MIND THE GAP REPORT

Challenges and Opportunities for Tax Compliance and Tax Expenditures in the EU

CoP on Tax Expenditures, 26 February 2026

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RATIONALE OF MIND THE GAP REPORT

→ In light of **financing and investment needs** for national and EU wide priorities, **efficient tax collection is essential.**

→ There is **currently no comprehensive, Member State–by–Member State overview on efforts to measure and close tax gaps** and the **effectiveness of tax administrations' actions to increase compliance**.

→ The **Mind the Gap Report aims to fill that analytical gap** and provide a **basis for future action** at EU level.

→ A **call to reduce tax gaps** through **sound policy checks, smarter tools** and **deeper collaboration**

SCOPE OF THE REPORT

- **Mind the Gap Report offers a comprehensive assessment of tax compliance and expenditure challenges in the EU and its 27 Member States.**

- **Flanked by two technical reports** on the Value-Added Tax (VAT) compliance gap and the Corporate Income Tax (CIT) compliance gap.

WHAT IS A TAX GAP AND WHY DO WE NEED TO MEASURE IT?

Tax Gap is **difference between amount that could theroretically be collected and amount actually collected**.

Differentiate between:

- ❖ **Tax compliance gaps** are caused by tax avoidance and evasion, errors and bankruptcies
- ❖ **Tax policy gap (or tax expenditures)** are due to deliberate policy choices such as tax exemptions, tax credit or reduced rates.

- Rather than **introducing new taxes, reducing tax gaps can be a fairer and more efficient way to support sound public finances.**

- **Understanding** tax gaps is the first step to **reducing** them.

ANALYSING THE POLICY TAX GAP

Input: National tax expenditure reports and related national publications, GTED

Normative consideration / Evaluation:

- Number of TEs (proxy for tax complexity)
- Share of TEs quantified (context variable, often ca. 1/3 not quantified)
- Revenues forgone (problematic due to benchmark, aggregation, comparability)
- Structural characteristics (while no TE, in principle still part of the policy tax gap)
- Impact assessment (process for impact evaluation, ad hoc evaluations)

KEY FINDINGS FROM THE REPORT

Tax compliance gaps can be sizeable and persistent:

- ✓ The *VAT compliance gap* reached 128 billion EUR in 2023 (9.5% of VAT liabilities);
- ✓ For *CIT compliance gap* - the estimated average using the latest available data (for 23 Member States) stands at 10.9% of collected revenues equal to €38 billion of lost revenues;

KEY FINDINGS FROM THE REPORT

*Tax policy gaps are often inadequately and inconsistently monitored, reported and evaluated for their cost efficiency.

*Investing in tax collection and tax recovery systems can help reduce the tax compliance gap

*Scope to further reap benefits of digitalization by increasing compliance levels

ACTIONS TO REDUCE THE TAX GAP

- Build estimation capacity to enable regular tax gap estimates
- Systematically report tax expenditures and evaluate their effectiveness
- Improve tax collection and recovery by improving collaboration with insolvency agencies/cross border cooperation/interlinking IT system
- Leverage digitalisation and cooperation to boost compliance

SOME ILLUSTRATIVE EXAMPLES

The Netherlands

Areas of Strength: The Netherlands has a comprehensive tax gap estimation programme which was built over the past few years encompassing both direct tax gap and indirect tax gap estimation

Areas of Improvement: Despite its good monitoring and assessment, the Netherlands has several large tax expenditure items some of which have been identified as being potentially problematic (e.g. home ownership)

SPAIN

Areas of Strength: Spain's tax administration shows good results in terms of digitalisation. Advanced IT tools used by the tax administration help manage compliance, prevent fraud and assist taxpayers efficiently

Areas of Improvement: Monitoring of tax expenditures (TEs) is fragmented and, at central government level, discontinued since 2022

MORE EXAMPLES

Finland: Court of auditors requests more stringent impact evaluation of TEs.

Greece: More than 1000 TEs in place.

Italy: Reported 575 TEs, with revenues forgone 5.8% of GDP; reduced VAT rates not considered TE.

France: Foregone revenues in 2023 due to TEs amount to EUR 82.9 billion, representing 2.9% of GDP and 6.8% of total government tax revenues collected.

GOING FORWARD

- The Mind the Gap Report will become an annual exercise
- Member States are consulted in process
- Basis for discussion between Commission, Member States and other stakeholders and tool for benchmarking and learning from good practices
- Outreach process ongoing

PUBLICATION PACKAGE AT A GLANCE

- Mind the gap webpage including the chapeau report and the 27 country specific annexes
- VAT gap webpage including the annual VAT Gap Reports
- The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues-CIT Gap Report
- Tax Administration EU Summit (TADEUS)-forum for the heads/deputy heads of EU countries' tax administrations and the Commission. Goal: improve administrative cooperation within the EU
- Towards a common approach to tax gap estimation in the EU-report of TADEUS Project Group on Tax Gap Estimation, a collaborative initiative to develop a harmonised approach to estimating tax gaps across EU Member States.

SOCIAL MEDIA POSTS OF THE MIND THE GAP REPORT

Animation video

Interview with:

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THANK YOU