European Commission - Press release

VAT Gap: EU countries lost €140 billion in VAT revenues in 2018, with a potential increase in 2020 due to coronavirus

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EU countries lost an estimated €140 billion in Value-Added Tax (VAT) revenues in 2018, according to a new report released by the European Commission today.

Though still extremely high, the overall 'VAT Gap' – or the difference between expected revenues in EU Member States and the revenues actually collected – has improved marginally in recent years. However, figures for 2020 forecast a reversal of this trend, with a potential loss of €164 billion in 2020 due to the effects of the coronavirus pandemic on the economy.

In nominal terms, the overall EU VAT Gap slightly decreased by almost €1 billion to €140.04 billion in 2018, slowing down from a decrease of €2.9 billion in 2017. This downward trend was expected to continue for another year, though the coronavirus pandemic is likely to revert the positive trend.

The considerable 2018 VAT Gap, coupled with forecasts for 2020 – which will be impacted by the coronavirus pandemic – highlights once again the need for a comprehensive reform of EU VAT rules to put an end to VAT fraud, and for increased cooperation between Member States to promote VAT collection while protecting legitimate businesses. The Commission's recent Fair and Simple Taxation package (July 2020) also details a number of upcoming measures in this area.

Paolo **Gentiloni,** Commissioner for Economy, said: "*Today's figures show that efforts to shut down opportunities for VAT fraud and evasion have been making gradual progress – but also that much more work is needed. The coronavirus pandemic has drastically altered the EU's economic outlook and is set to deal a serious blow to VAT revenues too. At this time more than ever, EU countries simply cannot afford such losses. That's why we need to do more to step up the fight against VAT fraud with renewed determination, while also simplifying procedures and improving cross-border cooperation.*"

Main results in Member States

As in 2017, Romania recorded the highest national VAT Gap with 33.8% of VAT revenues going missing in 2018, followed by Greece (30.1%) and Lithuania (25.9%). The smallest gaps were in Sweden (0.7%), Croatia (3.5%), and Finland (3.6%). In absolute terms, the highest VAT Gaps were recorded in Italy (€35.4 billion), the United Kingdom (€23.5 billion) and Germany (€22 billion).

Member State	VAT Gap %	VAT Gap (in €mn)	Member State	VAT Gap %	VAT Gap (in €mn)
Belgium	10.4%	3,617	Lithuania	25.9%	1,232
Bulgaria	10.8%	614	Luxembourg	5.1%	199
Czechia	12.0%	2,187	Hungary	8.4%	1190
Denmark	7.2%	2,248	Malta	15.1%	164
Germany	8.6%	22,077	The Netherlands	4.2%	2,278
Estonia	5.2%	127	Austria	9.0%	2,908

Ireland	10.6%	1,682	Poland	9.9%	4,451
Greece	30.1%	6570	Portugal	9.6%	1,889
Spain	6.0%	4,909	Romania	33.8%	6,595
France	7.1%	12,788	Slovenia	3.8%	148
Croatia	3.5%	252	Slovakia	20.0%	1,579
Italy	24.5%	35,439	Finland	3.6%	807
Cyprus	3.8%	77	Sweden	0.7%	306
Latvia	9.5%	256	United Kingdom	12.2%	23,452

Individual performances by Member States still vary significantly. Overall, in 2018 half of EU-28 Member States recorded a gap above the median of 9.2%, though 21 countries did see decreases compared to 2017, most significantly in Hungary (-5.1%), Latvia (-4.4%), and Poland (-4.3%). The biggest increase was seen in Luxembourg (+2.5%), followed by marginal increases in Lithuania (+0.8%), and Austria (+0.5%).

Background

The annual 'VAT Gap' report measures the effectiveness of VAT enforcement and compliance measures in each Member State. It provides an estimate of revenue loss due to fraud and evasion, tax avoidance, bankruptcies, financial insolvencies as well as miscalculations.

The VAT Gap is relevant for both the EU and Member States since VAT makes an important contribution to both the EU and national budgets. The study applies a "top-down" methodology using national accounts data to produce estimations of the VAT Gaps. This year's edition includes notable additions, such as a 20-years back casting exercise, an improved econometric analysis of the VAT Gap determinants and a projection of the potential impact of the coronavirus recession on the evolution of the VAT Gap.

For more information

For more information, see our factsheet and memo.

The full report with detailed information per Member State is available here.

Commission Action Plan for fair and simple taxation supporting the recovery

Commission proposals for far-reaching reforms of the EU VAT system

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