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Mind the Gap 2026: Country fiche – Luxembourg

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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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Country fiche: Luxembourg

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **European Commission estimates suggest that Luxembourg has one of the lowest corporate income tax (CIT) compliance gaps in the EU, standing at only 0.6% of collected CIT revenues in 2021.** The estimated gap is substantially below the EU average, indicating a high level of corporate tax compliance, which should also be interpreted in the context of Luxembourg's corporate and international business environment.

Areas for Improvement

- **There is scope to improve the estimates of the compliance tax gap in Luxembourg.** Luxembourg has started a programme to estimate the size of its compliance tax gap, but it does not yet produce estimates, while the EU's estimates of Luxembourg's VAT compliance gap fall outside the plausible ranges. Having a team dedicated to estimating the tax gap could help to gauge the size of existing tax gaps and identify the underlying causes.

- **While reported forgone revenues from tax expenditures are limited, Luxembourg lacks a systematic evaluation framework.** No recent evaluations of tax expenditures (TE) could be found. The Council of State (*Conseil d'État*) recommended in 2021 that Luxembourg report on the 'the goal pursued when [tax expenditures] were introduced, their actual impact, as well as a stance on keeping them'. In 2026, Luxembourg received a country-specific recommendation to 'mitigate risks related to the housing market by phasing out fiscal incentives to borrow'.

- **Key tax administration practices could be improved:** Closer coordination between and better integration of the different levels of the Luxembourgish tax administration could optimise various core functions, such as the identification of taxpayers, risk analysis, control and recovery activities. In addition, external data sources could be used to complement the available internal data, in particular for automated and reliable taxpayer identification. Luxembourg could also substantially upgrade its risk-management strategy by improving the use of data available under the Directive on Administrative Cooperation (DAC). DAC7 data (reporting by digital platform) could be used to detect undeclared economic activities and for recovery purposes, while DAC 3 (rulings), DAC4 (country by country reports) and DAC6 (cross-border arrangements) data could be used to tackle tax evasion, avoidance and aggressive tax planning. Compliance could be further improved by providing more digital taxpayer support tools (such as chatbots, VAT calculators and automated reminders) and by extending pre-filling beyond personal income tax (PIT).

1. Introduction and policy context

1.1. Snapshot of the tax system

Luxembourg has a relatively high tax-to-GDP ratio, with strong reliance on capital taxes. Tax revenue (including social contributions) reached 41.4% of GDP in 2024, 2.0 percentage points (pps) above the EU average ([1]). Although labour taxes are the main revenue source (46.6% of total, circa 5 pps below the EU average), Luxembourg's tax mix has traditionally shown a strong reliance on capital taxes. This is due to the large size of the financial and corporate sector in the country. In 2024, capital taxes accounted for 30.4% of total tax revenue (8.8 pps above the EU average). Within it, revenues from corporate income taxes (CIT) reached 6.5% of GDP, more than twice the EU average. By contrast, revenues from immovable property taxes are negligible. With regards to consumption taxes, they represented 23.0% of total tax revenue in 2024, circa 4 pps below the EU average. VAT revenue amounted to 6.7% of GDP, slightly below the EU average (7.1%).

Labour taxation is progressive in Luxembourg. The tax wedge ([2]) is below the EU average for low-income levels and above the EU average for high-income levels. In particular, the difference in the tax wedge between a single earner of 167% of the average wage, and another of 50% of the average wage, was in 2025 of 19.6 pps, significantly above the EU average of 12.5 pps. Despite this, the effect of the tax and benefit system on reducing the Gini coefficient was of 6.3 pps in 2024, 1.5 pps below the EU average ([3]). Income inequality, measured by the income quintile share ratio (S80/S20), matches with the EU average (4.6, income reference year 2024) ([4]). The at-risk-of-poverty and social exclusion -AROPE rate ([5]) is below the EU average (18.2% vs 21.0%).

In 2026, Luxembourg has received the following country-specific recommendation (CSRs) in the area of taxation ([6]):

- *Increase housing supply, in particular by adopting a comprehensive land-use policy and a property tax reform, developing large-scale district projects on public land, and strengthening coordination with urban planning and cross-border public transport. Mitigate risks related to the housing market by phasing out fiscal incentives to borrow and by*

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 40.8% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[3] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[4] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

[5] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.

[6] https://data.consilium.europa.eu/doc/document/ST-11128-2026-INIT/en/pdf.

strengthening the macroprudential framework. Take further action to effectively tackle aggressive tax planning, in particular by ensuring sufficient taxation of outbound payments of interest and royalties to zero-/low-tax jurisdictions.

It is worth noting that CSRs related to property taxes and fiscal incentives related to housing have been raised every year since 2023, and those on tackling aggressive tax planning have been raised in 2019, 2020, 2022, 2023, 2024, and 2025.

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Luxembourg's tax system appears moderately complex in structural terms, reflecting in part its role as an international financial and corporate centre. Survey-based evidence from the Tax Complexity Index (TCI) places Luxembourg in the lower half of the EU distribution, ranking 4th among Member States. The underlying components of the TCI suggest that complexity arises more from the structure of tax rules than from administrative procedures ([7]). Citizen perceptions are somewhat less favorable: 38% of respondents report that completing their tax return is easy, below the EU average of 49%, while reliance on professional assistance is above average at 11% ([8]).

Legislative activity appears comparatively limited, thereby limiting short-run adjustment costs for taxpayers. Luxembourg recorded 8 tax changes entering into force or announced in 2025, well below the EU average of 14 ([9]). Previous years saw 19 tax changes in 2024, 10 in 2023 and 9 in 2022. Apart from the temporary increase in legislative activity in 2024, the number of tax changes has remained below the corresponding EU average, pointing to a relatively stable tax policy environment. The reforms adopted in 2025 mainly concern personal taxation, savings and investment incentives, together with selected environmentally related and health taxes. Several measures are designed to strengthen competitiveness and investment, including a new tax credit for investments in innovative start-ups, an updated tax framework for carried interest and more generous tax allowances for complementary pension schemes and continued employment beyond the early retirement age. The relatively limited number of legislative changes suggests that complexity in Luxembourg stems more from the sophistication and international orientation of the tax system than from frequent reforms.

Demand-side indicators point to a comparatively important accounting and tax consultancy sector. The sector accounts for around 1.3% of gross operating surplus, above the EU average of 0.9% ([10]). However, this indicator should be interpreted with caution, as Luxembourg's role as an international financial and business centre is likely to increase demand for accounting,

[7] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).

[8] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.

[9] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

[10] A higher share of gross operating surplus indicates that the accounting, bookkeeping and tax consultancy sector generates a relatively larger share of operating profits and value added in the economy. While not a direct measure of tax complexity, it may point, indirectly, to greater demand for specialised tax and accounting expertise.

legal and tax services beyond what would be expected based solely on the complexity of the domestic tax system ([11]). Taken together, the evidence suggests that Luxembourg's internationally oriented economy generates substantial demand for specialised tax and accounting expertise, while this should not be interpreted as evidence of correspondingly high complexity in the domestic tax system.

1.2.2. National simplification efforts

In 2025, Luxembourg modified the minimum wealth tax for companies, introducing minimum taxation amounts depending on balance sheet totals: EUR 535 for balance sheet totals up to and including EUR 350 000, EUR 1 605 for balance sheet totals between EUR 350 000 and EUR 2 million, and EUR 4 815 for balance sheet totals exceeding EUR 2 million. Furthermore, the annual ceilings on deductible mortgage interest charges for owner-occupied housing have been increased. with no ceiling applicable for the acquisition year of the building and the following year. During the four following years, the ceiling is raised from EUR 3 000 to EUR 4 000, for the following five years it is raised from EUR 2 250 to EUR 3 000, and thereafter it is raised from EUR 1 500 to EUR 2 000. These ceilings are increased by an equal amount for the taxpayer's spouse/partner, and for each qualifying child ([12]).

Luxembourg is also set to simplify personal income tax rules in the coming years. In 2026, it approved a tax reform law introducing a single personal income tax class. For reference, Luxembourg previously split single taxpayers into Class 1 – for single, divorced, or separated persons with no dependent children, Class 1a – for single taxpayers with at least one dependent child, widowed individuals, and taxpayers aged 65 or older, using a more favourable tax scale than Class 1, and Class 2 – for married couples and eligible registered partners taxed jointly, benefiting from income-splitting adjustments. This reform represents a shift away from the current three tax classes and replaces them with a single, universal tax class from January 2028. This aims to make the system neutral with respect to marital status and simplify the taxation system ([13]).

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([14]). The shadow

[11] Luxembourg's role as an international financial and business centre contributes to a comparatively large accounting, legal and tax advisory sector serving multinational enterprises, investment funds and cross-border activities. Consequently, the sector's economic importance should not be interpreted as reflecting only the complexity of the domestic tax system.

[12] This information is based on the 2025 and 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaire, reporting measures that were implemented, legislated, or announced between 1 January and 31 December of respectively 2025 and 2026.

[13] BSP, 2026. Income tax – Draft Law on the introduction of a single tax class. Accessed at: https://www.bsp.lu/lu/publications/newsletters-newsflashes/income-tax-draft-law-introduction-single-tax-class.

[14] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6). Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

economy is an analogous but narrower concept— used in the economic literature and measured via macroeconomic models — that usually encompasses only legal, market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations and methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

Specifically, data from official sources ([15]) allow to estimate the size of the non-observed economy (NOE) in Luxembourg at 1.1% of GDP for 2017 ([16]). The NOE comprises the underground economy (0.93%) and statistical deficiencies (0.17%). Luxembourg thus records a NOE well below the EU average (8.4% of GDP) ([17]).

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Luxembourg are higher than the non-observed economy estimate discussed above. In 2022, the shadow economy in Luxembourg represented 8.3% of GDP, according to estimates by Schneider and Asllani for the European Parliament ([18]). This ratio is 9.3 percentage points below the EU-27 average and it has slightly increased compared to 2018 (7.9% of GDP). The report also indicates that indirect taxes are the main drivers of the shadow economy in Luxembourg. Several other studies provide estimates of similar magnitude for the size of the shadow economy ([19]). However, using a currency demand approach (CDA), a recent study by EY ([20]) reports lower estimates for the Luxembourg's shadow economy at 6.1% of GDP in 2023, (EU average 7.9%), down from 7% in 2000 (EU average 13.2%).

2. Compliance tax gaps

2.1 Overview

Luxembourg does not have a programme in place to estimate the size of its tax gap, but it participates in the TADEUS/Fiscalis project on estimating tax gaps. The Fiscalis Project Group on Tax Gap Estimation, a collaborative initiative launched with the support of the European Commission, aims to develop a harmonised approach to estimating tax gaps across EU Member States ([21]). Luxembourg participated in the first cycle, which concluded in 2025, and is also participating in the second cycle of the project, launched in 2026.

[15] See also Section 1.3 "Measures of the non-observed economy and the shadow economy" in Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[16] Fernandes op. cit. (2025). However, STATEC (Institut national de la statistique et des études économiques) estimates that, for 2021, 0.6% of the gross value added (GVA) generated by the non-financial corporations was deliberately misreported. This represents only a specific component of the overall non-observed economy (NOE).
[17] For the transmission cycle analysed by Fernandes (verification cycle 2020-2024), six Member States did not transmit data to EUROSTAT (BG, IE, LV, LT, PL, ES). For these countries, the NOE is estimated on the base of the national accounts. The other Member States transmitted data for a single year between 2015 and 2019
[18] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.
[19] See Fernandes op. cit. (2025) for an overview of various studies.
[20] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.
[21] For details, please refer to the TADEUS website, the FISCALIS programme website and the Final Report of the Project.

2.2 Compliance tax gaps in VAT

In the latest edition of the VAT gap in Europe study, the estimates of Luxembourg's VAT compliance gap ([22]) fall outside plausible ranges ([23]). They show negative or near-zero values for several consecutive years, which is not feasible in practice as it implies that collected VAT exceeds theoretical liability. Further research and discussions with the national authorities are ongoing in order to reconcile VAT revenue and national accounts data in Luxembourg.

Luxembourg is progressing with the implementation of the VAT in the Digital Age (ViDA) package at national level, promoting VAT compliance. E-invoicing is mandatory for business-to-government (B2G) transactions, using the Peppol network. The country is preparing for a significant expansion of e-invoicing and e-reporting obligations, and while business-to-business (B2B) e-invoicing remains optional, it is encouraged ([24]). However, there are currently no plans in Luxembourg to mandate B2B e-invoicing at national level before it becomes mandatory for cross-border transactions ([25]).

2.3 Compliance tax gaps in corporate and personal income tax

The European Commission is not aware of any CIT and personal income tax (PIT) compliance gap estimation activities in Luxembourg at the time of writing of this document ([26]). Information on Luxembourg's CIT and PIT gap is scarce, as neither Luxembourg's ministries nor the tax authority publish any figure or report on the country's direct tax gap. Estimating CIT and PIT compliance gaps could help policy makers identify problems related to CIT and PIT tax collection and support the tax administration to assess the effectiveness of its enforcement actions. Luxembourg has started a programme to estimate the size of its tax gap, so far focused on data acquisition and data modelling. This programme will be significantly accelerated in the context of the ongoing digital transformation.

European Commission estimates suggest a very low CIT compliance gap in Luxembourg. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data and estimates of the non-observed economy produced by national statistical offices, the CIT compliance gap of Luxembourg is estimated at around 0.6% of collected CIT revenues based on 2021 data ([27]). Based on the same methodology, the (unweighted) average CIT compliance gap is 9.2% of collected CIT revenues across all Member States ([28]). While

[22] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[23] 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.

[24] VAT Update, 2025. Luxembourg VAT: A 2025 Guide to Digital Compliance and E-Invoicing. Accessed at: https://www.vatupdate.com/2025/05/19/luxembourg-vat-a-2025-guide-to-digital-compliance-and-e-invoicing/.

[25] Benelux VAT Gap Colloquium, 2024. Bridging the VAT compliance gap: Concrete measures – Presentations: eInvoicing in Luxembourg – Legal framework and strategic outlook. Accessed at: https://www.benelux.int/wp-content/uploads/2024/04/VATGAP-Powerpoint.pdf.

[26] According to the 2023 OECD/FTA survey on tax gaps estimations, captured in the previously referred OECD Tax Administration 2024.

[27] For Luxembourg, the estimate refers specifically to sector S.11 (non-financial corporations), as the exhaustiveness adjustment currently available from Luxembourg's national accounts relates only to this institutional sector.

[28] European Commission estimates are based on a top-down methodology for approximating CIT compliance gaps using national accounts data. The approach relies on exhaustiveness adjustments made by national statistical offices to Gross Operating Surplus, Gross Value Added and Gross Domestic Product in order to account for non-observed economic activity in the compilation of GNI. The method provides a harmonised proxy for domestic underreporting of corporate income, but does not capture all sources of CIT revenue losses, in particular those related to international profit shifting or other forms

no directly comparable earlier estimate is available, the updated estimate suggests that Luxembourg has one of the lowest estimated CIT compliance gaps among Member States, well below the EU average. The estimate should be interpreted in the context of Luxembourg's particular corporate and international business environment, which may influence the composition and compliance behaviour of firms operating there.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

While Luxembourg does not currently estimate excise tax gaps, it devotes resources to strengthening EU cooperation on excise matters through its participation in the Fiscalis project group on Excise Gap and Risk.

Luxembourg does not publish any information on possible other compliance tax gaps. There are no official programmes or published figures for compliance gaps related to other tax measures.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

Luxembourg provides information on revenues forgone from tax expenditures in an annex to the budget ([29]). Luxembourgish authorities communicate about tax reliefs every year and provide the estimated impacts on the annual budget for individual measures in place. However, they are not integrated in a self-standing report or reported in a dedicated space on public websites. The provisions considered are laid out and presented in the report, and the revenues forgone associated with each measure are reported in a summary table. Tax expenditures related to direct taxes are split into three categories: (i) allowances or deductions (thirteen provisions), (ii) exemptions or exonerations (five provisions), and (iii) tax credits (seven provisions). On the indirect tax side, tax expenditures are split across those relating to (i) the super-reduced VAT rate of 3% (six provisions), (ii) the reduced VAT rate of 14% (three provisions), and (iii) registration and transcription fees (one provision – the housing tax credit).

The 28 reported tax expenditures amount to around 2% of GDP in 2026, or EUR 1 949 million ([30]). An estimated 1.4% of GDP is attributed to tax expenditures related to direct taxes, and 0.6% of GDP is attributed to those related to indirect taxes. Two categories of tax expenditures affect tax revenues most significantly. These are tax credits (0.54% of GDP for 2026), driven by substantial reforms in recent years as well as the introduction of a new start-up tax credit, followed by deductions (0.52% of GDP for 2026), mainly due to the increased deductibility of interest payments related to bank loans used to finance the purchase of a primary residence. On the indirect

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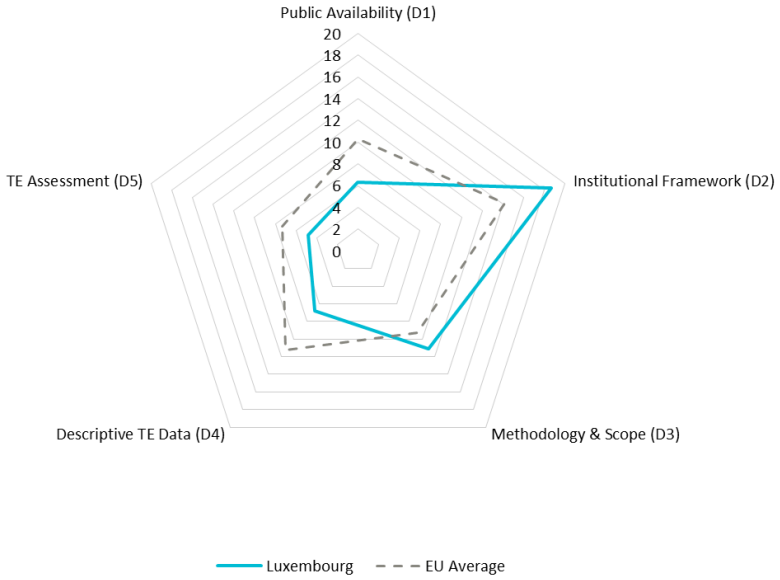
of legal tax optimisation. For further information on the data sources, underlying assumptions and methodological caveats, see Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[29] Ministry of Finance (Luxembourg), 2026. Budget pluriannuel 2026-2029 – Volume 2 : Projet de loi relative à la programmation financière pluriannuelle pour la période 2025-2029. Accessible at: https://igf.gouvernement.lu/dam-assets/fr/dossiers/budget-de-l-etat/projet-de-loi/bu-2026-volume-2-pour-web-v1.pdf.

[30] Ibidem.

tax side, the greatest contributions to forgone revenues come from registration and transcription fees (0.37% of GDP in 2026), due to the continuation of the *Bëllegen Akt* credit, followed by the super-reduced 3% VAT rate (0.27% of GDP in 2026).

Figure 1: Luxembourg vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

Compared to other Member States, transparency and comprehensiveness of tax expenditure reporting in Luxembourg shows room for improvement (overall ranked 16th according to the Global Tax Expenditures Transparency Index (GTETI) score). According to GTETI analysis, transparency in TE reporting in Luxembourg is below the EU average overall, with weaknesses across several dimensions. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([31]). Maximum value for each dimension is 20. Luxembourg performs above the EU average on Institutional Framework, and Methodology and Scope. However, Public Availability is below the EU average (6.33 vs 10.26), Descriptive Tax Expenditure Data is below the EU average (6.80 vs 11.28), and Tax Expenditure Assessment is below the EU average (4.80 vs 7.34), indicating no beneficiary information, no information on legal duration or sunset clauses, missing legal references, indicating lack of timely data for recent fiscal years. The strong performance on Institutional Framework reflects a clear legal requirement to report, mandatory parliamentary submission, integration in the budget proposal, clear institutional responsibility.

Luxembourg does not have a formal process in place for regularly reviewing tax expenditures, and the national audit office has not evaluated the provisions. The *Conseil d'État* recommended in 2021 that Luxembourg introduce additional information on the "the goal

[31] See the GTETI companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches)for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

pursued when [tax expenditures] were introduced, their actual impact, as well as a stance on keeping them" ([32]).

Evaluators have recommended phasing out mortgage interest deductions and strictly targeting housing tax credits to low-income buyers. In this respect, the European Commission's analysis pointed to the need to better align these tax breaks with structural supply shortages rather than fuelling demand ([33]). In a review of Luxembourg's draft annual budget, the OECD mentioned the lower attention given to Volume 2 – containing information of tax expenditures – in parliamentary discussions, and the need for additional data and more detail ([34]). According to the GTETI ([35]), Luxembourg's medium-term fiscal framework does not set guidelines on the policy objectives of tax expenditures. It also mentions the low visibility of national tax expenditure reporting, the lack of access to underlying data, and low transparency regarding the data sources used as well as evaluation frameworks.

3.2 Policy tax gaps in VAT

Inconsistencies in the data affect the estimation of Luxembourg's VAT revenues forgone due to the application of reduced rates and national policy-driven exemptions in the VAT gap in Europe study ([36]). Further research and discussions with the national authorities are ongoing to reconcile VAT revenue and national accounts data in Luxembourg.

Since 2023, several changes to VAT rates have been introduced. These include a temporary reduction of all VAT rates by 1% for the 2023 calendar year to help combat inflation, meaning reducing the standard rate from 17% to 16%, reducing the intermediary rate from 14% to 13%, and reducing the reduced rate from 8% to 7%, while the super-reduced rate of 3% remained unchanged ([37]). Various changes went into force in 2025 ([38]): the domestic threshold for the small business VAT exemption was increased from EUR 35 000 to EUR 50 000, a new special scheme for EU-wide small businesses with a threshold of EUR 100 000 annual turnover was introduced, and point 26 of Annex III of Directive 2006/112/EU was adopted into national law so that the 8% reduced VAT rate was expanded to all supplies of works of art, collectors' items, and antiques.

Microsimulation indicates revenues forgone of about EUR 910 million (ca. 1.05% of GDP and almost 40% of potential VAT revenues) in 2025. The reduced VAT rates are concentrated in a small number of categories, led by 'food and beverages' ([39]). 'Food and beverages' accounts for

[32] Avis du Conseil d'État, 16 novembre 2021, relatif à la programmation financière pluriannuelle pour la période 2021-2025.
[33] European Commission, 2026. Commission Staff Working Document: 2026 Country Report – Luxembourg. SWD_2026_216_1_EN_autre_document_travail_service_part1_v4.docx.
[34] OECD, 2025. Review of public finance system in Luxembourg – OECD papers on budgeting. OECD Publishing, Paris. Accessed at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/02/revue-du-systeme-de-finances-publiques-du-luxembourg_1231f2a8/e526e1a8-en.pdf.
[35] GTETI, 2024. Country profiles: Luxembourg. Accessed at: https://gteti.taxexpenditures.org/profiles/.
[36] 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.
[37] Gouvernement.lu, 2022. Premières mesures issues du "Solidaritéitspak 2.0" approuvées par la Chambre des Députés. Accessed at: https://gouvernement.lu/fr/actualites/toutes_actualites/communiques/2022/10-octobre/21-backes-solidariteitspak.html.
[38] LexGo, 2024. VAT law changes on 1 January 2025. Accessed at: https://www.lexgo.lu/en/news-and-articles/13614-vat-law-changes-on-1-january-2025.
[39] The VAT rate gap is analysed here using EUROMOD's household consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of

the largest share of forgone revenues at 35.4%, below the EU mean share of 39.8%. 'Restaurants and accommodation' comes second at 25.9%, well above the EU mean share of 20.4%. 'Housing, water and electricity' ranks third at 12.4%, well above the EU mean share of 8.5%. These three categories account for 73.7% of Luxembourg's total forgone revenue.

Luxembourg's reduced VAT rates lower inequality as measured by the Gini coefficient by 0.37 pps, below the EU average reductions of 0.50 pps. 'Food and beverages' contribute 0.21 pps (57.0% of the total), below the EU mean contribution of 0.32 pp. 'Housing, water and electricity' contributes 0.11 pps (29.2% of the total), above the EU mean contribution of 0.07 pps.

3.3 Policy tax gaps in corporate income tax

Luxembourg recorded a limited use of tax expenditures related to corporate income tax. In 2026, CIT related tax expenditures represented only 1 out of the 28 reported tax expenditures, accounting for EUR 1 million of estimated revenue forgone. The measure, an income tax credit for hiring unemployed people, is granted to corporations when hiring workers which were previously unemployed.

3.4 Policy tax gaps in personal income tax

Tax expenditures related to PIT represent the largest tax type in the list prepared by Luxembourg, accounting for over two thirds of all estimated revenue forgone. In 2026, Luxembourg estimates that PIT related tax expenditures represent EUR 1 317.5 million of revenue forgone. The largest provision is the tax credit for employees, pensioners, and the self-employed (EUR 270 million) followed by the mortgage interest deductibility (EUR 233 million). Upon proposal from the Commission, in its 2025 Country Specific Recommendations, the Council has urged Luxembourg to mitigate risks related to the housing market by phasing out fiscal incentives to borrow ([40]). In its 2025 Article IV report for Luxembourg, the IMF also recommends phasing out interest payment deductibility ([41]).

Microsimulations suggest that PIT-related tax expenditures in Luxembourg in 2025 have a progressive effect ([42]). PIT-related tax expenditures imply revenue forgone equivalent to 10.3% of actual PIT revenues, well below the EU average of 19.1% ([43]). The largest share of revenue forgone arises from work-related TEs (4.7% of PIT revenue). PIT-related tax expenditures reduce the

reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[40] Council of the European Union (2026): Council Recommendation on the economic, social, employment, structural and budgetary policies of Luxembourg.

[41] International Monetary Fund (2025). Luxembourg: 2025 Article IV Consultation-Press Release; and Staff Report, IMF Staff Country Reports 2025, https://doi.org/10.5089/9798229011754.002

[42] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[43] According to the European Commission's taxation trends data, PIT revenues in Luxembourg amounted to approximately EUR 9.7 billion in 2024. This would imply revenue forgone of approximately EUR 1.0 billion due to PIT tax expenditures according to the microsimulation (10.3% of EUR 9.7 billion).

Gini coefficient by 0.43 pps, marginally less than the EU average reduction of 0.46 pps. The relatively low revenues forgone are associated with a moderate decrease in inequality.

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Luxembourg operates a partially unified taxpayer identification model. Individuals use their national identification number (*matricule*) for PIT, while legal entities use a national identifier for direct taxes, including CIT. In contrast, VAT requires a separate VAT identification number ([44]).

Digital registration is available but lacks full functionality and automation. Luxembourg enables online VAT registration, but decentralisation to local offices and the division between direct and indirect tax authorities seem to create fragmentation across processes ([45]). While businesses can view VAT tax account and payment statuses online, they cannot modify data digitally. The system integrates taxpayer records across subsystems with systematic reviews but lacks automated reminders or centralised rejection tracking. Contact details for tax officers and a helpline are available, though no automatic VAT registration occurs upon company incorporation ([46]).

Luxembourg's e-commerce oversight combines a dedicated trader register with fragmented processes due to institutional divisions. Luxembourg maintains a separate register for e-commerce traders and conducts systematic One Stop Shop (OSS) registration checks, but the division between tax authorities (Inland Revenue, Indirect Tax Authority, and Customs) and the decentralised system (with local offices) may hinder streamlined coordination. For validation purposes, the Luxembourg OSS portal relies on information obtained from the national commercial registers ([47]).

Risk-based registration focuses on internal checks without external data. Luxembourg's risk assessment relies on internal VAT database cross-checks, with no external third-party validation (e.g. financial or commercial data). While preliminary OSS checks are conducted, rejected applicants are retained in the system. The OSS Portal maintains a searchable record of all rejected applications. Risk detection is reactive, based on database consistency rather than predictive screening ([48]). Luxembourg's qualification and invalidation of VAT identification numbers in potential VAT fraud cases appear to follow standard administrative procedures.

4.2 Tax filing and assessment

Luxembourg's tax system is increasingly digitalised. PIT, CIT, VAT returns are filed electronically, supported by e-government tools (MyGuichet.lu ([49]), the *Administration des contributions directes* portal ([50]) and unified system ([51]) for VAT). These systems are connected with

[44] https://www.oecd.org/content/dam/oecd/en/topics/policy-issue-focus/aeoi/luxembourg-tin.pdf
[45] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Luxembourg, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/3449395.
[46] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[47] Ibidem.
[48] Ibidem.
[49] Citoyens - Guichet.lu - Luxembourg.
[50] Administration des contributions directes - Luxembourg.
[51] Portail de la fiscalité indirecte - Luxembourg.

other government databases to streamline filing processes by reusing existing data from public authorities.

However, since 2024 pre-filling is only available for PIT. Extending prefilling to VAT therefore remains a clear area for improvement despite progress in digital data integration ([52]).

E-filing uptake in Luxembourg is uneven across tax types ([53]). In 2024, VAT e-filing reached 99.8%, slightly above the EU average of 99.2%, indicating near-universal digital filing in this area. By contrast, CIT e-filing stood at 83.4%, below the EU average of 97.3%, while PIT e-filing was only 26.2%, far below the EU average of 88.4%.

Luxembourg's digital tax infrastructure is being modernised to enhance taxpayer support and compliance efficiency. While core digital services are available, practical user-support features - such as chatbots, VAT calculators, and automated reminders - remain absent, limiting the system's overall usability ([54]). The filing and assessment of direct taxes in Luxembourg will be supported by a new IT system, replacing outdated tax assessment and collection systems. The system will introduce automated pre-filling of tax returns, real-time data validation and integration of EU transparency data (DAC3–DAC7, see in the next paragraph and under 4.3), where legally permissible. These updates are designed to reduce manual processing, minimise errors, improve verification efficiency while supporting more targeted risk-based assessments.

Luxembourg makes a thorough use of data obtained through automatic exchange of information (AEOI), under the Directive on administrative cooperation in the field of taxation (DAC) ([55]), i.e. DAC1 ([56]), DAC2 ([57]), and DAC7 ([58]), for personal income tax purposes. The identification of taxpayers concerned in Luxembourg is efficient: in 2025, the matching rate measuring success in identifying registered taxpayers with DAC data ([59]) is 94% for the main categories of DAC1 ([60]), and 93% for DAC2 (above the EU-average: 84% and 92% respectively). As for DAC7, there is room for improvement (77%, EU-average being 86%). In this respect, the TIN validation tool envisaged in the DAC recast proposal will support the matching process to approach a 100% automatic matching rate, ultimately allowing Luxembourg for a more efficient and targeted deployment of resources.

[52] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[53] Ibidem.
[54] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[55] Sources: Yearly Assessment 2026.
[56] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.
[57] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on financial accounts.
[58] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.
[59] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[60] Income from employment, pensions, director's fees, immovable properties.

Once the taxpayers have been identified, Luxembourg tax authorities use the available data for various activities: tax risk assessment to detect possible undeclared income ([61]), notification to generate disclosure and, if relevant, tax assessments or audits limited to specific categories of income or capital. Luxembourg measures the impact on tax revenues stemming from the use of DAC information and is able to report a moderate increase in the tax base and tax assessed. This approach ensures that data is used correctly, even if it could be complemented by using DAC7 information to identify undeclared economic activities through digital platforms.

Luxembourg has been relatively active in VAT administrative cooperation ([62]). In 2024, Luxembourg sent 156 requests for information, representing a decline from 2023 (-17.5%) ([63]). It also received 337 requests in 2024. Based on a standardised measure, taking into account the relative size of the Luxembourgish economy, Luxembourg is in line with the EU weighted average on the number of requests sent and above the EU weighted average on the number of requests received ([64]).

Luxembourg records limited results in automated exchange of VAT information. It reported 798 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, it forwarded zero cases. Based on a standardised measure, taking into account the relative size of the Luxembourgish economy, Luxembourg is above the EU weighted average on VAT identification numbers allocated to taxable persons not established in LU ([65]).

4.3 Compliance risk management

Luxembourg's compliance risk management strategy (CRM) is limited in scope. Luxembourg operates a formal CRM strategy covering return filing, payment processing, enforcement, and audits. Data sources include domestic tax filings, third-party data, European and international information exchange mechanisms, including DAC, VAT Information Exchange System (VIES), and Common Reporting Standard (CRS). However, the strategy excludes taxpayer services and public risk disclosures ([66]).

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[61] Tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify situations where specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions.

[62] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.

[63] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

[64] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Luxembourg sent 1.81 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 3.91 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[65] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Luxembourg reported 9.26 VAT identification numbers allocated to taxable persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP.

[66] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Luxembourg, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/3449395.

Luxembourg's AI applications in tax administration are narrowly focused. Luxembourg's limited use of AI is restricted to the Registration Duties, Estates and VAT Authority (AED), where it processes subscription tax files (also known as the "abonnements tax"). No broader applications (e.g. predictive modelling, machine learning) are documented for risk assessment or fraud detection across other taxes. The *Administration des contributions directes* has however started AI developments in the context of its digital transformation.

Luxembourg's digital compliance processes include simplified declarations and automated consistency checks. However, limited information has been provided on tailored behavioural nudges or real-time intervention tools.

Luxembourg reports that its digital compliance processes include simplified declarations and automated consistency checks. However, the administration provides limited detail on tailored behavioural nudges or real-time intervention tools ([67]).

Luxembourg also reports that it does not use DAC3 ([68]), DAC4 ([69]) and DAC6 ([70]) data for risk-analysis purposes in the field of corporate income taxation. Luxembourg does not systematically identify the taxpayers or entities concerned by the information resulting from these exchanges. Particularly, the lack of information on the number of identified taxpayers and the exclusive use of manual matching techniques highlights the need for Luxembourg tax authorities to shift to an automated matching model in order to increase their efficiency as well as their effectiveness in detecting aggressive tax arrangements and profit-shifting issues. In this respect, the administration is currently integrating DAC3, DAC4 and DAC6 data for CIT into its existing risk-analysis solution, the effective date of implementation being from 2027 onwards. Moreover, Luxembourg could use DAC6 data to close possible legal loopholes which enable tax evasion schemes. This aspect was also mentioned in the latest European Court of Auditors report on tax harmful regimes ([71]). In addition to measures relating to risk analysis, proactive steps could be taken to improve the monitoring of the use of data and more particularly the identification of the taxpayers concerned.

Luxembourg has not provided information on its use of Central Electronic System of Payment Information (CESOP) data or on any VAT tax gap analysis and how such analysis informs its CRM strategy ([72]).

[67] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[68] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on rulings and advanced pricing arrangements.
[69] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on country-by-country reports of multinational entities.
[70] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.: automatic exchange of information on potentially tax-harmful cross-border arrangements.
[71] Special Report 27/2024: Combatting harmful tax regimes and corporate tax avoidance
[72] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

4.4 Audits

Luxembourg conducts a wide range of audits, with room to strengthen pre-audit processes. The administration performs desk audits, single-issue checks, comprehensive examinations, and tax avoidance/evasion investigations. While third-party data cross-matching helps detect inconsistencies before formal audits, further pre-audit analytics, such as anomaly detection or targeted taxpayer engagement, could be expanded, alongside impact measurement to refine selection criteria ([73]). In audit processes, AI automates routine testing and anomaly detection, with human auditors retaining full responsibility for final judgments, aligning with Luxembourg's regulatory framework.

Luxembourg relies on a decentralised approach rather than a dedicated Large Taxpayer Office (LTO) or high-net-worth unit. Responsibilities are divided between the *Administration des contributions directes* (ACD) for direct taxes and the *Administration de l'enregistrement, des domaines et de la TVA* (AED) for VAT, without a defined LTO segmentation model.

Luxembourg makes limited use of advanced instruments of administrative cooperation provided for in Directive on administrative cooperation in the field of taxation and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. Such instruments entail multilateral controls (MLCs) such as simultaneous controls, joint audits and presence in administrative offices and administrative enquiries (PAOEs). The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025, Luxembourg has participated in 7 MLC, representing respectively 2.5% of the total of these activities within the E.U. Luxembourg has not initiated any MLC or any PAOE ([74]).

4.5 Payment and collection

Luxembourg achieves full electronic tax payment adoption. 100% of payments were made electronically in 2024 ([75]), unchanged from 2018 and above the EU average of 94.9%. No 2024 data is available on on-time payment compliance for CIT, PIT or VAT ([76]) so no comparison was possible with the corresponding EU averages.

In Luxembourg, risk analysis processes for VAT refunds are not currently conducted. Its VAT penalty framework has been simple and proportionate since 2025 for failures to submit VAT returns and for late payment ([77]).

4.6 Tax debt recovery

Tax arrears in Luxembourg are below the EU average and have remained lower in recent years. The closing stock of tax arrears at the end of the year in % of total revenue was at 13.2% in

[73] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Luxembourg, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/3449395.
[74] EU AIAC Statistics -2023-2025
[75] Ibidem
[76] Ibidem.
[77] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection)

2024, which is below the EU average of 30.7% ([78]). No data is available concerning the closing stock of collectable arrears as % of the closing stock arrears.

Luxembourg has three different tax authorities respectively responsible for the recovery of income tax, VAT and excise duties, each of which applies its own specific rules/procedures. The efficiency of the tax recovery could be improved if one single authority would apply the same rules and practices for recovery for all types of taxes.

Luxembourg does not have specific legislation on cooperation between tax (recovery) authorities and administrators of insolvency proceedings. Further, Luxembourg does not allow tax (recovery) authorities to share information with the administrators of insolvency proceedings concerning assets that could be used for the recovery of unpaid (tax) claims in the insolvency proceedings ([79]).

Luxembourg writes off tax debts only after all available recovery measures have been exhausted under national law, and no further recovery options remain ([80]).

Tax disputes are solved rapidly, at administrative level and before a court. However, Luxembourg law does not allow the tax administration to take precautionary measures before there is an assessment/title ([81]).

Regarding cross-border recovery assistance within the EU, Luxembourg submits compliant requests to other Member States Luxembourg's recovery requests to other Member States generally comply with requirements ([82]), focusing on well-established claims. Nevertheless, 75 recovery requests were suspended in 2025, while 623 requests for recovery were sent to other Member States in the same year ([83]).

[78] ISORA Data – closing stock and collectable arrears.
[79] Luxembourg's replies to questions 34-36 of the 2025 survey on tax recovery.
[80] Luxembourg's replies to questions 26-27 of the 2025 survey on tax recovery.
[81] Luxembourg's replies to question 16 of the 2025 survey on tax recovery.
[82] Statistics on rejections of requests, reported by Luxembourg as applicant State, relating to recovery assistance in 2025.
[83] Statistics on the suspension of recovery requests, sent by Luxembourg as applicant State, following contestation of the claim, for 2025.