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Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

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Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

1. Introduction

Europe needs to invest to strengthen its defence capabilities, to accelerate digitalisation and the green transition, and to boost productivity and competitiveness. However, national budgets in many Member States are stretched thin, leaving little fiscal space for critical investments ([1]).

Yet every year, over EUR 200 billion in tax revenue is lost in the EU as estimated by compliance tax gaps, equivalent to around 1% of EU GDP. For value-added tax (VAT) alone, this amounts to an estimated loss of about EUR 125 billion or 9.5% of the total VAT liabilities in 2023. For corporate income tax (CIT), the estimated losses for each of the Member States add up to almost EUR 50 billion or 9.2% of collected CIT revenues ([2])**.** This is revenue that is due but remains uncollected because of some forms of tax evasion, tax avoidance, administrative shortcomings or unintentional errors. Compliance tax gaps are inherently difficult to measure, and available estimates vary in their coverage, methodology and degree of uncertainty ([3]). These are likely conservative estimates as they do not capture all categories of tax revenue losses, e.g. from cross-border aggressive tax planning or international profit shifting. They indicate that significant gains can be made by investing both in better measurement and in measures to improve tax compliance. Recovering even part of this missing revenue would help alleviate pressure on public finances and create additional space for investment without introducing new taxes or raising existing tax rates.

A sizeable shadow economy and complex tax rules make it challenging but important to understand what drives compliance tax gaps across the EU. In several Member States, significant shadow-economy activity undermines tax compliance. Increasingly complex tax provisions and cross-border arrangements can raise compliance costs, lead to errors or tax avoidance, and result in significant revenue forgone. Perceptions of the fairness and efficiency of the tax system, as well as of the overall tax burden, can affect tax compliance. These factors vary across countries. Effective engagement between tax administrations and taxpayers helps promote a trustful, transparent and supportive environment, thereby improving compliance and strengthening the functioning, integration and competitiveness of the internal market.

To assess the risks to public finances, Member States need to know the size of their compliance tax gaps. Quantifying compliance tax gaps and their development over time is not just

[1] Country-specific information, methods and data are set out in Commission Staff Working documents SWD(2026) 1201 to SWD(2026) 1228.

[2] VAT and CIT are highlighted here as examples for which comparatively robust estimates are available across the EU. Compliance gaps can also arise in other taxes, including PIT and taxes on individual wealth, but available estimates are more fragmented and are not included in the aggregate figures presented here.

[3] Moreover, due to the release timelines of national datasets underlying the estimation of tax gaps, latest available estimates in a given year typically relate to two or three years prior. Estimates of the size of the non-observed economy in each Member State range from 0.7% to 25% of GDP.

a technical exercise — it helps to inform authorities on how to improve enforcement and compliance efforts. These estimates help identify risks, target interventions, allocate resources and refine compliance strategies. Tax gap analysis is thus a strategic management tool to boost the level of revenue collected.

Tax expenditures represent policy-induced tax gaps. EU Member States report around EUR 750 billion annually in forgone revenues from tax expenditures (which would amount to 4% of the EU's GDP in 2025), although this figure needs to be treated with caution ([4]). Tax expenditures include for example reduced tax rates, tax exemptions for certain sectors, tax credits or other tax incentives. A critical step is to monitor and evaluate these tax expenditures. Unlike direct spending, tax expenditures frequently become entrenched in the tax system over time and can place a very heavy strain on national budgets. By contrast, well-targeted tax incentives- like those recommended under the Clean Industrial Deal or the Savings and Investment Union - can support vital policy goals such as innovation or the clean transition. The Commission Recommendation on tax incentives to support the Clean Industrial Deal sets out principles for the effective design of tax credits and accelerated depreciation, including a recommendation to Member States to regularly evaluate the effectiveness of the measures taken ([5]).

Modern, data-driven tax administrations are essential to reduce tax gaps and improve compliance. Many Member States face declining compliance, rising tax debt, fragmented digital systems, and increasingly complex cross-border transactions. Addressing these challenges requires future-ready, data-driven tax administrations capable of detecting non-compliance early, facilitating voluntary compliance, and ensuring timely recovery of outstanding tax liabilities. Investments in digital tools, integrated systems, real-time data processing, stronger tax collection and recovery capacity and cross-authority cooperation are key.

The Mind the Gap communication and its accompanying 27 country fiches are a strategic tool to improve tax systems and tax compliance across the EU. Ultimately, the initiative aims to help Member States address compliance tax gaps, optimise tax collection, and tighten the governance of tax expenditures. It also urges Member States to regularly report, evaluate, and rationalise policy-induced gaps — particularly where tax expenditures have failed to deliver value for money. Beyond helping Member States review and narrow gaps and modernise how taxes are collected, this initiative capitalises on the high returns of administrative cooperation, enabling Member States to work collectively to benchmark results, share best practices, with a forward-looking reform agenda.

The communication assesses challenges related to tax gaps and identifies actions to address them. Firstly, it assesses the challenges Member States face when they measure, monitor, and evaluate tax gaps and consequently seek to integrate the resulting insights into the operations of the tax administration amidst efforts to strengthen digitalisation and collection activities. Subsequently, a set of actions is put forward to address those challenges at both EU and Member State (including, where relevant, sub-national) level ([6]). Ultimately, coordinated action and close

[4] This figure needs to be treated with caution as it aggregates country totals from different years and with different meaning. Tax expenditure reporting varies in scope, and benchmarks differ substantially to the extent that national authorities reject aggregation even at the national level. National forgone revenue estimates come from GTED.

[5] Commission Recommendation on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State aid Framework, C(2025) 4319 final, https://commission.europa.eu/document/download/f4718f39-19cc-42a4-9a9f-48acb824dc4f_en?filename=C_2025_4319_1_EN_ACT_part1_v6.pdf,

[6] In several Member States, taxes are also levied, administered and collected, and tax expenditures granted, by federated states, regions or local governments.

cooperation at all levels can deliver higher compliance levels, more effective tax policies, and improve revenue collection, thereby helping to create the fiscal space needed to support strategic investment.

2. From Measurement to Integration: An Assessment at Union and Member State level

2.1 Measure: Strengthening compliance tax gap measurement

Addressing persistent compliance tax gaps requires greater investment in knowledge, data and analytical capabilities. While an increasing number of Member States estimate compliance tax gaps, only a limited number of them have established comprehensive estimation programmes covering several tax types ([7]). Denmark, Sweden, Italy and the Netherlands have integrated tax gap analysis into compliance risk management, using the results to inform fiscal policy, identify compliance risks, target interventions, allocate resources and assess the effectiveness of compliance strategies. Other Member States, such as France, Poland and Estonia, among others, have only recently developed this capacity or do not yet systematically estimate their compliance tax gaps.

Member States' experience shows that comprehensive tax gap estimation efforts support more favourable compliance outcomes. Member States with long-standing and well-developed tax gap programmes, such as Denmark, Italy, Sweden and the Netherlands ([8]), tend to feature comparatively smaller compliance tax gaps or have been able to reduce them over time. The Netherlands for instance has expanded its analytical toolkit by combining audit evidence with behavioural research. The insights from this analysis help the tax administration design targeted preventive measures and improve voluntary compliance. Denmark has developed an advanced tax compliance measurement programme based on extensive audit data that helps identify the nature of non-compliance across industries. A key feature of the programmes in Sweden and other Member States has been the systematic use of random audits and risk-based audits across different groups of taxpayers ([9]). Without proving direct causality, it suggests that regular compliance tax gap estimation can support more targeted tax compliance strategies and help tax administrations identify risks at an early stage.

The Commission has developed, supported and coordinated substantial investment in compliance tax gap estimation – of indirect and direct taxes – at both national and EU level. This is particularly important for direct taxes, where national estimates often use different definitions, methodologies, data sources, taxpayer coverage and reporting periods, which limits comparability but also creates opportunities for methodological exchange. Since 2021, an EU-funded Fiscalis project group has worked on creating a common framework for compliance tax gap

[7] OECD (2024), Tax Administration 2024: Comparative Information on OECD and other Advanced and Emerging Economies, OECD Publishing, Paris, https://doi.org/10.1787/2d5fba9c-en.

[8] The Netherlands combines auditor surveys and audit data to better understand the drivers of non-compliance, including the role of complexity, lack of knowledge and adviser errors. Denmark uses sector-level and random audit data to assess compliance. In both cases, these insights help target compliance efforts and support voluntary compliance.

[9] Random audits provide statistically representative information on the prevalence and nature of non-compliance, while risk-based audits are used to identify and investigate taxpayers with a higher likelihood of non-compliance. Importantly, the results of random audits are also used to validate and adapt risk-selection models. Tax gap estimation programmes therefore inform other parts of the revenue organisation to increase the efficiency of tax collection.

estimation ([10])([11]). Moreover, some Member States, such as Poland ([12]) and Slovenia ([13]) have used the Technical Support Instrument to strengthen CIT compliance gap estimation.

For indirect taxes, EU cooperation has already led to a common methodology for estimating the VAT compliance gap, with all Member States participating in the EU-wide exercise. In 2023, the VAT compliance gap in the EU was estimated at 9.5% of the VAT total tax liability, with substantial differences across Member States and several countries recording improvements over time ([14]). Beyond examining the current level of the gap, looking at changes over time reflects national efforts to improve compliance and enables the authorities to assess the effectiveness of measures taken. Digital reporting, online cash registers, pre-filled VAT returns and other digital tools can improve traceability and compliance. The Commission is also developing, testing and scrutinising its methodologies for estimating excise tax gaps, supported by a dedicated group of experts from over 20 Member States to exchange methodological experience and to assess how estimates can better support operational work (see also section 3.1).

Further capacity-building efforts to estimate CIT compliance gaps across the EU are ongoing, in the context of an evolving corporate tax landscape. The Commission has developed a novel macroeconomic methodology to derive the CIT compliance gap using national accounts data and estimates of the non-observed economy produced by national statistical offices, providing a common framework for estimating CIT compliance gaps across Member States. The latest estimates indicate an average gap of around 9.2% of collected CIT revenues across 25 Member States, although the rate varies substantially by country and year-on-year changes should be interpreted with caution. The methodology does not, however, take account of any revenue losses from cross-border aggressive tax planning or international profit shifting, since national accounts generally reflect profits after cross-border profit allocation has taken place. Analysing such revenue losses requires complementary evidence and methodologies, including work on base erosion and profit shifting ([15]). As the corporate tax landscape changes with the implementation of the OECD Pillar 2 rules - followed by the implementation of the Omnibus on taxation and the recast of the Directive on Administrative Cooperation, once adopted - assessment tools need to evolve, including by extending the scope of CIT gap estimates to areas other than the non-observed economy.

2.2 Monitor: Enhancing the quality of tax expenditure reporting

Tax expenditures are special provisions in the tax code designed to encourage certain activities or benefit particular groups, resulting in deliberate reductions in government tax revenue. Instead of providing support through direct spending, the government can give

[10] For additional information, see: European Commission: Directorate-General for Taxation and Customs Union (2025). Towards a common approach to tax gap estimation in the EU: Fiscalis Project Group 008 - Final report. Publications Office of the European Union. https://data.europa.eu/doi/10.2778/3068071.

[11] Since 2026, the project has entered its second cycle. Participating Member States to the first and/or second cycle include BE, EE, ES, FI, FR, HU, IT, LT, LU, MT, PL, PT, RO, SK and SE for the PIT sub-group; CZ, DE, DK, EE, EL, ES, FR, HU, IT, LU, PL, PT, RO, SK and SE for the CIT sub-group; EE, EL, ES, FI, FR, HR, HU, IT, LT, LV, MT, NL, PL, RO, SK and SE for the MTIC sub-group; and BE, CZ, EE, FR, HR, IE, IT, LT, MT, PL, PT, RO, SK and SE for the e-commerce sub-group. Georgia has also joined the PIT and CIT sub-groups for the second cycle of the project.

[12] TSI 2023 project "Improve the Capacity of Poland to Better Assess and Counteract the Grey Economy", 2024-2026

[13] TSI 2021 project "Improving the administration of corporate income tax in Slovenia", 2022-2023

[14] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422

[15] For a detailed discussion of the JRC CIT compliance gap methodology, its assumptions and limitations, see European Commission: Directorate-General for Taxation and Customs Union (2025), The Corporate Income Tax Gap: A European approach to measuring losses in corporate tax revenues.

individuals or businesses indirect financial support by reducing their tax burden. Tax expenditures ('TEs') are thus departures from the benchmark tax system that confer preferential treatment such as reduced rates, exemptions etc. on specific taxpayers, sectors or activities.

It is crucial to report these tax expenditures, as mandated in the EU's fiscal governance framework, in order to tackle an inherent transparency deficit. Unlike direct expenditure programmes such as subsidies or grants, tax expenditures typically do not require annual parliamentary approval. Once legislated, they persist unless actively repealed or revoked by a sunset clause. Tax expenditure reporting can correct this asymmetry and enhance transparency and accountability. To ensure a comprehensive picture of national fiscal expenditures, the EU's fiscal governance framework requires detailed reporting on the impact of tax expenditure on revenue ([16]).

National tax expenditure reports in the EU differ greatly in content, detail and quality. Some Member States present one table of estimated revenue forgone from tax expenditures in an annex to the budget without additional contextual information. Other Member States publish tax expenditure reports with detailed information for all relevant tax provisions and multi-year estimates of revenue forgone.

A large number of tax expenditure provisions can cause additional tax complexity. Greece reports more than 1 000 tax expenditure provisions. Portugal reports more than 700 provisions, Italy more than 600 and France and Poland more than 400 tax provisions each.

Tax expenditures can have considerable fiscal impact on government budgets. Due to both differences in tax systems and reporting methods, forgone revenues from tax expenditures reportedly range from 0.4% of GDP in Ireland to 14% of GDP in the Netherlands. A high volume of forgone revenue from tax expenditures does not necessarily mean these measures are excessive or ineffective. Forgone revenue can also be relatively high because the standard level of taxation is high or because the scope of tax expenditure reporting is very broad ([17]).

Aggregating and comparing tax expenditure estimates across categories, Member States, and time presents significant methodological challenges. Although overall figures can be calculated by simply summing individual provisions, these estimates should be interpreted with caution. First, they tend to overstate potential revenue gains because simple aggregation carries the risk of double-counting overlapping provisions. Estimates also fail to account for behavioural responses that lead to lower levels of collection. In addition, a relevant share of tax expenditure provisions cannot be quantified ([18]). Lastly, reporting differs widely, depending on what Member States define as tax expenditures ([19]).

[16] Council Directive 2011/85 of 8 November 2011 on requirements for budgetary frameworks of the Member States, as amended by Council Directive 2024/1265 of 29 April 2024, prescribes tax expenditure reporting in Article 14(2).

[17] It happens that costly tax provisions are considered structural and thus excluded from reporting. Ideally, tax expenditure reporting also discusses structural provisions. In the Netherlands, reporting extends to all fiscally relevant provisions.

[18] Tax expenditure provisions can be non-quantified either due to a deliberate choice or because it might not be possible to estimate. Provision might not be quantified because they are small, technical, structural, or EU-mandated, for example. Some provisions cannot be estimated as no data exists. In some cases, data might be available in principle but too costly for a given provision to collect. An example of unavailable data would be exemption of income from certain activities. As the income is not reported, no estimate of forgone revenue is possible.

[19] There are examples of reduced VAT rates being defined as part of the benchmark or conversely, the basic income allowance or corporate loss carry-forward defined as tax expenditure while most countries consider these structural provisions.

2.3 Evaluate: Ensuring that tax expenditures are cost-effective

Taxation can provide powerful incentives that help governments pursue a range of policy objectives, but it may not always be the most cost-effective tool over time. Whether tax incentives are useful for delivering a certain policy objective requires careful analysis. The costs, benefits and risks associated with tax expenditures should be routinely evaluated. The Commission Recommendation on tax incentives to support the Clean Industrial Deal sets out principles for the effective design of tax credits and accelerated depreciation for clean investment, to be applied in line with EU State aid rules. Member States are invited to inform the Commission of the measures they take and are recommended to regularly evaluate their effectiveness and share best practices ([20]). More broadly, to help achieve the EU's climate and environmental goals more efficiently, applying the polluter pays principle also implies reviewing potentially environmentally harmful tax expenditures that send the wrong incentives to polluters.

It is crucial to understand whether existing tax expenditures deliver on the policy goals they were intended for. Regular review is necessary for assessing whether measures in place deliver value for money. This can pave the way for reforms. For example, the Netherlands' budget rules require the government to abolish, scale back or justify tax expenditures that have been evaluated as ineffective.

A high volume of forgone revenues increases the need to evaluate the effectiveness of tax expenditures. While quantification of tax expenditures is primarily a monitoring activity, the information subsequently serves as an essential input for tax expenditure evaluation, to understand whether the provisions serve their purpose and deliver value for money. Microsimulation models such as EUROMOD ([21]) can be a useful tool for evaluation of policy alternatives.

2.4 Integrate: Upgrading tax administration operations

Many Member States have invested considerably in the rollout of digital tools and started to implement AI for both their front- and back-end operations; however the digital transformation of tax administrations remains a challenge across the EU. Legacy IT systems and outdated processes hinder progress. Chief among these challenges is an over-reliance on voluntary compliance, which creates a heavy administrative burden for taxpayers. Member States should embed the principles of compliance by design and seamless taxation into processes to simplify compliance and reduce taxpayer burdens. ([22]).

An additional significant challenge for Member States is the availability of sufficient, accurate, and high-quality data to support effective tax administration. Poor data quality weakens compliance assessments, risk prioritisation and enforcement. At the same time, the increasing digitalisation of tax administration raises further demands, as modern digital systems and real-time reporting frameworks depend on structured, standardised, and reliable data. When data is inadequate, integration, efficient processing and timely outputs are hindered. Tax administrations also face difficulties in processing the growing volumes of data effectively, limiting their ability to fully benefit from administrative cooperation ([23]). Overall, poor data quality and high data volumes reduce

[20] https://commission.europa.eu/topics/competitiveness/clean-industrial-deal_en

[21] HOME | EUROMOD

[22] See methodological annex for additional explanations.

[23] Commission report on the evaluation of the EU framework for VAT administrative cooperation, COM (2025) 686 final of 14.11.2025 and Report from the Commission on the evaluation of Council Directive 2011/16/EU on administrative cooperation in the field of taxation, COM (2025) 695 final of 19.11.2025.

transparency regarding tax liabilities and the understanding of their broader impact on business operations, thereby constraining tax authorities' capacity to take well-informed strategic and policy decisions.

With increased European economic integration, differences between national tax systems can be exploited for fraud, evasion or avoidance. Cross-border activity constitutes a major component of tax crime, particularly VAT fraud. MTIC fraud is a typical form of VAT fraud related to cross-border transactions and often involves organised crime groups or networks. This type of fraud can be tackled through closer coordination between Member States and integrated transaction and data monitoring tools – an area covered by the VAT in the Digital Age (ViDA) package adopted in 2025. Closer cooperation between tax authorities and integration of the data flows behind tax collection can therefore help reduce the risks and opportunities for fraud or other tax abuse. Strengthening cooperation between Member States and EU anti-fraud actors is also a Commission priority as part of the ongoing review of the Anti-Fraud Architecture (AFA), aimed at addressing loopholes that can be detrimental to the EU's financial interests.

Some Member States continue to struggle with large and persistent amounts of uncollected tax debts. Tax debt recovery remains a critical weakness, with many administrations failing to collect outstanding liabilities. Given the high amounts of outstanding tax debt in several Member States, there is considerable potential to increase revenue collection by recovering these amounts before they become uncollectable. Differences in legal and administrative frameworks lead to uneven performance across EU Member States. A 2025 EU survey, together with feedback from national administrations, underscores the urgent need to strengthen both domestic and cross-border recovery mechanisms to handle rising request volumes.

3. Act: Adopt policy actions

The challenges make clear that achieving progress in the areas outlined above requires more than individual national efforts. The relevant actors vary across and within Member States, reflecting institutional diversity. While action at national level remains indispensable, closer cooperation at EU level can help accelerate progress. By pooling experience and sharing good practices Member States can advance on reducing the tax gaps and improving compliance.

Turning cooperation into action requires mutual trust and sustained engagement. Institutionalised cooperation between tax administrations builds trust. Political engagement is essential to establish common priorities and sustain momentum, while administrative and technical cooperation enables Member States to exchange experience, share data, and jointly develop practical solutions to common challenges.

The Commission stands ready to support this process. Support entails the facilitation of structured dialogue, the promotion of mutual learning, and helping Member States to identify and disseminate good practices. Actions outlined below can also support effective response to country-specific and euro area recommendations issued within the European Semester policy coordination cycle.

3.1 Build collective capacity to estimate compliance tax gaps through robust methods and promote methodological comparability

Although Member States have made progress in recent years to estimate tax compliance gaps, significant further efforts are needed to improve diagnostics, strengthen tools, and

ultimately enhance the effectiveness of revenue collection. A more robust assessment of compliance tax gaps, including their scale and underlying causes and drivers, is a prerequisite for governments – including at sub-national level where relevant – to tackle those gaps and to improve the efficiency of their operations. Integrating the findings of tax gap analysis into the compliance risk-management cycle – for example by identifying high-risk taxpayers, targeting interventions and informing staffing decisions – can further strengthen tax compliance management. Reducing compliance gaps requires a strategic approach with medium- and long-term objectives.

Improving methods, data quality and the comparability of compliance tax gap estimates across Member States is necessary to support evidence-based tax policy and tax administration. Improved methods enhance both the robustness and validity of compliance tax gap estimates. Comparable estimates enable Member States to benchmark their performance against peers, identify areas of relative strength and weakness, while also facilitating the exchange of good practices. They also provide policymakers with a more robust basis for assessing compliance risks and prioritising areas for reform.

Experience with VAT compliance gap estimation demonstrated the benefits of using a harmonised approach, which is now also being developed for excise duties. The European Commission has supported the development and continuous refinement of a common methodology for estimating VAT compliance gaps across all Member States. By applying uniform definitions, data sources, assumptions and estimation procedures, the methodology produces meaningful comparisons across Member States and over time. The resulting estimates have become a valuable tool for monitoring compliance trends, evaluating policy measures and identifying areas where further improvements may be needed. Excise duties are another form of tax where uniform definitions, data sources and assumptions can be applied, though to interpret the results, additional country-specific information is needed.

As direct taxes are more heterogeneous than indirect taxes, cross-country comparisons are considerably more challenging. The Commission has supported Member States in their efforts to improve methods and comparability since 2021**.** At national level, some Member States estimate only specific components of non-compliance, while others attempt to capture the overall compliance tax gap. There is nevertheless scope to explore tools and methods that do not require harmonised tax rules.

EU initiatives, which have sought to improve compliance tax gap estimation capacity and promote greater methodological consistency, provide a solid basis for accelerated capacity building. Thanks to joint efforts since 2021, work to define and implement of a common framework for compliance tax gap estimation is well advanced. Experts can collaboratively tackle a wide range of challenges (related to PIT, CIT, VAT (notably MTIC and e-commerce) and excise) by sharing experiences, learning from each other, and exploring the potential for greater transferability and comparability.

Action 1 (Member States): Build and strengthen compliance tax gap estimation capacity across tax types and integrate compliance tax gap estimation into the strategic management of tax administrations. *Member States should invest, where needed, in dedicated tax gap expertise, people and skills, and connect relevant actors across finance ministries, tax administrations, customs administrations and statistical institutes. Particular attention should be given to areas where measurement remains less developed. This includes direct tax gaps, in particular for PIT gaps. Excise duty gaps for product categories exposed to material national compliance risks should also be measured and monitored. Specifically, where full quantification is not yet feasible for*

excise duty gaps, Member States should identify the main drivers of revenue losses and fraud and monitor them over time.

Action 2 (Member States): Strengthen the national data and methodological foundations for tax gap estimation. *Member States should improve the identification, availability and quality of the data used for tax gap estimation, and document the methodologies, data sources and constraints underlying their estimates. This would support more robust national estimates and facilitate methodological exchange and comparability at EU level.*

Action 3 (EU): Continue efforts at EU level to improve the accuracy and comparability of national methods, while also continuing efforts at EU level to quantify excise gaps for tobacco, alcohol and fuel across Member States*. EU support and technical cooperation among Member States will strengthen the robustness of methodologies, foster mutual learning and facilitate the effective dissemination of good practices on compliance tax gap estimation. The ongoing Fiscalis Group related to PIT, CIT, VAT, notably in relation to MTIC and e-commerce compliance gap, which has been in place for five years, should continue to make further progress in this area. Member States should also continue the work on developing excise-duty gap estimates. The Commission is developing excise gap estimates, and its methodologies serve as the basis for technical discussions with the Member States. These methodologies are to be examined by the Member States' analytical teams. The Commission will also, by the end of 2027, assess together with Member States, the potential for developing bottom-up methodologies and extending the analytical work in this field, thereby laying the groundwork for robust and comprehensive excise gap estimation.*

3.2 Carry out regular and comprehensive monitoring and transparent reporting of tax expenditures

The frequency, informational content, and overall transparency of tax expenditure reporting vary widely across Member States. Several Member States have a very high number of tax expenditure measures and the resulting revenue forgone from these measures can be quite substantial, with significant implications for both public finances and tax complexity. In this context, it is essential to ensure regular, comprehensive and systematic reporting that is also publicly available.

To this end, Member States should provide sufficient information to answer three basic questions about any reported tax expenditure: (i) how much does it cost, (ii) who benefits, and (iii) does it achieve what it was designed to do ([24])? The information should include the stated policy objective at the time of enactment, the TE mechanism (exemption, reduced rate etc), the beneficiaries, and the amount of annual revenue forgone. Ideally, it should also contain a description of the benchmark and a link to equivalent direct spending programmes. To ensure budgetary transparency, tax expenditure reports should include structural provisions with exceptionally high revenue implications, given their relevance.

Action 4 (Member States): Improve availability and quality of data used for tax expenditure estimations and publish detailed, annual tax expenditure reports*. A lack of data is often a key obstacle to appropriate tax expenditure measurement. These reports should be as comprehensive as possible with detailed provision level information and quantify revenues forgone wherever possible*

[24] However, this figure should be interpreted with caution, as differences in national tax benchmarks and estimation methodologies limit the comparability of reported revenue forgone across Member States. See also footnote 1.

and indicate reasons when no quantification is undertaken. Integration in the budgetary process is desirable.

Action 5 (EU): Develop guidance for tax expenditure reporting. *Drawing on good practices, this would serve to operationalise the legal requirement established by the Directive on requirements for budgetary frameworks of the Member States ([25]) to report on tax expenditure.*

3.3 Review and evaluate regularly whether tax expenditures are in line with policy priorities

The cost-effectiveness of tax expenditures is often not systematically reviewed. Tax expenditures can be based on legitimate policy objectives. However, unlike direct spending, which is subject to parliamentary authorisation, periodic audit, and published performance targets, the vast majority of tax expenditures lack these accountability mechanisms. Most Member States report estimated revenue costs of tax expenditures, but this form of reporting does not shed light on whether an existing tax expenditure is delivering on its objective in a cost-effective way. The result is a structural governance deficit: public resources comparable in scale to major spending programmes are allocated with no systematic process for assessing whether they achieve their objectives or represent value for money. In an era of fiscal consolidation pressure and competing demands on public budgets, this is not merely a transparency concern, it is a fiscal policy problem.

An institutionalised evaluation process for tax expenditures is desirable ([26]). An evaluation needs to answer two questions about every provision: (i) is it achieving its stated objective, and (ii) are the costs proportionate? A tiered approach, such as that operationalised by Ireland's L1/L2/L3 framework and the Dutch Toetsingskader, offers a practicable model ([27]). Every provision undergoes a structured qualitative review of its rationale and targeting, with progressively deeper quantitative analyses applied above defined fiscal thresholds. The analytical tools therefore exist and are well established. What is needed is a political commitment to apply them systematically across all Member States.

Institutionalising tax expenditure evaluations require several critical design choices. Evaluation mandates that are anchored in law are more durable than political self-commitments. Moreover, oversight centralised near the Ministry of Finance is more objective than reliance on line-ministries with a stake in preserving specific provisions. Evaluation findings must be connected to enforceable consequences.

Action 6 (Member States): Establish a legal or administrative framework requiring periodic evaluation of tax expenditures on a rolling basis, strengthen independent oversight and foster collaboration among national bodies. *The creation of an institutional evaluation framework ensures regular tax expenditure evaluation, strengthening democratic oversight and making sure the measures achieve their objective in a cost-effective way. Evaluations could also be included or linked to general spending reviews. Further methodological development and review of tax expenditure reporting and evaluation could be made part of the budgetary process, for example by Independent Fiscal Institutions or by supreme audit institutions. Collaboration (for example in a*

[25] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, as amended by Council Directive (EU) 2024/1265 of 29 April 2024.

[26] The Platform for Collaboration on Tax has recently published six Tax Incentive Principles. Principle 6.3 specifies that "Incentive legislation should include a program for periodic, credible, and public evaluation".

[27] The Irish approach is laid out in Tax Expenditures Evaluations – Updated Guidelines (2024). The Dutch approach is explained on the dedicated website related to national budget regulations (Model 4.55).

permanent working group) between relevant national actors (e.g. Ministry of Finance, tax administration and statistical office) could further strengthen those efforts.

3.4 Deepen the digital transformation

Building on recent progress in digitalising tax administrations, further digital transformation is essential to resolve structural weaknesses and reduce persistent tax gaps. Traditional tax systems rely on taxpayers to report, calculate and pay their taxes voluntarily and accurately. The complexity of some tax systems can lead to errors by taxpayers and increase their compliance burden. The shift to compliance by design brings tax processes closer to the taxpayers' natural (business) processes minimising the scope for error and fraud. For example, pay as you earn (PAYE) systems - where employers withhold taxes – reduce errors and fraud risks. Overall, digitalisation efforts to date have been a big step forward in the right direction but remain insufficient as they fall short of achieving seamless taxation systems. To maximise value from digital transformation it is necessary to embrace fully *compliance by design* and *seamless taxation* approaches for modernising their administrative processes and step up efforts in the following areas:

Action 7 (Member States and EU): Optimise national processes and integrate digital systems within the EU: *Before digitising, Member States should rethink and simplify operational workflows. The processes should preferably be embedded into taxpayers' systems, turning taxpayers into active participants in tax administration. Member States should replace fragmented IT systems with integrated digital platforms covering all tax administration core functions. This will moreover improve data consistency, reduce duplication and cut manual interventions. Over time, the EU has implemented subsequently independent digital systems pursuant to different tax legislations. Integration of these systems using AI and other enabling technologies would reduce costs for both the EU and Member States, make data processing more effective and may reduce taxpayers' administrative burdens.*

3.5 Optimise data processing and data use

Optimising data processing and use has become increasingly challenging for tax administrations. High-quality data is key for risk assessments and taxpayer identification**.** The quicker and more accurately a tax administration can determine the correct amount of tax due by a given taxpayer, the better it will be equipped to tackle compliance challenges swiftly. The following actions will help address data-related compliance challenges:

Action 8 (Member States and EU): Build a unified, AI-driven tax data and risk-analysis framework. *Member States should develop integrated, AI-enabled tax data systems linking direct and indirect tax information to enable cross-checks, real-time risk analysis and faster detection of tax fraud, evasion and avoidance. Automated processes should increasingly replace manual workflows, allowing systems to flag risks, process incoming data and support timely responses, while ensuring data access remains purpose-specific, lawful, proportionate and subject to effective human oversight. At EU level, a more centralised architecture, based on standardised data use and reinforced by structural upgrades, including under the DAC recast, should help address fragmentation and inconsistencies across national systems. Shared data solutions, building on tools such as CESOP and EUROFISC's TNA (Transaction Network Analysis), should strengthen joint risk analysis and allow tax authorities to exchange intelligence and coordinate enforcement more effectively. Finally, improved TIN verification and feedback mechanisms should enhance taxpayer identification and data quality. This approach would support more proactive detection of tax abuse, streamline audits and reinforce cooperation among tax authorities across the EU.*

3.6 Improve tax collection and recovery

Many Member States face inefficiencies in tax collection, leading to high levels of uncollected tax debt (see Section 2.4 above). Therefore, strengthening tax debt recovery is critical. Member States should prioritise improving collection performance— through efficient procedures, digital tools, and AI (with safeguards) — to reduce compliance gaps and recover outstanding revenue.

EU legislation ([28]) provides Member States with means to assist one another through exchange of information, the notification of documents, and the recovery of tax claims on behalf of another Member State. Recovery assistance between Member States under the EU Directive 2010/24 (and between a Member State and a third country under the relevant international agreement) should only be used as a last resort, that is, after domestic options have been exhausted or have proved disproportionately difficult. This means that recovery assistance requests usually relate to complex and difficult recovery situations where tax claims remain difficult to enforce. Examples where recovery assistance is requested include lack of accessible assets, insolvency situations or disputes.

Action 9 (Member States): Strengthen tax recovery through centralisation, cooperation, and efficient management. *To improve tax debt recovery, Member States should centralise and integrate recovery functions, ensuring authorities have full access to taxpayer data for more effective tax debt management. Closer collaboration with insolvency agencies and courts — particularly in fraud cases — will help secure recoveries more effectively. Speeding up assessments and disputes through simpler rules, faster investigations, and streamlined legal processes will improve recovery success. Strengthening EU-wide mutual assistance is also critical. Member States must respond promptly to recovery requests, improve cross-border asset tracing with real-time data access, and bridge operational gaps between tax and insolvency authorities. These measures will enhance collection efficiency, reduce losses from insolvencies and ensure fairer enforcement across the EU.*

4. Conclusion

Europe cannot afford to ignore tax gaps. Every year, more than EUR 200 billion in tax revenue is lost in the EU through compliance tax gaps. Every euro due that is not collected is a euro that cannot be invested in competitiveness, resilience, and the green and digital transitions.

Reducing compliance tax gaps is a smart and effective way to improve public finances: By measuring compliance tax gaps and finding the sources of non-compliance, Member States can collect more tax revenues without having to increase tax rates. To this end, Member States should build their capacity to measure compliance tax gaps and use the results to steer tax compliance strategies. At EU level, the Commission stands ready to contribute to working towards comparable methods and enable peer learning. Lower compliance tax gaps ease pressure on budgets, create more room for investment and build greater trust in the fairness of our tax systems.

Member States should tighten the governance of tax expenditures, such as reduced tax rates, tax exemptions for certain sectors, tax credits or other tax incentives. Across the EU, tax expenditures reported by Member States amount to around EUR 750 billion in revenue forgone annually. When designed well, tools such as tax credits and other tax incentives - like those recommended under the Clean Industrial Deal or the Savings and Investment Union - can advance strategic priorities like innovation and the clean transition. However, without sufficient controls, they

[28] Directive 2010/24/EU on mutual assistance for recovery of taxes, duties and other measures.

can proliferate and their cost efficiency can be eroded over time. Regular reporting and evaluation sheds light on whether tax expenditures still serve their purpose and deliver value for money. If not, there needs to be the political will to scale them back. The objective is not to remove effective incentives, but to ensure that exemptions, reduced rates or credits are justified, targeted and aligned with policy priorities. This helps protect national budgets and safeguard policy effectiveness.

The future lies in tax administrations that are more integrated, more data-driven and equipped with effective collection and recovery mechanisms. Too often, Member States continue to face challenges in the quality and use of data, tax collection and recovery, and persistent stocks of uncollected debt. Member States should therefore accelerate the digital transformation of their tax administrations, improve data quality and risk analysis, and strengthen tax debt recovery. Better integrated IT systems, smarter use of data and AI, stronger cross-border cooperation and more effective recovery procedures can help ensure that taxes due are collected, while reducing burdens for compliant taxpayers. This is particularly important as cross-border activity constitutes a major component of tax crime, particularly VAT fraud. Missing Trader Intra-Community (MTIC) fraud alone accounted for an estimated yearly 1-3% of VAT revenue forgone over the period from 2010 to 2023, or between EUR 12.5 and EUR 32.5 billion ([29]). The ViDA initiative provides a successful example on how intelligent digitalisation and increased cooperation between tax authorities can help to simplify processes and reduce risks and opportunities for fraud or other tax abuse.

If Europe wants greater resilience and a more effective use of public money, it must pay more attention to how revenue is raised and take action to improve it. This Communication is underpinned by comprehensive country-by-country analysis. It sets out an actionable path forward for Member States to bolster their tax systems and administration and for the Commission to facilitate a boost in capacity to ensure that synergies are realised. It gives political impetus to the Mind the Gap initiative, enabling tax policymakers and administrations to respond, adjust, regularly track progress and draw lessons.

The initiative focuses on delivery and implementation. It creates a practical bridge from policy diagnostics to implementation support. Many of the proposed actions can guide Member States in implementing policy and to provide good practices that can be used through technical support, capacity building and peer-learning.

The Mind the Gap initiative promotes the goal of simplification in practice. Principles such as compliance by design and seamless taxation embed tax compliance into normal business processes, reducing administrative burden. This leads to lower compliance costs for businesses, which is particularly relevant for SMEs and stimulating cross-border growth. Similarly, better monitoring, evaluation and rationalisation of tax expenditures support simpler and more transparent tax systems, with lower compliance costs.

[29] See European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., VAT compliance gap due to Missing Trader Intra-Community (MTIC) Fraud – Final Report Phase II, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.