

Tobacco tax gap

- On 31 October 2024, the ATO released the updated estimates of the tobacco tax gap (the difference between actual tax collections and what would be collected if all taxpayers were compliant with the law) for 2022-23¹.
 - These estimates show the net tax gap for tobacco has increased to 14.3 per cent (up from 13.1 per cent in 2021-22), with \$2.7 billion of duty evaded through the illicit market in 2022-23.
 - Of this, the ATO estimated that \$2.3 billion duty was evaded through illicit importation and \$0.4 billion was evaded through illicit domestic production.

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¹ Estimates of the tobacco tax gap are based on the tax that would be payable on the illicit tobacco that makes it to the Australian market undetected. This means it is implicitly assumed that in the absence of this illicit tobacco being available, consumers would purchase an equal quantity in the legal market. In practice, consumers may not substitute perfectly between illicit tobacco and legal tobacco products, given they are sensitive to price. However, the extent to which this substitution would occur is uncertain.

Historical estimates on the tobacco tax gap**Table: Tobacco tax gap, 2016–17 to 2022–23**

	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22
Net gap – undetected illicit tobacco that made it to market (\$m)	621	837	1,036	1,334	1,901	2,343
Net tobacco tax gap (%)	5.4	6.3	7.5	9.0	10.4	13.1

Note: Estimates of the net tobacco tax gap represent the estimated tax lost from illicit tobacco that made it to market undetected.

Source: ATO

- The net tobacco tax gap has been growing, increasing from 5.4 per cent of the total potential tobacco market in 2016-17 to 14.3 per cent in 2022-23. Overall, this represents \$2.7 billion of duty evaded through the illicit market in 2022-23.

- This is primarily related to the importation of illicit tobacco (not domestically grown tobacco), which accounts for an estimated \$2.3 billion of the total \$2.7 billion of evaded duty for 2022-23.