

The EU tax gap - and what needs to be done now

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I have [already posted](#) about my new estimate of the EU's tax gap and noted that the estimate only relates to tax evasion.

In [my report](#) I added the following summary sections, all the issues noted being explored in more detail later in the report:

Summary of findings

This report suggests that the EU's member states have a total tax gap of not less than €750 billion. The figure might be as high as €900 billion. It is likely to be between the two. For the reasons noted in the report this is likely to be an underestimate.

Percentage tax gaps, as shown in Appendix 1 to this paper, vary from 7.98% in Luxembourg to 29.51% in Romania.

In absolute amounts the biggest tax gaps are in Italy, France and Germany.

Half of all EU member states have tax gaps that might exceed their healthcare spending, and often by considerable amounts.

As a result it is suggested that there remains considerable capacity within many EU member states to collect considerably more of the tax that is legally owing than is done at present.

Research undertaken by the author of this report and others suggests that:

- * Too few EU member states prepare tax gap estimates. Only fifteen EU member states, at most, are engaged in this activity at present;
- * Those EU member states that do publish tax gap estimates do so on too limited a basis. Seven only prepare such estimates for VAT. Only the United Kingdom attempts a reasonably comprehensive tax gap estimate;
- * There is a 'cloak of secrecy' over much of the data that is required to establish best

possible tax gap estimates, and this is hindering progress on this issue. This is most especially true with regard to the size of the shadow economy that states include in their estimates of their GDP. Whilst Eurostat are aware of the scale of these estimates they will not publish them. Available evidence suggests that the estimates used are much lower than the likely figures;

* The tax gap does not just relate to tax that is not paid. It should also include the amount of tax that is not paid as a result of a government decision not to tax certain tax bases or to grant exemptions, allowances and reliefs. This is referred to as the tax policy gap by the International Monetary Fund and others. Many of these tax reliefs increase inequality in EU member states. Others are given without any apparent economic justification. Although it is a **legal requirement that EU member states estimate these costs of tax not paid as a result of allowances and reliefs the EU does not appear to collect data on this issue and as such the information is not currently available for review. There may be significant additional available capacity for tax collection from this source.**

Summary of recommendations

- * All EU member should prepare their own annual shadow economy and tax gap estimates;
- * Tax gap estimates should cover all taxes;
- * The EU should establish comprehensive methodologies on what are known as both top-down and bottom-up methods for estimating these tax gaps. Estimates should be published on both bases;
- * Tax gap measures must cover all potential user needs and not just be tax authority efficiency measures;
- * Jurisdictions should prepare annual estimates of both their tax policy gaps and their tax expenditures on allowances and reliefs and these should be published nationally and on a Europe-wide basis;
- * Tax authorities should be required to undertake tax spillover assessments of the tax risks arising within their own tax systems and which are created by it internationally, as well as of those created for it by other states. These should include annually updated plans to tackle the identified tax risks;
- * Each EU tax authority should explicitly report the bad tax debt that they suffer each year;
- * Tax authorities should be funded to close tax gaps;
- * There must be effective central public registers of companies and trusts in all EU member states that can provide the accounting and ownership data required by tax authorities to close tax gaps as the secrecy provided by many such registers continues to be a major contributor to many EU tax gaps.

The full report is [available here](#).