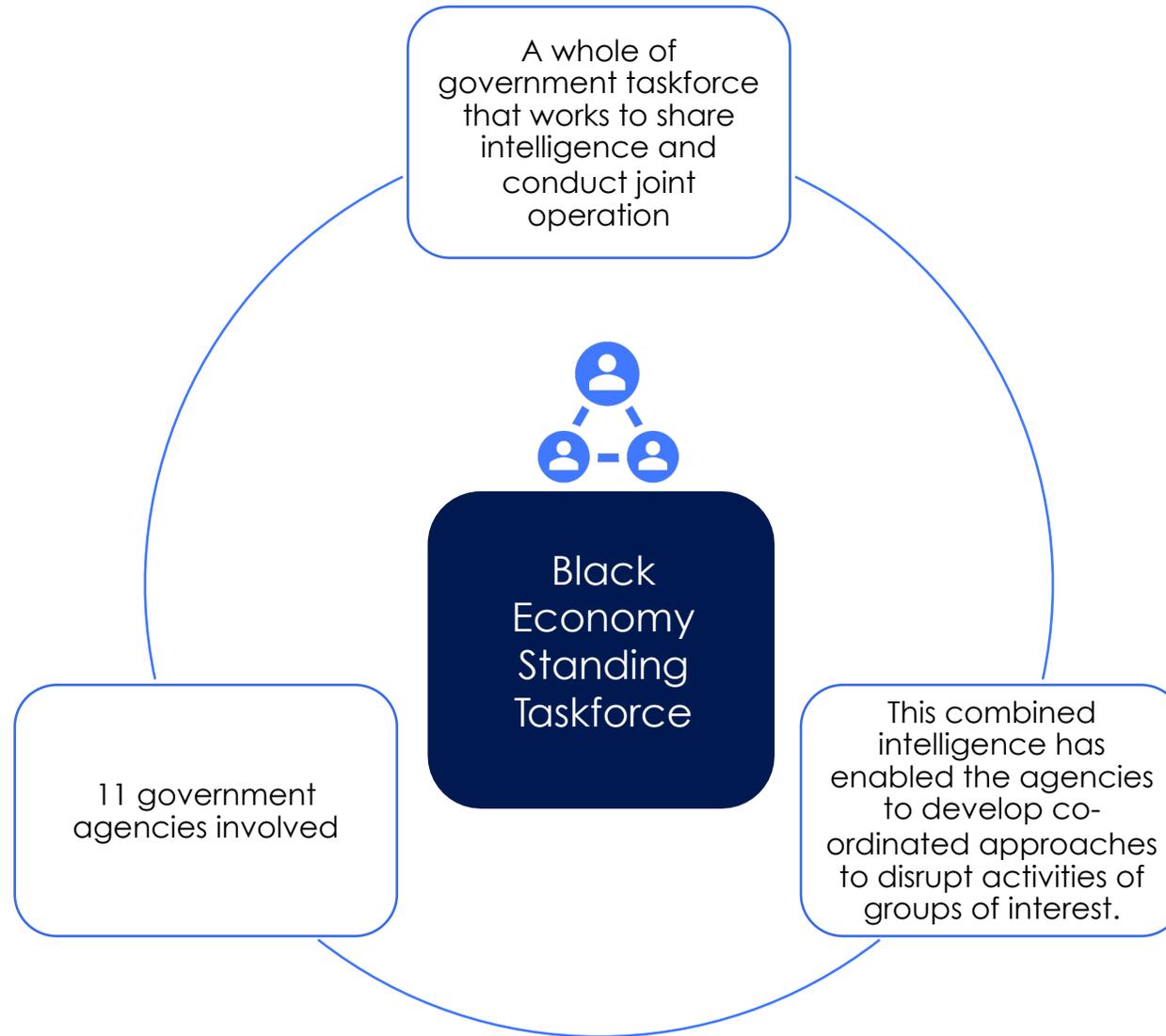
Since the launch in 2019, over 97,000 tip-offs have been received:

- > A single point of entry
- > Better capture, storage, analysis and sharing
- > Improved detection



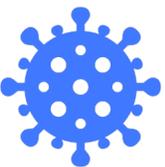
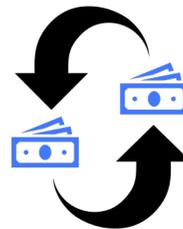




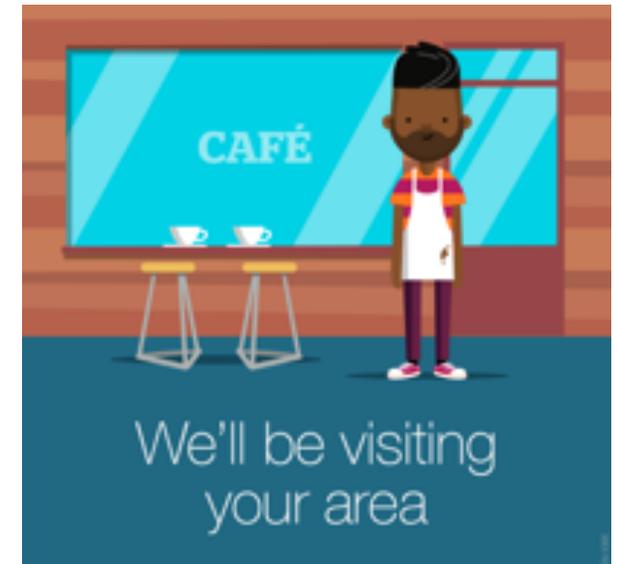


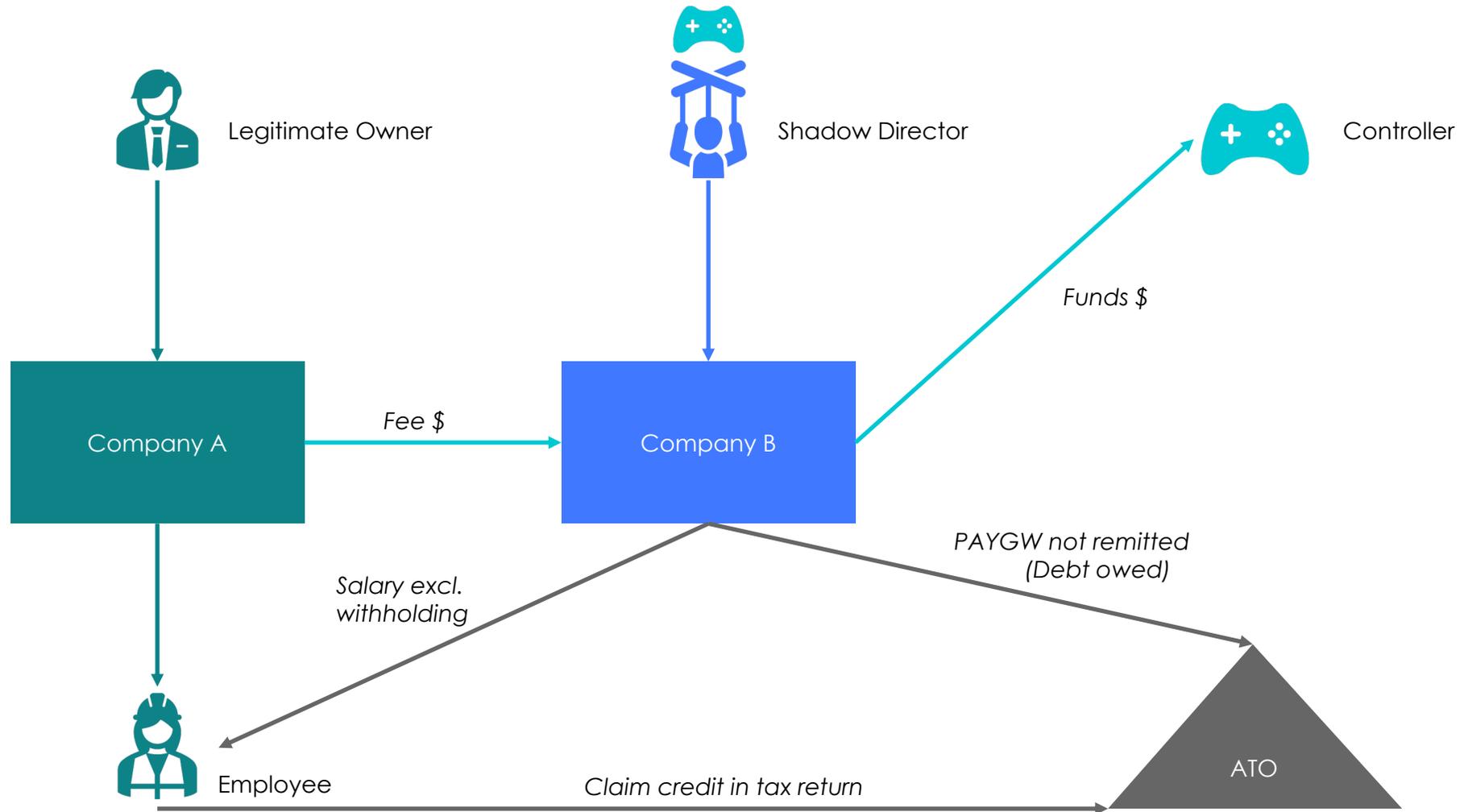
External research (not the official ATO view) poses the ideas that:

- > the decline of the cash economy has accelerated – the pandemic has forced many businesses to go cashless (e.g., cafes).
- > there is more cash in circulation, e.g., large (\$100 and \$50) notes – Is it being hoarded? Or being used but not declared?
- > technology improvements mean that the ‘cash’ economy has turned digital – with many new and emerging payment platforms (including cryptocurrency) and sharing economy platforms.



- > We communicate our efforts to tackle the shadow economy to build community confidence and foster willing participation.
- > The community needs to know that we are taking action to maintain the integrity of the system and make it fair for everyone.
- > We have conducted campaigns for many of our shadow economy law changes and projects.



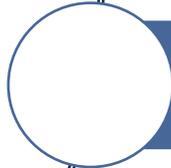




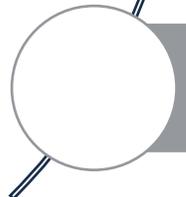
What are the common issues with the shadow economy in your jurisdiction?



What difficulties do you think the investigators would have had investigating these cases?



What actions have been taken in your jurisdiction to tackle the shadow economy?



How has the current Covid-19 pandemic environment had an impact on fraud in your jurisdiction?



