



ANNUAL REPORT ON TAXATION 2026

*Review
of taxation policies
in the EU Member States*



Manuscript completed in July 2026

1st edition

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Luxembourg: Publications Office of the European Union, 2026

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PDF ISBN 978-92-68-40742-4 ISSN 2600-3384 doi: 10.2778/9336135 KP-01-26-035-EN-N

How to cite this document: *Annual Report on Taxation 2026*, Directorate-General for Taxation and Customs Union, European Commission, Publications Office of the European Union, Luxembourg, 2026

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Acknowledgements

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Ana Agundez Garcia, Carlo Gianelle, Aron Kiss, David Klenert, Alexander Leodolter, Andrzej Leszek Stasio, Balazs Parkanyi, Alessandro Pellei, Kristine Van Herck, made valuable comments and suggestions.

Comments and suggestions from other Commission departments are gratefully acknowledged. We also thank Member States delegates to the Expert Group on Structures of Taxation Systems for their contributions regarding the data on taxation and taxation related reforms.

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Foreword

The European Union is once again navigating a complex economic and geopolitical environment. Renewed tensions in the Middle East have triggered a new energy price shock, reigniting inflationary pressures and weakening economic sentiment. At the same time, long-term structural challenges — population ageing, the green and digital transitions, and the need to strengthen Europe's competitiveness — continue to shape the economic policy landscape and to raise the stakes for public finances. In responding to both immediate pressures and these deeper shifts, governments increasingly turn to tax policy instruments to protect exposed groups, secure revenue and steer economic adjustment.

In this context, tax policy remains central to the European Union's economic and political agenda. Taxation is, first and foremost, the main source of revenue for governments. But it is much more than that. Well-designed tax systems can support employment, guide investment, foster innovation, strengthen competitiveness and contribute to a fairer and more sustainable society. Conversely, poorly designed systems may weaken incentives, increase complexity and undermine trust in public institutions.

The *Annual Report on Taxation 2026* takes stock of recent trends in tax revenue and tax-related developments in the EU Member States. The report shows that tax revenue in the EU increased to 39.4% of GDP in 2024, driven primarily by higher receipts from labour taxes. Member States in pursuit of additional revenues rely more on labour taxes, as governments have a range of instruments at their disposal to increase them without incurring prohibitive political costs. At the same time, the evolution of the tax mix over the last decade points to moderate shifts across tax bases. Revenues from corporate income taxation have supported a move towards capital taxation, while consumption taxes have lost ground, as gains in VAT revenues have not been sufficient to offset the marked decline in revenues from environmental tax. Looking ahead, population ageing may further affect the sustainability and composition of tax revenues, underlining the need for resilient, balanced and future-proof revenue sources.

This edition also examines aspects of tax policy not covered in previous reports. One focus area relates to the role of tax incentives for individuals and firms to adjust their behaviour in support of specific policy objectives. Specifically, how do taxes affect the decision of individuals whether to work or not, and if so, how much? How could investment decisions be steered to support decarbonisation in line with the Clean Industrial Deal? Another deep-dive concerns tax compliance, analysed from the perspective of taxpayers. The results of the Flash Eurobarometer on citizens' attitudes towards taxation are particularly telling: across the EU, citizens identify action against tax avoidance and evasion as the top priority for tax policy. The analytical findings show that compliance is shaped not only by enforcement, but also by simplicity, tax certainty, filing support, trust in public institutions and perceptions of fairness.

Against a backdrop of heightened global competition, increasing regulatory complexity and uncertainty, tax simplification has emerged as a key EU policy priority. The European Commission has now put forward a comprehensive package of measures for tax simplification as an important step toward enhancing competitiveness, reducing administrative burdens, and fostering economic growth across the Single Market. The taxation Omnibus and the recast of the Directive on Administrative Cooperation represent an opportunity for streamlining tax rules and reducing complexity for businesses, strengthening tax compliance, supporting fair and efficient tax collection and making it easier for companies to operate across Member States. Rapid agreement on these measures will enhance legal certainty and create a more investment-friendly tax environment at a crucial moment for the European economy.

The European Commission continues to work with Member States that are modernising their tax systems and administrations, including through the Technical Support Instrument and the Recovery and Resilience Facility. These instruments have helped improve compliance, digitalisation and reform implementation for more efficient, fair and sustainable taxation.

In sum, tax policy is at the heart of Europe's response to today's challenges. Building tax systems that are competitive, fair, simple and resilient is essential to support public finances, foster investment, strengthen trust and deliver on the Union's strategic priorities. The Annual Report on Taxation 2026 is intended as a contribution to that endeavour.

Gerassimos Thomas

Director-General for Taxation and Customs Union

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List of abbreviations and acronyms

COUNTRY ABBREVIATIONS

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czechia
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SL	Slovenia
SK	Slovakia
SE	Sweden
EA	Euro Area
EU-27	European Union (27 countries as from 2020)
UK	The United Kingdom
US	The United States of America

ACRONYMS

ART	Annual Report on Taxation
ATAD	Anti-Tax Avoidance Directive
ATP	Aggressive tax planning
AW	Average wage
BEPS	Base erosion and profit shifting
BI	Behavioural insights
bn	billion

CBAM	Carbon Border Adjustment Mechanism
CID	Clean Industrial Deal
CISAF	State aid framework supporting the Clean Industrial Deal
CIT	Corporate Income Tax
CO ₂	Carbon dioxide
CTCP	Cooperative Tax Compliance Programmes
DAC	Directive on Administrative Cooperation
ECA	European court of auditors
EPPO	European Public Prosecutor's Office
ESA	European system of national and regional accounts
ESO	Employee stock option
ETD	Energy Tax Directive
ETS ₂	Emissions Trade System
EU	European Union
EUROMOD	European Union-wide tax-benefit model
EVS	European Values Survey
FASTER	Directive on Faster and Safer Relief of Excess Withholding Taxes
GAAR	General anti-abuse rule
GDP	Gross domestic product
HHoT	Hypothetical Household Tool
HICP	Harmonised index of consumer prices
IMF	International Monetary Fund
IPP	Intellectual property protection
IPP	intellectual property products
ISORA	International Survey on Revenue Administration
ITR	Implicit tax rate
JRC	Joint Research Centre
lhs	Left hand sight
METR	Marginal effective tax rate
MNE	Multinational enterprise
MTCA	Malta Tax and Customs Administration
NO _x	Nitrogen oxides
NRR	Net replacement rate
OECD	Organisation for Economic Co-operation and Development
PIT	Personal income tax
pp	Percentage points
PTR	Participation tax rate
PTR ^{un}	PTR from unemployment
PTR ⁱⁿ	Participation Tax Rate from inactivity
R&D	Research and development
R&P	Resources and pollution taxes
rhs	Right hand sight
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
SC	Social contributions
SIA	Savings and investment account

SIC	Social insurance contribution
SMEs	Small and medium-sized enterprises
SOx	Sulfur oxides
SSC	Social security contributions
TADAT	Tax Administration Diagnostic Assessment Tool
TAIEX	Technical Assistance and Information Exchange
TIN	Tax identification number
TSI	Technical Support Instrument
TTIR	Top Up Tax Information Return
VAT	Value added tax
ViDA	VAT in the Digital Age
WVS	World Values Survey
y-o-y	Year-on-year

Executive Summary

The 2026 Annual Report on Taxation (ART) takes stock of taxation and tax-related trends in the European Union (EU) Member States. In a context of further macroeconomic shocks and uncertainty, the interplay between tax design, tax incentives and policy goals is explored, featuring the cases of work incentives and the tax instruments rolled out under the Clean Industrial Deal. The report comprehensively reviews recent developments in the tax mix, notably shifts across tax types and tax bases and medium-term prospects. Recent tax policy initiatives at both EU and national levels are summarised. The final chapter is a deep-dive into social and economic determinants of tax compliance from the perspective of the taxpayer.

In terms of macroeconomic outlook, the EU economy is entering a period of slower growth. Renewed geopolitical tensions in the Middle East have triggered an energy price shock, reigniting inflationary pressures and weakening economic sentiment. Although the current crisis differs in important respects from the energy shock that followed Russia's invasion of Ukraine, it is expected to affect the economy through many of the same transmission channels, particularly via higher energy costs and their impact on households and businesses. Following GDP growth of 1.5% in the EU in 2025, the European Commission's Spring 2026 forecast projects growth to moderate to 1.1% in 2026 before recovering modestly to 1.4% in 2027. Inflation is expected to increase to 3.1% in 2026, reflecting the recent surge in energy prices, before easing to 2.4% in 2027. Labour market conditions are expected to soften, bringing the long-running decline in unemployment to an end. At the same time, the tax revenue-to-GDP ratio is expected to increase slightly, reaching 40.1% in 2026 before broadly stabilising thereafter.

In addition to generating government revenue, taxation plays an important role in shaping economic behaviour by influencing the financial incentives faced by workers and businesses. By affecting the costs and returns associated with work, investment and production, tax systems can help support policy objectives, address market failures and promote economic activity. The impact of taxation, however, depends not only on tax rates but also on the overall design of the tax and benefit system.

In the labour market, taxes and social contributions influence the financial rewards from entering employment or increasing earnings. Across the EU, work incentives vary considerably, reflecting differences in tax structures, social contributions and the withdrawal of benefits. In countries with more progressive tax systems, the tax burden generally rises with income, which can reduce the financial gains from additional work for higher earners. At the same time, many Member States have introduced reforms over the past decade that have strengthened incentives for low-income workers. Work incentives also differ across household types. Single parents often face weaker financial incentives to increase their earnings or enter employment, largely because of benefit withdrawals. Similar challenges arise when moving from inactivity or unemployment into work. While many Member States have improved incentives to enter employment, substantial differences remain across the EU.

Targeted tax incentives can help encourage investment and support the uptake of low-carbon technologies, as accelerating decarbonisation remains a central EU policy objective. Market barriers and financing constraints can slow the green transition, which requires significant private investment in clean technologies. The EU's Clean Industrial Deal provides the overall policy framework for this effort, complemented by a Commission Recommendation on the effective use of tax incentives. The effectiveness of tax incentives depends on their design and their complementarity with other policy efforts, with expenditure-based tax incentives being a more cost-effective tool than income-based tax incentives. Across the EU, Member States increasingly use corporate tax incentives to promote clean investment, including accelerated depreciation, tax credits and enhanced deductions.

Tax revenue (including social contributions) in the EU increased to 39.4% of GDP in 2024, with gains in 22 Member States. Following a volatile period between 2020 and 2023, the EU tax-to-GDP ratio increased by 0.4 percentage points (pp) in 2024, boosted by higher revenue from labour taxes. The latest

increased from 19.9% of GDP to 20.3%, accounting for more than a half of total tax revenue in 14 Member States. Revenue from consumption (10.6% of GDP) and capital (8.5% of GDP) taxes remained broadly stable in 2024. Looking into the different tax types, in 2024 personal income taxes (PIT) and social contributions (SC) recorded the largest increases in GDP terms. The tax-to-GDP ratio ranged from 21.7% in Ireland to 45.2% in Denmark. The largest increases were recorded in Malta, Latvia and Slovenia, and the largest decreases in Finland, France and The Netherlands.

The comparison of tax revenue in the two 5-year subperiods before (2015–2019) and after (2020–2024) the COVID-19 pandemic depicts some interesting dynamics. The tax burden has increased the most in Spain (2.9 pp), Lithuania (2.3 pp) and Luxembourg (2.2 pp), and decreased the most in Malta and Hungary (–2.8 pp in both). The evolution of the tax mix over the last decade across the Member States suggests a general EU-wide shift away from consumption, towards capital, while the reliance on labour taxes has developed in both directions. Member States in pursuit of additional revenues rely more on labour taxes, as governments have a range of instruments at their disposal to increase them without incurring prohibitive political costs. Among the most frequent policy instruments, non-indexation of PIT brackets and increases in SC rates are used recurrently. The report also discusses the role of other drivers behind labour-tax revenue developments, including labour market developments and social protection expenditure.

Tailwinds supporting corporate income tax (CIT) and value added tax (VAT) revenues in most Member States contrast with headwinds affecting environmental and property taxes. Despite the positive trend of VAT revenues since 2020, consumption taxes are losing ground due to the strong decrease in revenues from environmental taxes. By contrast, the strong increase in revenues from CIT is supporting the shift towards capital bases, largely compensating for the decline in revenues from property taxes. Looking ahead, it is unlikely that the decline of environmental taxes is reverted in the coming years, although prospects for property taxes may be more positive. The implementation of OECD Pillar Two rules for the Global Minimum Tax is expected maintain CIT revenues going forward. Population ageing may prompt substantial shifts in the tax mix and put into question the stability of labour tax revenues.

Tax reform measures adjusting PIT and SC have been prevalent among those reported by Member States. Almost 400 measures have been included in the recent 2026 Joint OECD-European Commission Annual Tax Policy Reform Questionnaire (reporting year 2025). Almost half of them relate to the goal of strengthening competitiveness and prosperity. There have been changes in PIT rates (more frequently reductions), changes in PIT bases (more frequently through further exemptions and allowances), increases in the rates and bases of SC, and changes in VAT rates (more frequently reductions). CIT reform measures present a mixed picture, with some Member States increasing rates to raise revenue, while others introduce tax incentives to support investment. Environmental tax reductions have mainly targeted the agriculture and automotive sector. Health-related tax reform measures predominantly consist of rate increases on the consumption of tobacco, alcohol, and sugary drinks. Property tax reform measures have primarily been revenue-driven.

Several EU tax policy initiatives, currently under discussion, can be instrumental in improving competitiveness and attaining other key policy objectives. First, the European Commission proposal Simplification Omnibus on Taxation was presented in June 2026, responding to the general need to simplify the regulatory environment and reduce administrative burdens for strengthened competitiveness across all sectors. It will be discussed with the Council in the coming months. The proposal to recast the Directive on administrative cooperation in the field of direct taxation (DAC) will complement the simplification omnibus. In July 2025, the Commission adopted a proposal for a revision of the Tobacco Taxation Directive, grounded in internal market and revenue considerations while also supporting public health objectives. The European Commission continues to support efforts by Council to reach agreement on the revision of the Energy Tax Directive (ETD), following up on the proposal presented in July 2021. There are also auxiliary taxation elements in other ongoing EU proposals with a broader scope, such as the EU Inc. proposal (a starting point for the EU's 28th regime) and the Recommendation on Savings and Investment Accounts (SIAs) and the tax incentives to support the Clean Industrial Deal (CID).

The report presents different initiatives at country-level implemented under the support of the Technical Support Instrument (TSI) and the Recovery and Resilience Fund (RRF). The Technical Support Instrument (TSI) is the EU programme delivered by the European Commission that provides tailor-made technical expertise to EU Member States to design and implement reforms. Since 2020, the Member States have benefitted from technical support for over 215 measures, with numerous projects still ongoing. Nearly one quarter of the measures focused on tax compliance. The RRF is the temporary crisis instrument at the heart of NextGenerationEU supporting the implementation of reforms and investments. In the area of taxation, the RRF supported 131 reforms and investments in 24 Member States, which are implemented from 2020 until the end of the Facility in 2026.

Tax compliance results from the interplay of psychological, societal, moral and institutional factors.

Observed tax compliance levels cannot be explained by the threat of punishment for non-compliance alone. The compliance enforcement capacity of tax administrations plays an important role in assuring compliance but needs to be complemented by the appropriate legal and institutional framework. Tax certainty and simplicity, filing support and pre-filing and an appropriate remittance structure which minimises compliance costs facilitate compliance. The appropriate institutional, technical and legal setup however can only become fully effective when they rest on widespread tax moral and the trust of the public in government in general and in the tax administration specifically.

Citizens' perception of the tax system varies widely across Member States. Information from the Flash Eurobarometer 562 on Citizens' Attitudes towards Taxation is used to analyse perceived tax fairness, the difficulty of filing taxes and available support from public services. Some countries are overall performing well with citizens showing high filing ease, high perceived support, and near-zero need for professional support for filing taxes. Others form a contrasting cluster where filing is not perceived as easy, the use of professional filers is high, and the perceived support is moderate-to-low. It is possible that tax complexity has led to structural reliance on intermediaries in these countries.

A majority of citizens see action against tax avoidance and evasion as the top priority for tax policy in the EU. Support for this priority is particularly strong in France (65%), Cyprus (64%), Portugal (61%), and Finland (60%). Estonia is the only Member State where combating tax avoidance and evasion is not ranked as the top priority; instead, a larger share of respondents favour preventing double taxation between EU countries (40%) over measures to combat tax avoidance and evasion (36%).

Simplification efforts at EU and national level complement go hand in hand with anti-avoidance policies and compliance enforcement capacity. Simplification of the tax system reduce compliance costs for taxpayers and administrative costs for tax administrations. Lower compliance costs contribute to higher compliance levels, while lower administrative costs free resources which can foster tax administrations' compliance work. Compliance enforcement capacity in all Member States is increased by advances in administrative cooperation, information exchange and peer learning. The Mind the Gap Report of the European Commission, first published in 2025, provides a comprehensive assessment of Member States' tax systems and identifies critical insights into tax compliance challenges and policy choices, which impact fiscal sustainability and competitiveness. The report also provides key action points to reduce tax gaps and overall improve compliance levels ranging from a review of past policy choices on tax expenditures to a call for more digitalisation of tax administration operations ⁽¹⁾.

In brief, the report is structured as follows:

- **Chapter 1** starts with an overview of the EU economy at its current juncture, setting out the current macroeconomic situation and the outlook for the next two years. Additionally, it discusses the role of

1 [European Commission \(2025a\), Mind the Gap – Full Report](#). See also the [Mind the Gap website](#).

taxation as a policy instrument that can provide incentives for individuals and firms to adjust their behaviour in support of specific policy objectives.

- **Chapter 2** provides top-down analysis on the structure of tax revenues at EU and country level, starting by overall revenues, followed by the breakdown by economic function and the most important tax types (SC, PIT, CIT, VAT, environmental and property taxes), and finalising with a discussion on recent shifts in the tax mix and medium-term prospects.
- **Chapter 3** starts with an analysis of the tax reform measures reported by the Member States in the last Joint OECD-European Commission Annual Tax Policy Reform Questionnaire. It follows an overview of the most recent EU tax policy initiatives and concludes with an overview of country initiatives implemented under the support of the TSI and the RRF.
- **Chapter 4** considers tax compliance from the perspective of the taxpayer. The determinants of tax compliance as identified in the literature are complemented with empirical evidence on citizen's attitude, mostly relying on the recent Flash Eurobarometer 562 on Citizens' Attitudes towards Taxation.

1

Macroeconomic context and structural aspects of tax policy

This Chapter sets the scene of the Report by presenting recent economic developments in the European Union and selected structural aspects of tax policy. The first section provides an overview of the EU economy at its current juncture, setting out the current macroeconomic situation and the outlook for the next two years ⁽²⁾. The second section focuses on the role of taxation as policy instrument to address specific policy objectives, besides its key function as revenue source. In particular, it discusses how tax design can provide incentives to individuals and firms' behaviour to shape employment outcomes and to advance decarbonisation.

1.1 Macroeconomic situation and outlook

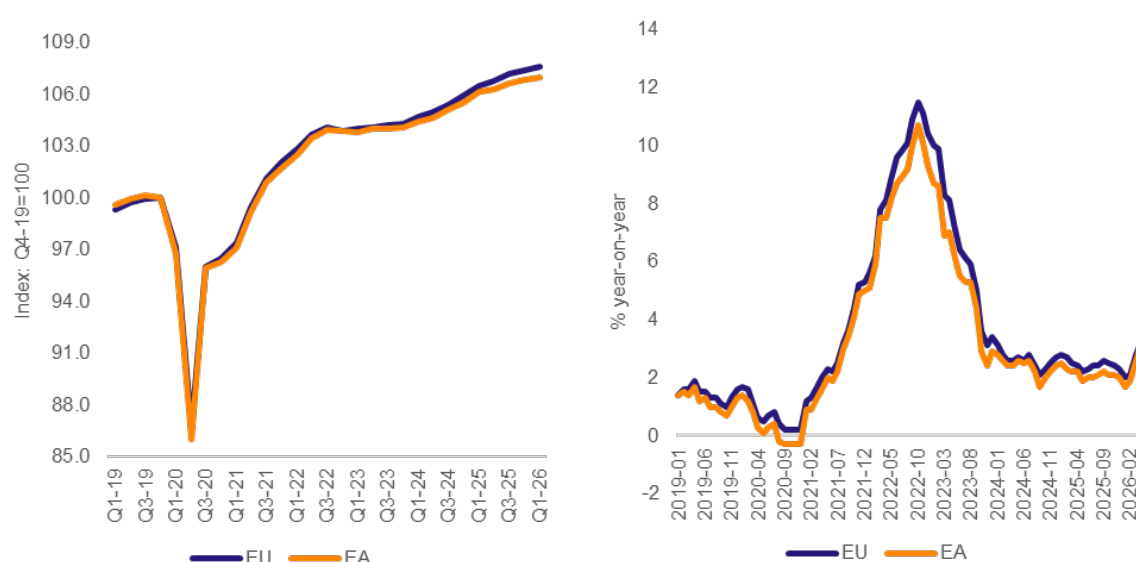
EU economic activity is projected to weaken somewhat (European Commission, 2026a), as the conflict in the Middle East triggers a new energy shock that has reignited inflation and shaken economic sentiment. Before the outbreak of the conflict in the Middle East, the global and EU economies were gaining momentum. A challenging geopolitical environment and US tariff uncertainty continued to weigh on growth, but easing inflation and a robust investment cycle related to the unfolding AI revolution provided important support. In the EU, weak competitiveness was a source of concern and public finances required attention, but the economy also showed resilience, including a robust labour market and solid private sector balance sheets. The conflict materially changed this picture, delivering one of the most significant global energy supply disruptions in recent history—coming four years after the energy shock triggered by Russia's war of aggression against Ukraine. From late February to late April gas prices increased by 50% and crude oil prices by 65%, while refining margins for key products such as diesel and jet fuel reached historically elevated levels.

While the nature and the backdrop of the current crisis differ in important respects from those that prevailed following Russia's full-scale invasion of Ukraine, its impact on public finances is compounded. First, at the time, Europe was heavily reliant on pipeline gas from Russia, with limited scope for substitution and strong dependence on fixed infrastructure. By contrast, the current shock predominantly affects globally traded energy commodities—oil and liquefied natural gas. These markets are highly fungible, allowing supply to be reallocated across regions, spreading price pressures more evenly across the global economy. Second, the EU has significantly reduced its reliance on fossil fuels, both through the expansion of renewable energy, and a sizeable reduction in energy use by industry and households. Nevertheless, the current crisis comes on top of other crises and trends that have left long-lasting marks on the public finances of some Member States. This calls for a need to strengthen national tax systems, including by ensuring high tax compliance (see Chapter 4).

2 Unless specified differently, the cut-off date for macroeconomic data used in this report is 21 May 2026.

GDP growth in 2025 was 1.5% for the EU and 1.4% for the euro area, driven by rising consumption and investment. As the left-hand side of Figure 1 shows, EU real GDP initially recovered rapidly after the COVID-19 pandemic, but growth then stalled from mid-2022 until the end of 2023. Since the start of 2024 growth across the EU had been continuous if moderate until the crisis in the Middle East hit. Inflation remained moderate through 2025 but has spiked in recent months with the rise in energy prices (right hand side of Figure 1). In 2025, the expansion of private consumption partly reflected a lower propensity to save. Consumer confidence improved in the second half of 2025, though remaining below its long-term average. Public consumption contributed positively to real GDP growth in the last three quarters of 2025, growing by 1.7% for the year as a whole. Investment growth also exceeded expectations in 2025, reaching 2.8% in the EU (1.7% excluding Ireland). The bulk of investment growth came from intellectual property products (IPP) –mainly, but not exclusively, in Ireland– non-residential construction, equipment and, to a lesser extent, transport equipment. Investment in housing recovered only slowly. While the automotive sector still struggled, production of other transport equipment and other investment goods enjoyed a significant increase in the course of 2025, contributing to the overall resilience of the manufacturing sector. Net exports contributed negatively to growth, as exports expanded by 2.3%, while imports grew by 3.7%. The appreciation of the euro vis-à-vis main trading partners may have been a factor behind the net exports drag, together with trade diversion and competitive pressures from China.

Figure 1: Evolution of real GDP (left-hand) and HICP inflation (right-hand) since 2019



Source: Eurostat. Real GDP, chain linked volumes [namq_10_gdp]. HICP, year-on-year variation [PRC_HICP_MANR].

The European Commission's Spring 2026 forecast projects EU real GDP growth to slow down to 1.1% in 2026 in a context of higher inflation (Table 1). The major risk to this baseline forecast, which is based on the prices of energy futures, is the duration of the conflict in the Middle East and its implications for global energy markets. Under an alternative scenario assuming more prolonged disruptions, inflation would not ease and economic activity would fail to rebound in 2027. In the baseline forecast, inflation is expected to rise to 3.1% for 2026 as a whole. The impact of the energy shock is set to extend into 2027, with GDP growth modestly picking up to 1.4% and inflation easing to 2.4%. While the current shock differs in many respects from the 2022 energy crisis, it is expected to transmit through the economy along similar channels. Inflation data for March and April 2026 already point to a strong surge in energy prices. Energy inflation in the EU is expected to peak above 11% in the second quarter of 2026 and remain above 10% for the rest of the year, before declining in early 2027, and turning negative from the second quarter onwards. Price pressures are set to broaden progressively, as rising energy costs feed through the production chain and are partially passed through to consumers. The inflation forecast for 2027 is influenced by taking into account the postponement

of the roll-out of new EU Emissions Trading System (ETS2), which in previous forecasts had been estimated to add 0.2 to 0.3 pp to 2027 inflation.

Table 1: European Economic Forecast Spring 2026 – Overview

	Real GDP			HICP inflation			Unemployment rate			Current account balance			Budget balance		
Country	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
BE	1.0	0.7	0.9	3.0	3.4	2.6	6.2	6.6	6.5	-2.3	-2.6	-2.6	-5.2	-5.2	-5.4
BG	3.1	2.5	2.2	3.5	4.2	2.6	3.5	3.7	3.9	-3.9	-5.0	-5.0	-3.5	-4.1	-4.3
DE	0.2	0.6	0.9	2.3	2.9	2.7	3.8	4.0	3.9	4.7	3.5	3.1	-2.7	-3.7	-4.1
EE	0.6	1.6	1.7	4.8	4.4	2.9	7.5	7.1	6.8	-0.7	-2.8	-3.0	-2.0	-4.5	-4.8
IE	12.3	-1.2	3.4	2.1	3.5	2.6	4.7	4.8	4.9	8.1	7.9	7.3	1.8	1.4	1.2
EL	2.1	1.8	1.6	2.9	3.7	2.4	8.9	8.3	7.9	-6.0	-7.1	-6.1	1.7	0.8	0.6
ES	2.8	2.4	1.9	2.7	3.0	2.5	10.5	9.9	9.6	2.8	1.9	1.8	-2.4	-2.4	-2.0
FR	0.8	0.8	1.1	0.9	2.4	1.8	7.7	8.3	8.7	-0.2	-0.4	-0.2	-5.1	-5.1	-5.7
HR	3.4	2.7	2.5	4.4	4.6	2.7	4.9	4.8	4.8	-2.6	-3.2	-3.2	-3.0	-2.9	-2.7
IT	0.5	0.5	0.6	1.7	3.2	1.8	6.1	5.7	5.7	1.2	0.5	0.6	-3.1	-2.9	-2.9
CY	3.8	2.3	2.7	0.8	3.6	2.2	4.4	4.2	4.2	-6.4	-7.2	-6.5	3.4	2.1	2.5
LV	2.1	1.4	1.6	3.8	3.6	2.2	6.9	6.8	6.7	-5.0	-5.8	-7.0	-2.5	-3.3	-4.3
LT	2.9	3.0	2.1	3.4	4.4	2.7	6.9	6.7	6.7	1.6	-0.6	-0.3	-1.8	-2.2	-2.7
LU	0.6	1.6	2.0	2.5	2.7	1.8	6.5	6.6	6.5	-2.9	-2.8	-2.7	-2.0	-1.2	-1.5
MT	4.0	3.7	3.6	2.4	2.7	2.3	3.1	3.0	3.1	8.3	6.3	6.1	-2.2	-2.2	-2.1
NL	1.8	1.0	1.1	3.0	3.2	2.5	3.9	4.2	4.4	7.9	7.8	7.6	-1.6	-2.5	-1.9
AT	0.6	0.6	0.9	3.6	3.0	2.5	5.7	5.8	5.6	1.1	0.7	1.3	-4.2	-4.1	-4.1
PT	1.9	1.7	1.8	2.2	3.0	2.3	6.0	5.9	5.8	1.0	0.1	0.2	0.7	-0.1	-0.4
SI	1.1	1.9	2.3	2.5	3.5	2.5	3.9	3.8	3.8	3.7	2.4	2.3	-2.5	-3.3	-3.5
SK	0.8	0.8	1.5	4.2	4.3	3.2	5.4	5.7	5.7	-2.8	-3.3	-2.9	-4.5	-4.6	-5.4
FI	0.2	0.8	1.4	1.8	2.4	1.9	9.7	10.1	9.8	1.3	0.1	0.2	-3.4	-4.5	-4.6
EA	1.4	0.9	1.2	2.1	3.0	2.3	6.3	6.4	6.4	2.5	1.7	1.7	-2.9	-3.3	-3.5
CZ	2.6	1.8	2.4	2.3	2.7	2.8	2.8	3.1	3.2	1.7	0.4	0.8	-2.1	-2.8	-2.9
DK	2.9	1.9	1.8	1.8	1.8	1.9	6.4	6.5	6.5	12.5	11.4	11.1	2.9	0.9	0.5
HU	0.5	1.8	2.1	4.4	3.2	3.1	4.4	4.5	4.4	1.7	-0.2	0.5	-4.7	-6.2	-5.8
PL	3.6	3.5	2.8	3.3	3.6	2.9	3.1	3.1	3.0	-0.7	-1.2	-1.2	-7.3	-6.5	-6.3
RO	0.7	0.1	2.3	6.8	7.0	3.7	6.1	6.3	5.9	-7.9	-6.9	-6.4	-7.9	-6.2	-5.8
SE	1.5	1.8	2.2	2.6	1.5	1.8	8.8	8.5	7.9	5.2	4.2	3.9	-1.3	-2.8	-2.5
EU	1.5	1.1	1.4	2.5	3.1	2.4	6.0	6.0	6.0	2.4	1.7	1.6	-3.1	-3.5	-3.6

Source: European Commission – DG Economic and Financial Affairs, Spring 2026 Forecast.

The long-term decline in the unemployment rate is set to come to an end. Employment expanded by 0.5% in 2025, bringing the total number of jobs created since 2019 to around ten million. Employment growth was largely driven by rising labour market participation. However, labour market conditions had already begun to soften before the outbreak of the conflict in the Middle East. With employment growth now projected to slow to 0.3% in 2026 and 0.4% in 2027, the unemployment rate is expected to stabilise at around 6%. Nominal wages are set to decelerate less than previously expected in 2026, as they adjust with a lag to higher inflation. However, the upward revision to the inflation forecast reduces growth of households' real disposable income by 1.4 pp. by 2027. Moreover, the previous inflation episode showed that consumers are highly sensitive to price developments, with the pre-war disinflation failing to fully translate into lower perceived inflation by the time the conflict broke out. Precautionary saving motives and the desire to protect the real value of financial buffers are expected to lead to a small increase in the saving rate in 2026. Against this backdrop, private consumption growth is projected to decelerate to 1.1% in 2026, before picking up to 1.3% in 2027. Labour

productivity growth is expected to slow to 0.7% in 2026, as firms retain labour in a context of uncertain demand prospects, before recovering to 1% in 2027.

Higher financing costs and weaker profits weigh on firms' capacity to finance investment, while elevated uncertainty prompts many to postpone or scale back investment plans. Gross fixed capital formation is now expected to grow by only 2.2% in 2026 and 2.0% in 2027, compared to a 2.8% increase in 2025. The impact is uneven across asset classes. Equipment investment is set to be hit harder, while construction is expected to prove more resilient in the near term. Housing investment typically adjusts with a lag to higher interest rates, and non-residential construction continues to be supported by the RRF in 2026. Other investment—including software and R&D—is expected to expand by around 2%.

Net trade is expected to exert a drag on growth as cyclical and structural factors weigh on export performance. A strong starting position and early-year momentum –supported by AI-related investment and easing of trade restrictions, including lower US tariffs– underpin the global trade outlook in the short term. However, these favourable global dynamics are not expected to translate into proportional gains for EU firms, as much of the expansion in global trade remains concentrated among Asian economies. This divergence is closely linked to the weakening investment outlook within the EU, compounded by more structural factors. First, the EU's limited presence in fast-growing, trade-intensive AI-related sectors and, second, a gradual loss of competitiveness in key products and geographic markets. Moreover, survey evidence confirms that EU firms are affected by the increasingly challenging external environment, with some responding by scaling back their presence in export markets or adjusting prices. As a result, EU exports are expected to grow by only 0.9% in 2026, before accelerating to 2.1% in 2027. Import growth is projected at 1.7% in 2026, as weaker domestic demand is partially offset by the stronger euro—a development that amplifies competitive pressures from trading partners, particularly China. As a result, trade is expected to detract around 0.4 pp. from domestic growth this year. Negative terms of trade for goods, combined with market share losses, lead to a deterioration in the trade balance, with only a partial offset from the services sector. The merchandise balance is expected to decline to 1.2% of GDP in 2026 and 1.1% in 2027. Services remain more resilient, with the balance reaching around 2% of GDP. Overall, the current account surplus is projected to fall from 2.4% of GDP in 2025 to 1.7% in 2026 and 1.6% in 2027.

The average debt-to-GDP ratio rose by around 1 pp. in 2025, while the average general government deficit remained stable at just above 3% of GDP. After declining significantly from 2020 to 2023 due to a combination of the post-pandemic economic recovery (real GDP effect) and high inflation (GDP deflator effect), then stabilising in 2024, the public debt-to-GDP ratio rose by around 1 pp. in 2025, reaching 82.8%. It is expected to increase by 2.5 pp. by the end of 2027, bringing it to 85.3%. In the euro area, the debt ratio is projected to rise from 88.7% at the end of 2025 to 91.2% by the end of 2027. These upward trajectories are driven by higher primary deficits—which exert upward pressure on debt levels—and a less favourable interest-growth-rate differential. The EU aggregate general government deficit is projected to gradually widen over the forecast horizon, rising from 3.1% of GDP in 2025 to 3.6% in 2027. This deterioration reflects a combination of subdued economic activity, higher interest expenditure, rising defence spending and new fiscal measures that aim to shield consumers and firms from high energy prices. Meanwhile, public investment remains broadly stable at elevated levels. Overall, fiscal policy is expected to be slightly expansionary in 2026 –supported by the rising utilisation of EU funds as the Recovery and Resilience Facility draws to a close– before turning broadly neutral in 2027. Ten Member States reported a deficit higher than 3% of GDP in 2025. This number is projected to rise to thirteen by 2027, based on unchanged policies.

The tax revenue-to-GDP ratio is expected to increase slightly in 2026 and then stabilise in 2027. Chapter 2 discusses detailed developments in tax revenue up to 2024. The revenue ratio rose an estimated 0.5 pp in 2025 (see Table 2), and it is projected to increase by a further 0.2 pp in 2026 to 40.1% of GDP. The expenditure-to-GDP ratio also rose in 2025, by 0.4 pp. It is set to rise by a further 0.8 pp in 2026, due in part to higher defence spending as well as rising interest expenditure. Both the revenue and expenditure ratios are projected to be broadly stable in 2027, based on an assumption of unchanged policies.

Table 2: Tax revenue-to-GDP ratio in the EU countries, 2022-2027

Country	Actual values (1)			Forecast values (2)			Trend	
	2022	2023	2024	2025	2026	2027	Diff 24-27	
BE*	42.5	42.1	42.8	42.3	42.2	42.2		-0.6
BG	31.1	30.0	30.5	30.6	31.7	31.9		1.4
DE	40.1	38.8	39.6	40.8	41.1	41.1		1.5
EE*	33.0	33.7	35.8	36.4	35.2	35.3		-0.5
IE	20.3	21.3	21.7	20.8	21.9	21.9		0.2
EL	40.9	38.8	40.0	40.0	39.9	39.3		-0.7
ES	36.8	36.5	36.8	37.8	38.2	38.4		1.6
FR	45.9	43.9	43.5	44.0	44.3	44.1		0.6
HR	37.3	36.7	38.4	39.4	39.8	40.0		1.6
IT	41.7	41.2	42.4	43.0	43.0	43.2		0.8
CY	34.3	36.2	36.3	36.7	35.9	36.2		-0.1
LV	32.8	32.5	34.9	34.2	34.6	35.0		0.1
LT	32.0	31.9	33.0	33.7	34.3	35.1		2.1
LU*	39.3	40.1	41.4	40.9	41.9	42.4		1.0
MT	28.1	26.2	28.9	29.7	29.3	29.6		0.7
NL	38.2	39.2	38.8	38.8	39.1	40.0		1.2
AT	43.0	42.6	43.4	44.0	44.1	43.9		0.5
PT*	35.9	35.3	35.1	35.4	35.4	35.0		-0.1
SI	37.8	36.5	38.5	39.0	39.2	39.4		0.9
SK*	35.3	35.0	35.6	36.4	36.2	35.6		0.0
FI	43.4	42.8	42.2	42.7	42.7	42.4		0.2
EA	40.6	40.3	39.5	40.3	40.6	40.6		1.1
CZ	34.0	33.9	35.0	35.2	34.7	34.4		-0.6
DK*	42.1	44.0	45.2	44.5	44.1	43.9		-1.3
HU	35.1	35.0	35.3	35.5	35.5	34.5		-0.8
PL	34.2	35.0	36.6	36.7	37.2	37.7		1.1
RO	27.4	26.7	27.9	28.5	29.4	29.4		1.5
SE*	42.9	41.7	41.2	41.1	41.3	41.7		0.5
EU	39.7	38.9	39.4	39.9	40.1	40.1		0.7

Source: European Commission – DG Taxation and Customs Union based on Eurostat and AMECO database.

(1) Eurostat data extracted on 21 May 2026, online data code [gov_10a_taxag], Indicator 2 of Eurostat National Accounts Working Group: Total receipts from taxes and compulsory social contributions after deduction of amounts assessed but unlikely to be collected [D2_D5_D91_D61_M_D611V_D612_M_M_D613V_D614_M_D995].

(2) AMECO data extracted on 20 May 2026, based on DG Economic and Financial Affairs, Spring 2026 Forecast: Total tax burden excluding imputed social security contributions [UTAT] minus Capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected [UKTG995].

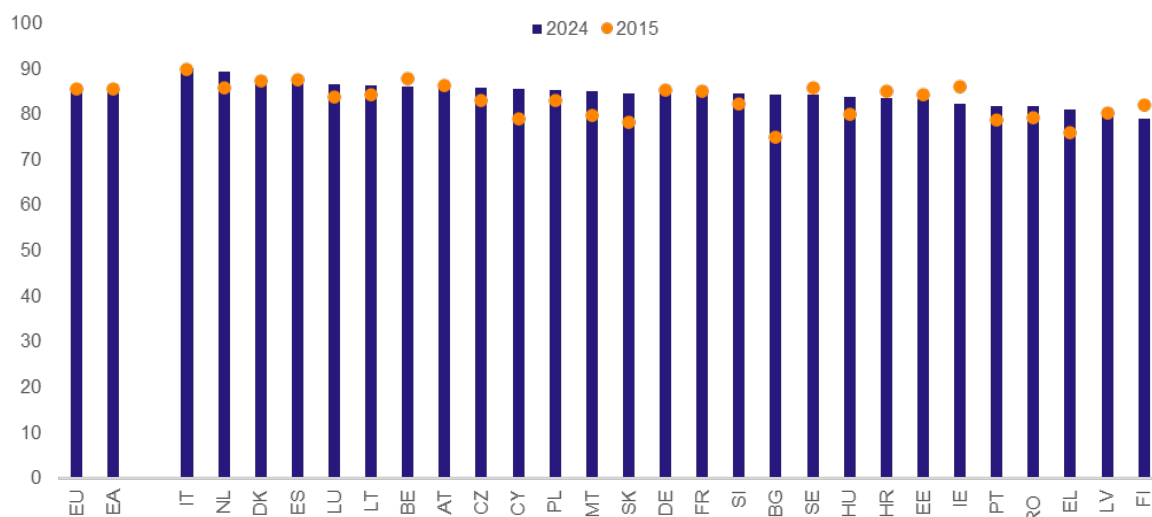
(*) Data for 2025 are actual values available on Eurostat [gov_10a_taxag].

1.2 Structural aspects of taxation – Interplay between tax design, incentives and policy goals

Taxation is the most important public revenue collection tool, but it may also serve other policy goals. In 2024, 85.6% of the revenue available to EU national governments came from taxes and social contributions (see Figure 2), ranging from 79.1% in Finland to 90% in Italy. Other revenue sources include sales/fees, property income (mainly interest, dividends and rent), and other residual sources. As such, tax revenue empowers countries to finance key decisions that shape both the economy and society. Besides its role as revenue collection instrument, taxation has evolved into an important government lever for achieving

broader public policy objectives. In a rapidly evolving policy environment – characterised by geopolitical challenges, demographic change, green transition, and digital transformation – tax systems may not only be designed to finance government expenditure, but also to shape economic behaviour and support sustainable development.

Figure 2: Tax revenue as a % of total government revenue



Source: Eurostat [gov_10a_taxag]. Countries are ranked by the share of tax revenue in total government revenue.

In particular, tax design could be used to internalise externalities or support competitiveness. At its core, taxation remains the primary mechanism for mobilising domestic resources. In this sense, taxation supports macroeconomic stability and fiscal sustainability. However, tax policy objectives may extend far beyond revenue generation, as taxation is also deployed to influence behaviour and correct market failures. The concept of Pigouvian tax, named after British economist A. C. Pigou, relates to the type of tax targeting a market transaction that creates a negative externality, i.e. an additional cost borne by individuals not directly involved in the transaction. For example, environmental taxation leverages fiscal instruments to internalise externalities and steer economies toward greener growth paths. Likewise, excise taxes on tobacco or alcohol are used to improve public health outcomes. Also, in a globalised economy, tax systems operate within an evolving international policy framework, where country-specific decisions can generate cross-border spillovers. Therefore, tax design may additionally serve strategic competitiveness goals. In this respect, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting Two-Pillar Solution⁽³⁾ provides an example of a coordinated approach aimed at levelling the playing field.

By altering the costs of the production factors, tax policy affects their use and allocation. Tax policy drives economic behaviour by affecting the cost of capital and labour, influencing firms' investment decisions and hiring choices, as well as households' labour supply. Also, the interaction between capital and labour taxation can shape the overall structure of production. For example, relatively high taxes on labour combined with lower taxes on capital may encourage firms to substitute capital for labour, promoting excessive automation (Acemoglu et al., 2020). The differential tax treatment between labour and capital income may also incentivise taxpayers to engage in income shifting. The OECD finds that, across countries, capital income is generally taxed more lightly than labour income, particularly for high earners who derive a larger share of their income from wealth. A key challenge for policy makers is balancing distributional and fairness implications with other policy objectives such as promoting savings and investment (Hourani et al., 2023).

Labour taxation shapes labour markets by impacting both labour demand and labour supply. On the demand side, labour taxes and social security contributions increase the cost of hiring workers, potentially

³ See [OECD - Base erosion and profit shifting \(BEPS\)](#)

reducing employment. On the supply side, taxes on labour income affect individuals' decisions about whether and how much to work (OECD, 2011). Well-calibrated work incentives may encourage employment, support income progression, and improve labour market attachment, particularly among low-income households and underrepresented groups. At the same time, excessively high effective tax burdens or poorly targeted withdrawal of benefits can weaken incentives to work or to increase earnings. These aspects are illustrated more in detail in Section 1.2.1. The tax system can also affect the form of workers' remuneration by favouring certain forms of compensation, such as pensions and other fringe benefits (OECD, 2011). Understanding the interaction between taxation and work incentives helps evaluate both the efficiency and equity of tax policy.

In turn, corporate income taxation (CIT) can contribute to steer firms' investment behaviours. CIT affects after-tax corporate incomes, thus having an impact on the expected return from investment⁽⁴⁾. Moreover, corporate taxation influences the cost of capital through multiple channels [European Commission, 2026b](#)). In particular, investment tax credits lower firms' tax liabilities, thereby reducing the upfront cost of acquiring capital assets, while depreciation deductions allow firms to deduct part of their investment from taxable income. Accelerated depreciation provisions increase investment particularly in the short to medium term, by allowing firms to recover capital costs more quickly (Ohn, 2019). In addition, the ability to deduct interest payments from taxable profits reduces financing costs, making debt-financed investment comparatively more attractive. CIT provisions may influence both the level of business investment and its composition, including which firms invest, in which technologies and locations, and through which financing instruments. Section 1.2.2. focuses particularly on CIT-based incentives to support decarbonisation. However, the burden of corporate taxation does not necessarily fall exclusively on capital owners but could also affect workers in the form of lower wages (Chodorow-Reich, 2025).

The effectiveness of tax policy instruments depends on their design. Poorly designed tax incentives may have limited impact, supporting activities that would have taken place in any case, or can lead to unintended effects that can be distortionary and create deadweight losses. In addition, government spending in the form of tax reliefs such as tax incentives, deductions, exemptions, credits and preferential tax rates (so-called tax expenditures) may considerably reduce tax revenues, with potentially significant fiscal implications. Overall foregone tax revenues linked to tax expenditures have been estimated to up to 15% of GDP for certain countries⁽⁵⁾. It is therefore important to regularly assess the efficiency and cost-effectiveness of those policy measures.

1.2.1 Tax policy and work incentives

Tax systems contribute to shaping work incentives by influencing the financial return individuals receive from participating in the labour market and increasing their level of economic activity.

Through the design of personal income taxes, social contributions, and targeted tax reliefs, governments can affect decisions related to labour force participation, hours worked, secondary earners' employment, and skills investment. Work incentives at the extensive margin reflects whether to participate or not in the labour market, and one common indicator to measure them is the Participation Tax rate (PTR). Taxes can discourage participation at the extensive margin by reducing the financial gain from entering work relative to remaining inactive, particularly for second earners or low-income individuals facing high effective marginal tax rates due to the interaction of taxes and benefits.

High marginal tax rates may discourage additional work effort or participation. Work incentives at the intensive margin impact how much labour to supply in terms of working hours and can be computed using the Marginal Effective Tax Rate (METR). At the intensive margin, higher marginal tax rates reduce the return to additional work, weakening incentives to increase hours, accept overtime, or transition from part-time to full-

⁴ In the traditional approach of Jorgenson (1963) and Hall and Jorgenson (1967), the effects of tax policy on investment demand are captured by the tax-adjusted user cost of capital. See also Chodorow-Reich (2025).

⁵ [European Commission, \(2025a\), Mind the Gap – Full Report](#).

time employment (see also Section 1.2.1). Empirical evidence suggests that responses vary across income groups and institutional contexts ⁽⁶⁾. The tax system can also affect the form of workers' remuneration by favouring certain forms of compensation, such as pensions and other fringe benefits (OECD, 2011).

EUROMOD simulations allow to assess how EU tax-benefit systems shape financial incentives to work. EUROMOD is a tax-benefit microsimulation model that enables to calculate the effects of taxes and benefits on household's work incentives among other indicators ⁽⁷⁾. EUROMOD simulations show that increases in earnings are often partially offset by a combination of income taxes, social insurance contributions, and the withdrawal of means-tested benefits, with taxation typically accounting for the largest share of the marginal burden. The overall level of work disincentives changed over time, across countries and policy settings, but only partial convergence has been observed over the last decade. Also, tax design may result in certain groups experiencing significantly lower work incentives from national tax-benefit systems. For this reason, the evolution of work incentives (METR and PTR) will be analysed regarding the entire income distribution and for specific income levels and types of households.

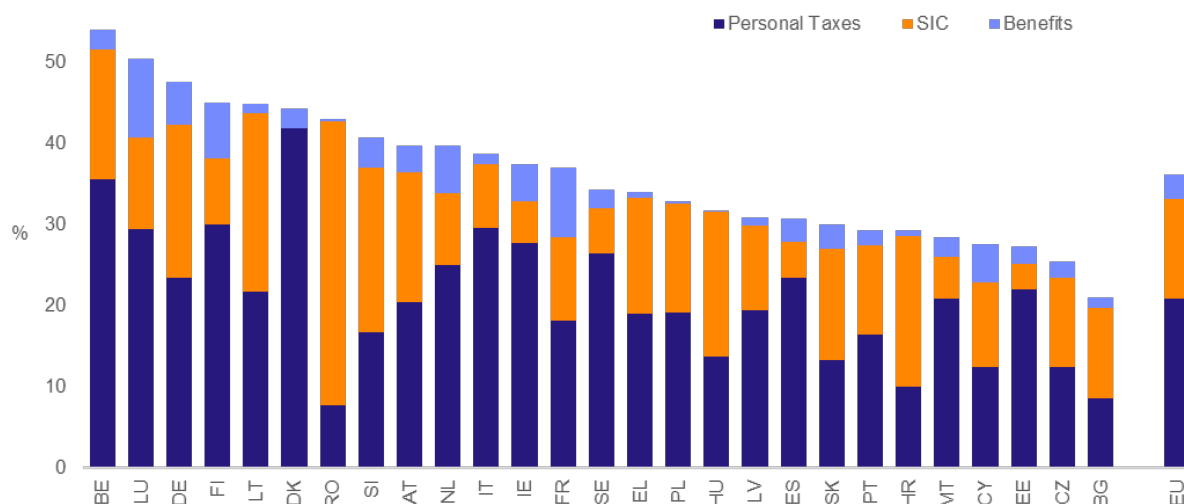
Financial incentives affecting employees' decision to work longer hours vary among Member States, depending on whether taxes, social contributions or benefit reductions have the greatest impact on additional earnings. In 2025, average Marginal Effective Tax Rates (METRs) ⁽⁸⁾ at the intensive margin ranged from 21.5% in Bulgaria to 53.9% in Belgium, reflecting differences both in the levels and in the structure of incentives. Figure 3 shows METRs by Member State and its components: taxes, social insurance contributions (SIC), and benefits (benefit withdrawal effects). In high-METR countries such as Belgium, Luxembourg, Germany and Denmark, personal taxes account for the bulk of METRs, with Denmark at 40 percentage points (pp) from taxes alone. In contrast, in Central and Eastern Europe, SIC play an important role and, in cases like Romania and Lithuania, their value is greater than 20 pp making them the principal METR driver. This highlights the structural differences between tax-financed versus contribution-financed welfare systems. Benefit withdrawals are relevant only in some countries (as Luxembourg, France, Finland, Germany and the Netherlands), reflecting extensive means-tested or earnings-related transfers. Overall, the results show that lower incentives to increase earnings can emerge from very different policy mixes: in Northern and Western Europe from progressive taxation and benefit withdrawal, and in Eastern Europe primarily from high payroll contributions.

⁶ See for example: (Keane, 2022)

⁷ EUROMOD model allows the calculation of work incentives by two complementary approaches. The first case, based on the entire income distribution from EU-SILC data, allows the calculation of indicators for the observed population, capturing heterogeneity in household composition, income sources, and policy take-up. Second, through the HHoT tool, generates hypothetical households – such as single adults, single parents, and two-earner couples – with assumed earnings expressed as multiples of the national average wage. In this case, the results assess the pure and hypothetical impact of taxes and benefit system. EUROMOD results used in this section are provided by the Joint Research Centre (Fiscal Policy Analysis Unit – B.2). For further results and details, see (Papini et al., forthcoming).

⁸ METRs measure incentives at the intensive margin i.e. the decision of how much to work. EUROMOD add-on for MTR simulates a default 3% increase in an individual's gross earnings and compares it to the corresponding change in household disposable income. For further details, see: [EUROMOD Marginal Tax Rate \(MTR\) Add-on - technical note](#).

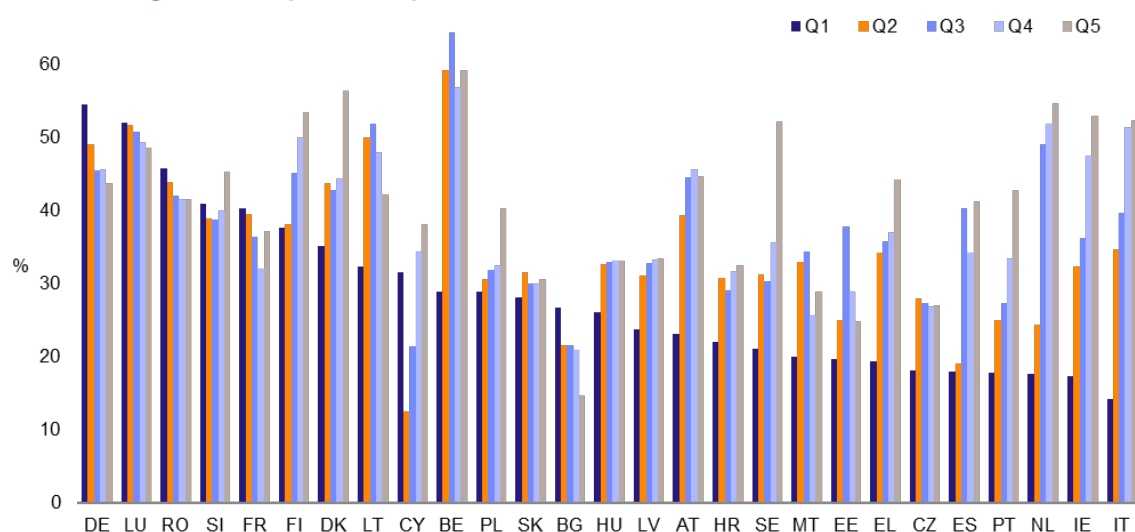
Figure 3: Average METRs by component, 2025 (%)



Source: EUROMOD simulations using EU-SILC data (JRC). Only employees with positive employment income and averaged across the whole income distribution.

Member States with progressive labour taxation exhibit increasing marginal effective taxation in wages, providing lower work incentives for high-income earners. In several Western and Northern European countries, such as Belgium, Germany, Denmark, Finland, Ireland, and the Netherlands, METRs are relatively high, often exceeding 40% across upper half of the income distribution (Figure 4). This reflects both progressive taxation and the gradual withdrawal of benefits as incomes rise. In contrast, Eastern and Southern European countries generally display lower METRs. For example, Bulgaria, Croatia, Hungary, Cyprus and Malta record METRs mostly below 35% across the distribution, reflecting flatter tax structures and less extensive benefit systems. Some countries, such as Greece, Spain and Cyprus, show a pronounced increase in METRs toward the upper quintiles, while others, such as Bulgaria, Germany and Lithuania, present the highest quintile lower than the average METR. Overall, the results highlight how tax-benefit systems shape incentives differently: in some countries lower- and middle-income workers face lower incentives to earning more (e.g. Belgium, Luxembourg), while in others this will be especially relevant for higher earners (e.g. Denmark, Finland, the Netherlands, Sweden).

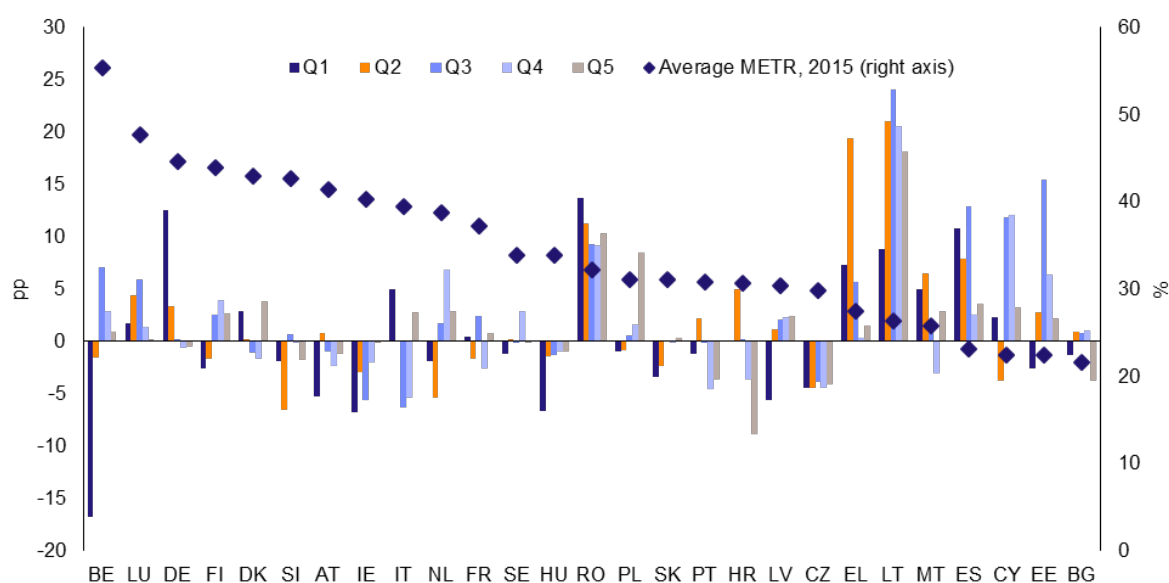
Figure 4: Average METRs by income quintile, EU-27, 2025 (%)



Source: EUROMOD simulations using EU-SILC data (JRC). Only employees with positive employment income and averaged across the whole income distribution. Member States sorted by Q1.

Over last decade, some Member States have managed to mitigate disincentives for low-income workers. Between 2015 and 2025, the largest increases in average METR were observed in Lithuania (+19 pp) and Romania (+9 pp), while the largest decrease were in Czechia (-4 pp) and Ireland (-3 pp). Changes in METRs by quintile present different patterns, several countries have reduced effective taxation at the bottom of the distribution patterns (see Figure 5). Belgium stands out with a sharp decline in Q1 (-17 percentage points), indicating significantly stronger incentives for low-income earners to increase work effort compared to a decade earlier, while smaller reductions occurred also in Hungary, Ireland, Latvia and Austria. Some countries registered large METR increases in the middle and upper quintiles. Lithuania shows the most pronounced rise, with increases above 20 percentage points in Q2–Q3, and still high increases at the top, indicating substantially higher marginal taxation of middle and high earners. These increases result from a reform in 2019 which shifted part of social contributions burden from employers to employees (see EUROMOD country reports for more information). Romania also records increases across all quintiles in a range between +9 and +11 pp, pointing to stronger disincentives for additional work at all incomes. It is also remarkable the increase in the first two quintiles in Spain (+8 and +13 pp) and the first one in Germany (+13 pp) resulting in a significant increase in the average METR (+12 pp). On the contrary, in Hungary and Czechia, METRs are decreased for all quintiles, while in Italy Q1 and Q2 decreased by -5 and -6 pp. Overall, the increases in METR in 2015–2025 tend to be concentrated in the Eastern and Southern countries with initially low METRs. Although the picture remains mixed, a partial convergence can be observed due to the decreases in METR in those countries that initially have had higher METRs.

Figure 5: Changes over time in average METRs by income quintile, EU-27, 2015–2025 (pp)



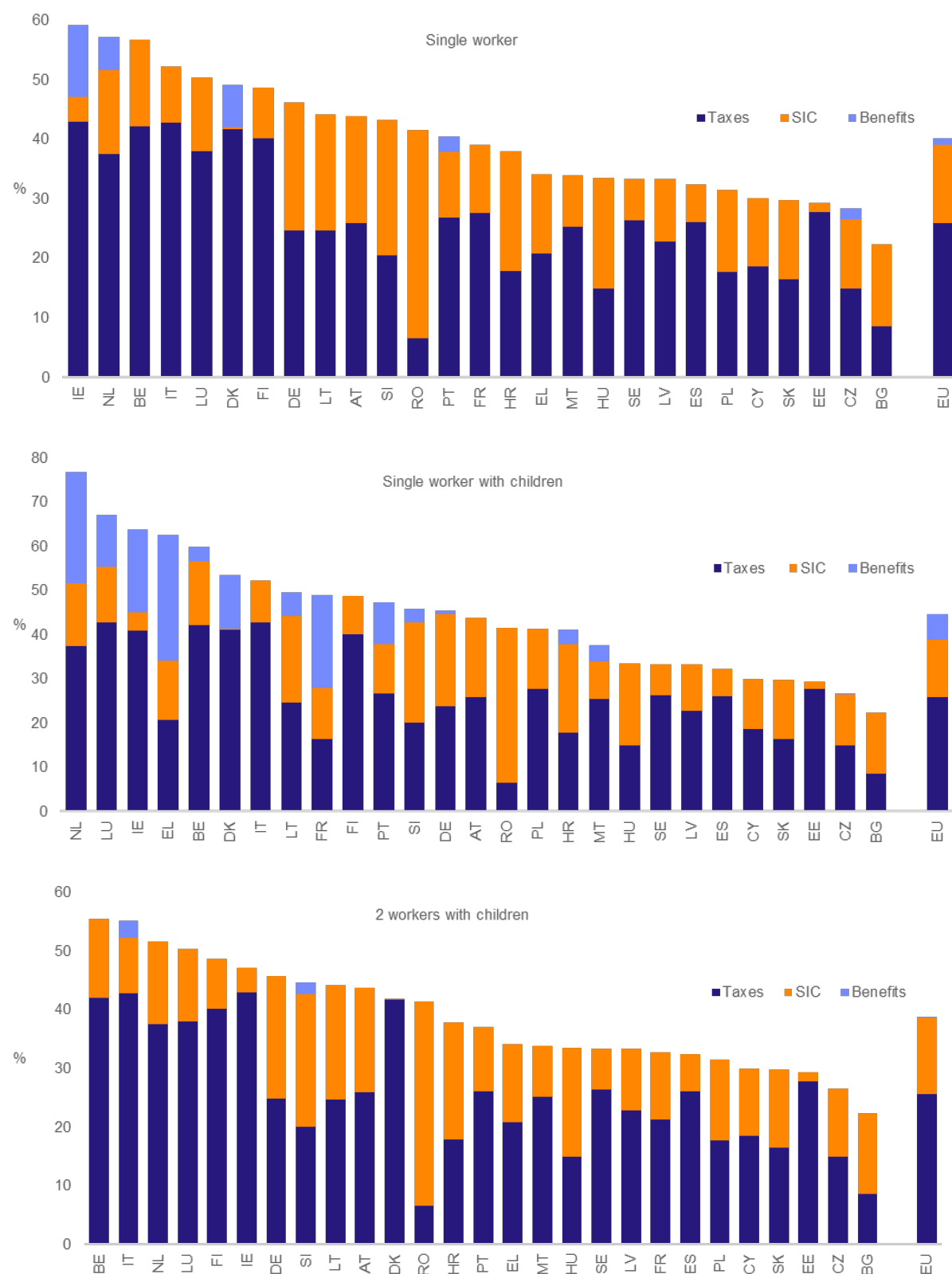
Source: EUROMOD simulations using EU-SILC data (JRC). Countries are sorted by the average METR in 2015, from largest to smallest. Only employees with positive employment income and averaged across the whole income distribution.

In most Member States, single parents with children face higher METRs than couple and singles without children. In Figure 6, EUROMOD-HHoT⁹ calculations show that METRs (EU averages) are just around 40% for two-earner couples and single adults, and almost 45% for single adults with children. Countries such as Luxembourg, the Netherlands, Belgium and Italy record METRs well above 50% for all family types, while Bulgaria, Czechia and Estonia consistently remain below 30%. The presence of children raises METRs slightly, but the relative ranking of countries is similar across family types. In high-METR countries personal income taxes account for the largest share of the total, with social contributions contributing another 10–15 percentage

⁹ EUROMOD-HHoT is an add-on allowing the calculation of taxes and benefit indicators for households with specific features, as, for example, regarding the number of works and children. In this case, average METRs were computed at discrete wage points with 1 pp of the average wage step and then averaged over the 80–120% of the average wage window.

points and benefit withdrawal significantly affects only single parents, where it can add around 10 percentage points. In low-METR countries, both taxes and social contributions are comparatively low, and benefit withdrawal plays a negligible role.

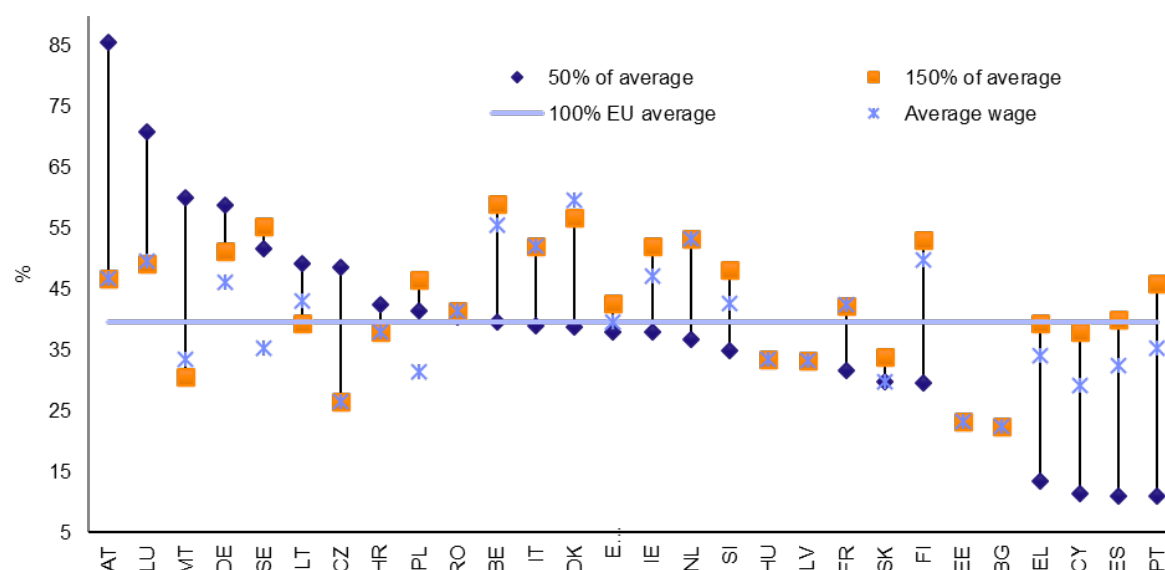
Figure 6: Average METRs by household type, 2025 (%)



Source: EUROMOD simulations using HHoT data (JRC). Countries are ranked by average METRs.

In some Member States, single parents with children face particularly high disincentives to increase earnings. Figure 7 shows, for as single parent, the METRs at different levels of wage as percentage of average wage (AW), highlighting the significant difference among countries. In several Member States, the METR for the AW lies between the METR for lower wages (50% of AW) and higher wages (150% of AW), particularly in countries with the lowest METRs for lower wages – in line with tax progressivity and gradual withdrawal of benefits as earning rise. On the contrary, Member States with high METR for lower wages (e.g. due to the withdrawal of means-tested benefits) tend to present lower level of METR for average and higher wages. In some countries (Austria, Luxembourg, Malta and Czechia), this distance is substantial, resulting in high disincentives for low-income single parents to increase earnings. Furthermore, countries with flat-tax schemes, as well as the unweighted EU average, show the overlapping of METRs at different levels of wage.

Figure 7: METR at different levels of wage for single parent, 2025 (% of AW)



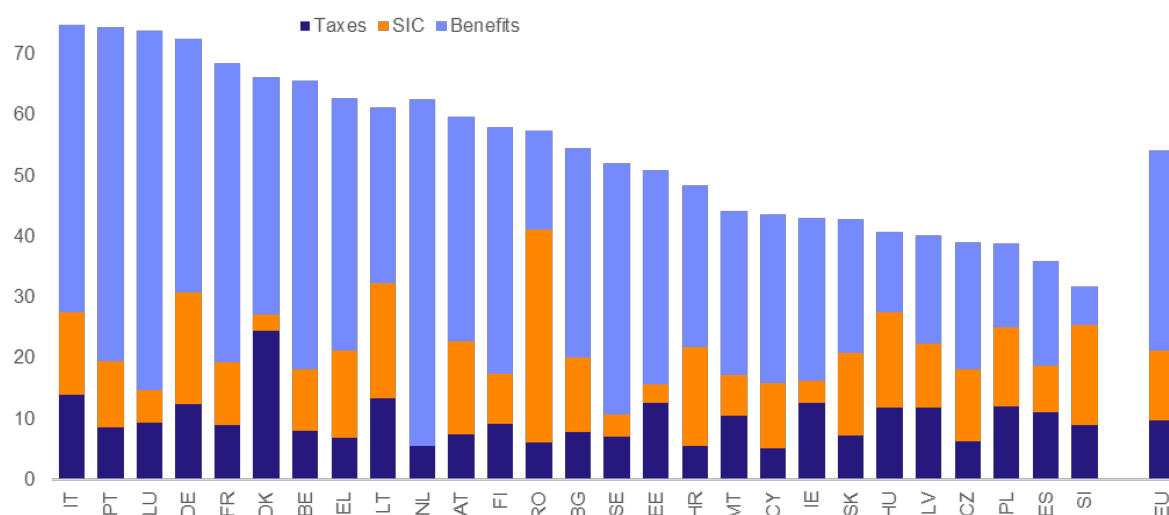
Source: EUROMOD simulations using HHoT data (JRC). Member States ordinated by METR at 50% of average wage (AW). METR at 150% of AW in Poland is 130%.

Disincentives to move from unemployment to employment vary widely across Member States. In 2025, average Participation Tax Rate (PTR) ⁽¹⁰⁾ ranged from 74.7% in Italy to 31.7% in Slovenia (Figure 8). It was relatively high not only in Northern and Western Europe (e.g. Denmark and Germany), but also in Southern countries such as Portugal, Italy and Greece. By contrast, Central and Eastern European countries, including Czechia and Poland, displayed comparatively low disincentives, both in terms of PTRs and METRs. The decomposition of PTRs by policy component shows that different policy levers drive weak work entry incentives across Europe, although remained the dominant factor on average. In high-benefit welfare states such as the Netherlands, Sweden and Luxembourg, over 80% of disincentives come from (unemployment) benefit withdrawal. This indicates that moving from unemployment to employment often entails a substantial loss of entitlements, which dominates the disincentive structure. In countries like Austria, Germany, and Greece, sizeable benefit withdrawal PTRs combined with social insurance contributions (SIC) and taxes result in an overall PTR above 60%. Denmark illustrates another model: while SIC is negligible, a combination of high taxes (24.8 pp) and benefit withdrawal (38.2 pp) drives very high entry disincentives. By contrast, in Central and Eastern European Member States PTRs are shaped more by payroll contributions and taxes than by benefits. For instance, in Romania SIC accounts for 35 pp of PTRs while benefits add little, reflecting a system with limited unemployment support but heavy contribution burdens. Countries such as Poland and Latvia show a

10 PTRs measure incentives at the extensive margin, i.e. measures the of household earnings lost to taxes and withdrawn benefits when an individual moves from unemployment/inactive to employment. When based on EU-SILC data, they are derived from the standard Net Replacement Rate (NRR) add-on of the model simulating household disposable income of earners in two scenarios: in work and in unemployment. EUROMO-HHoT model is used also to simulate the PTR from inactivity.

more balanced mix of components, though at lower overall levels. This variation suggests that high PTRs in Nordic and Western Member States were mainly driven by generous unemployment benefits combined with progressive taxation, whereas in Central and Eastern Europe they more often reflected relatively high mandatory contributions in systems with less extensive safety nets.

Figure 8: Average PTR from unemployment by component, 2025 (%)

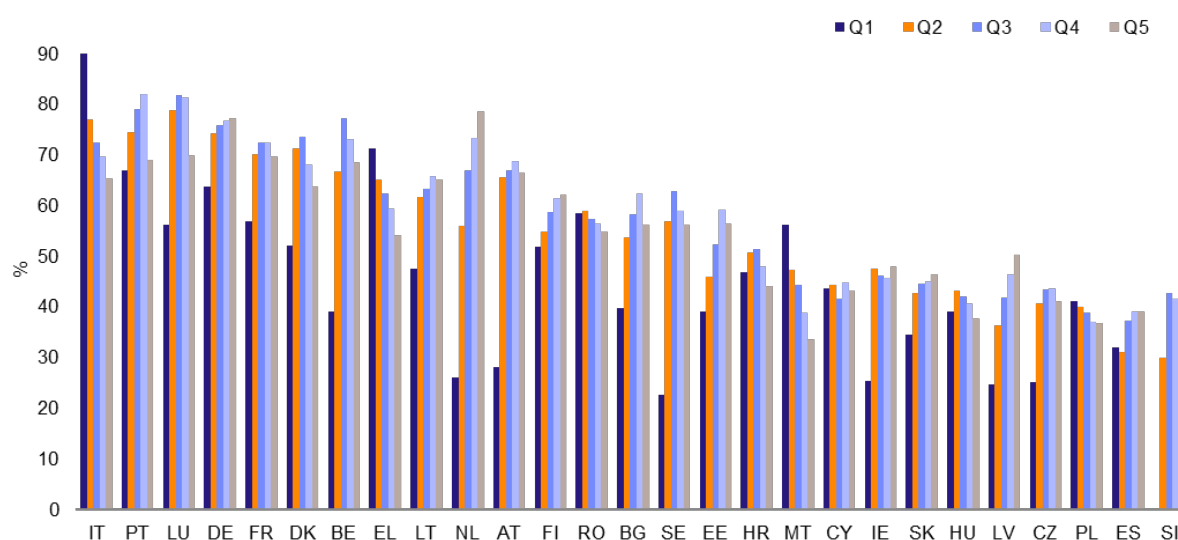


Source: EUROMOD simulations using EU-SILC data (JRC). Only employees with positive employment income and averaged across the whole income distribution.

Western and Nordic countries show higher disincentives from unemployment to employment.

Participation Tax Rates along the income distribution further illustrated differences in work incentives (Figure 9). In 2025, Luxembourg, Belgium and Germany reported PTRs above 70% across the middle and upper parts of the income distribution, with Luxembourg exceeding 80% in the top quintiles. Portugal and Italy show high PTRs mainly at the bottom of the income distribution, reflecting stronger protection for low-income earners. In particular, the PTR for the first quintile in Italy was 90%. By contrast, several Central and Eastern European countries, including Poland, Latvia, Croatia, Romania, and Slovakia, show PTRs in the 40–50 % range, suggesting that employment entry is less financially penalised but also that the safety net is weaker. In majority of countries, PTRs for the first quintile are lower than average, reflecting higher participation incentives. Yet, there are exceptions like Greece (+9 pp), Malta (+12 pp), and Italy (+16 pp). In these countries, potential withdrawal of means-tested benefits after certain income threshold drives lower work incentives for the first quintile.

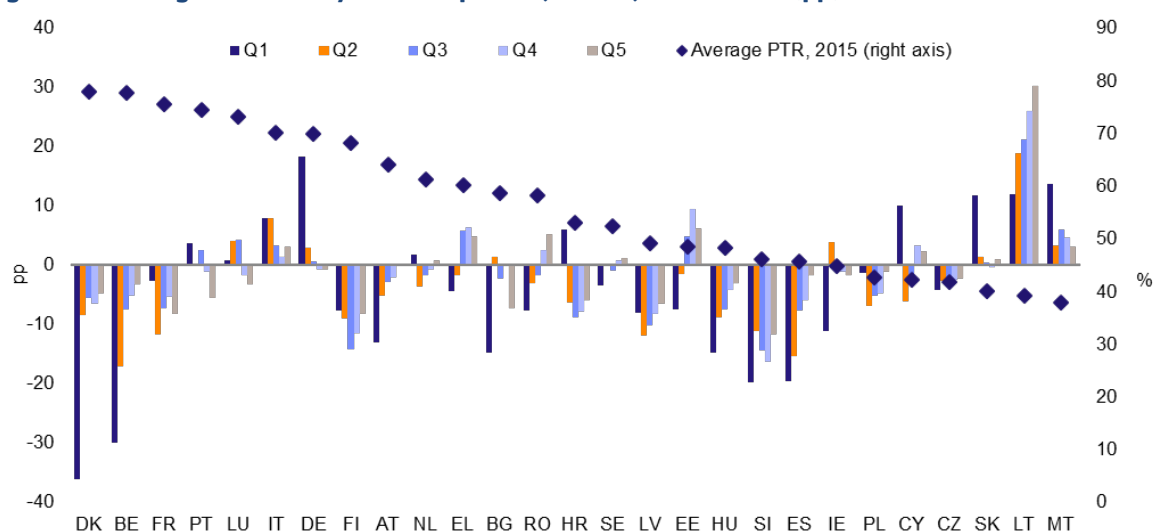
Figure 9: Average PTRs by income quantile, 2025 (%)



Source: EUROMOD simulations using EU-SILC data (JRC). Only employees with positive employment income and averaged across the whole income distribution.

Most Member States have improved financial incentives to move from unemployment to employment. As Figure 10 shows, between 2015 and 2025, the largest reductions in PTR were observed in Slovenia (-14 pp), Belgium (-12 pp), Denmark (-12 pp), Spain (-10 pp) and Finland (-10 pp). Only a few countries recorded increases above 5 percentage points, notably Lithuania (+22 pp), Malta (+6 pp) and Italy (+5 pp). Substantial reductions were particularly visible for the lowest income quintile in several Member States. Countries such as Slovenia, Spain, Finland, Latvia and France exhibited consistent declines across all income groups, suggesting that reforms or structural changes in tax-benefit systems strengthened work incentives. Conversely, some Member States experienced increases in PTRs. Lithuania stood out, with increases of between 21 and 30 percentage points in the middle and upper quintiles, partly reflecting a shift in the burden of social contributions from employers to employees. More moderate but consistent increases were observed in Italy, Slovakia and Malta. Overall, the period pointed to some convergence, with PTRs declining in countries that initially had high disincentives, while increasing in some countries with initially low PTRs, reflecting increasing demand for tax and contribution rules, as well as strengthening of benefit systems.

Figure 10: Changes in PTRs by income quintile, EU-27, 2015-2025 (pp)



Source: EUROMOD simulations using EU-SILC data (JRC). Countries are sorted by the average PTR in 2015, from largest to smallest. Only employees with positive employment income and averaged across the whole income distribution.

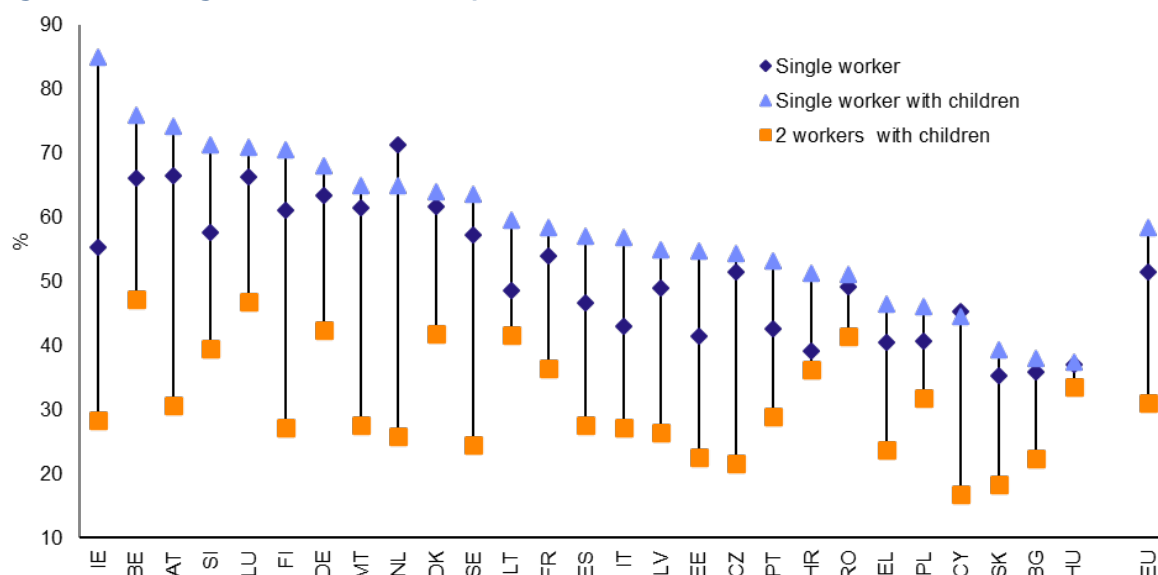
Across household types, single parents tend to face slightly higher disincentives when moving from unemployment to employment. Across the EU, the average PTR from unemployment (PTR^{un}) in 2025 was around 70–75% across household types (Figure 11). Countries with the highest PTR^{un} (above roughly 80%) include Luxembourg, Lithuania, Bulgaria, Portugal and Latvia for single adults and couples, and Lithuania, Portugal, Luxembourg and Ireland for single parents. At the lower end of the distribution, unemployment PTRs below about 60% are reported in Poland, Romania, and Ireland for single adults, Romania and Poland for single parents, and Romania, Ireland, Poland for couples. Trends over the past decade have been uneven. However, several countries recorded substantial increases in unemployment PTRs, especially among countries with the lowest average PTRs in 2015, with changes generally moving together across household types within each country (¹¹). The features of the tax-benefit system for single individuals with dependent children have significant implications on gender equality, as women head the vast majority of European one-parent households.

Figure 11: Average PTRs from unemployment, EU-27, 2025 (%)



while others—particularly in Southern and Eastern Europe—have increased them by more than 10 percentage points. For single parents the swings are larger: double digit increases are recorded in some Member States, while others achieve notable reductions. For two earner couples, declines are more common than increases, with some Central European countries seeing the largest falls and a few others experiencing moderate rises. Overall, there is no clear regional pattern, although increases are more common in Central and Eastern Europe and parts of the Mediterranean. There is some evidence of convergence for single workers and for the most extreme countries. The Member States with the lowest PTRs have experienced a decrease, and vice versa.

Figure 12: Average PTRs from inactivity, EU-27, 2025 (%)



Source: EUROMOD simulations using HHoT data (JRC). Countries are sorted by average PTRs for single worker with children.

It is not possible to reach a definitive conclusion on the convergence of work incentives in EU Member States. Results from EUROMOD simulation highlights mix evidence with signals of convergence in some work incentives. Although economic literature has extensively explored and identified the mechanisms of work incentives, little attention has been devoted to verifying empirically their convergence over time. However, some studies have analysed the dynamics of labour market institutions and mechanisms linked to work incentives – as tax wedge and unemployment benefit – without finding evidence of convergence (i.e., Obadić et al, 2023). Testing the convergence hypothesis for four indicators of work incentive (METR, inactivity trap and low-wage trap for second earners, tax wedge) ⁽¹⁴⁾ through different methods has not provided robust evidence for the convergence among EU Member States (Piroli and Peschner, forthcoming) ⁽¹⁵⁾. In Figure 13, relative transition patterns between 2010 and 2024 show some signal of convergence only for the tax wedge, while the other three indicators clearly diverge ⁽¹⁶⁾. The statistical tests based on a log t-test regression model (Phillips and Sul, 2007 and 2009) confirm the visual analysis and find ambiguous results for the tax wedge. Furthermore, except tax wage, the lack of convergence in work incentives is also found using a measure of statistical dispersion (σ -convergence), while it is possible to detect a process of β -convergence (regression-

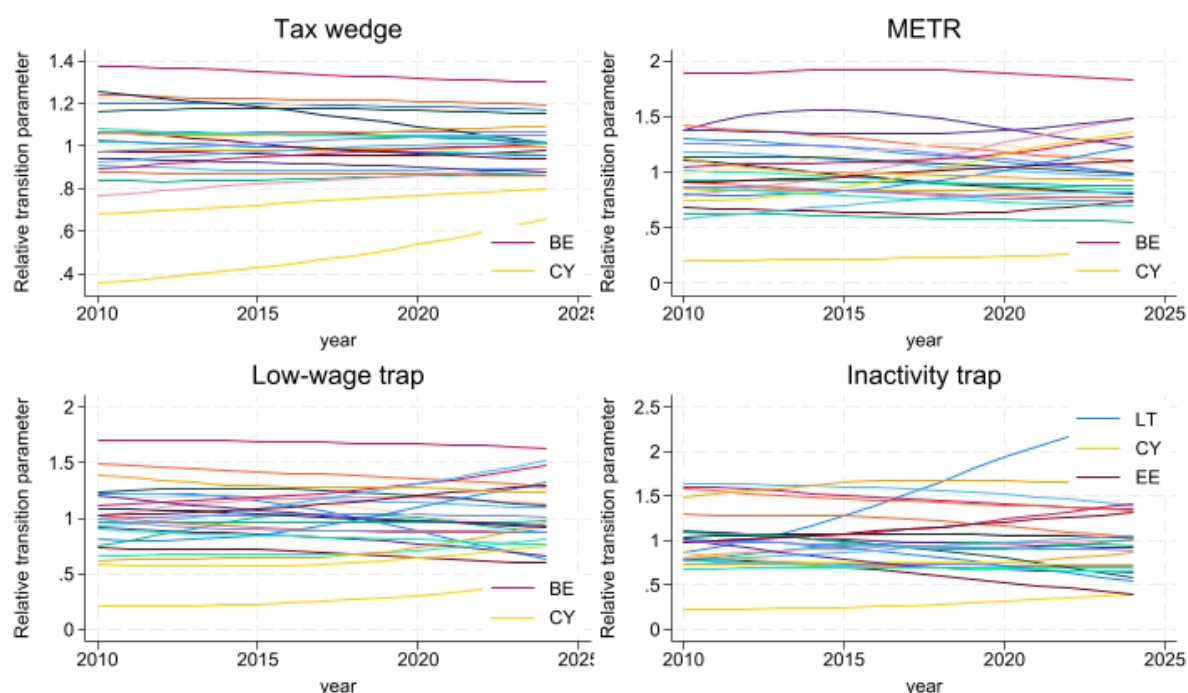
¹⁴ In this case, the effective marginal tax rate for a single person measures the percentage of additional income that a taxpayer loses to increased taxes and reduced welfare benefits when he marginally increases working hours increasing the wage by 1% from 67% of average wage (AW). The inactivity trap for second earners shows the percentage of additional income that a household loses to increased taxes and reduced welfare benefits when second earner moves from the status of inactivity to work (67% of AW) and the first earner is at 100% of the AW. The low-wage trap for second earners shows the percentage of additional income that a household loses to increased taxes and reduced welfare benefits when second earner increases the wage from 33% of the average wage to 67% of the AW, while the first earner is at 100% of the AW. Tax wedge for a single worker represents the difference between the total labour costs incurred by an employer and the net salary received by the worker in his take-home pay, expressed as a percentage of the total employment cost. Tax wedge acts as both an incentive to work (labour supply) and an incentive to hire (labour demand).

¹⁵ For further information on methodology and results, see (Piroli and Peschner, forthcoming).

¹⁶ Relative transition curves represent the smoothed trend component of each indicator applying, in this case, the Hodrick-Prescott filter to time-series data to remove the cyclical component. Their plot over the time shows the individual trajectories relative to the group.

based) in all indicators using both cross-sectional and panel estimators. Therefore, some evidence of convergence can only be found for tax wedge, but further analyses are envisaged and needed.

Figure 13: Relative transition patterns, 2010–2024



Note: See (Piroli and Peschner, forthcoming) to identify all the countries. There is convergence if all the countries tend to 1 in the long run.
Source: TAXUD analysis based on data from OECD TaxBEN model.

1.2.2 Tax policy and incentives for clean investment

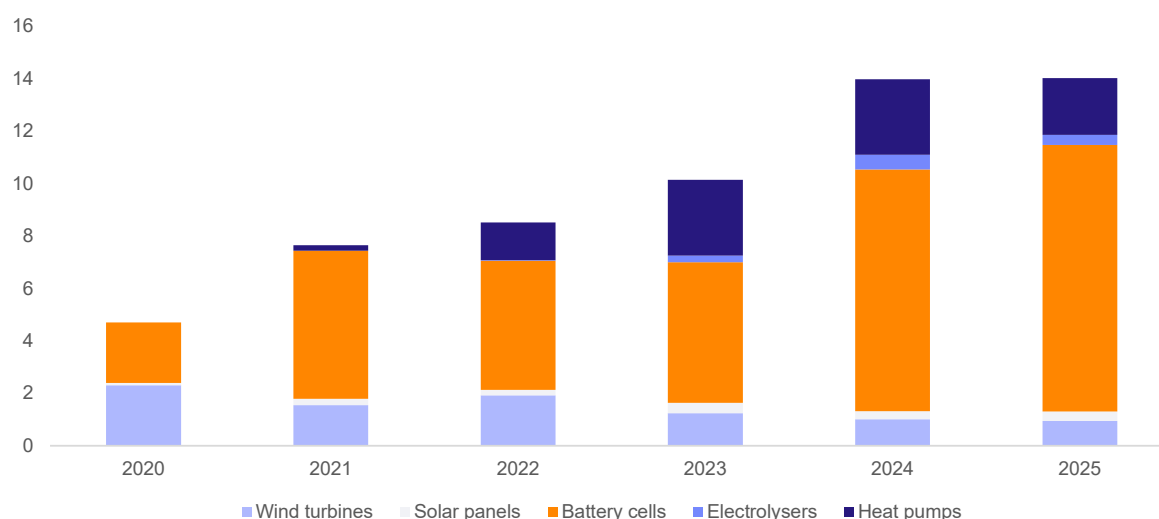
Accelerating decarbonisation is a key EU policy objective. Launched in 2019, the European Green Deal established the objective of climate neutrality by 2050, and through the European Climate Law, made this target legally binding. Achieving net-zero climate objectives requires scaling up of investment in green technologies, with an important role for the private sector⁽¹⁷⁾. The Commission estimated that to reach climate neutrality by 2050, the EU would need to invest 3.2% of its GDP in the energy system annually in the coming decades. This is a substantial increase compared to the 1.7% of GDP invested from 2011–2020, a decade with relatively low investment in the energy system⁽¹⁸⁾. According to I4CE (Calipel and Henry, 2026), climate investments in the energy, buildings, transport, and clean technologies manufacturing sectors stood at EUR 534 bn in 2025, compared to their assumption of investment needs of EUR 878 bn annually for the years 2026–2030 – a gap of EUR 344 bn. It identifies the largest investment gaps for buildings energy renovation (EUR 127 bn), electric vehicles (EUR 90 bn), and wind energy generation (EUR 81 bn, both on shore and offshore). As regards clean tech manufacturing investment specifically, according to Bruegel’s European Clean Tech Tracker⁽¹⁹⁾, companies have invested around EUR 72 billion since 2017 in European battery and electric-vehicle manufacturing alone, with annual investment in these two sectors rising from around EUR 1 billion in 2017 to over EUR 10 billion by 2024. Overall clean tech manufacturing investment stood at EUR 14 bn in 2025.

¹⁷ See [European Climate Law](#)

¹⁸ [COM/2024/63 final](#)

¹⁹ Bruegel’s European Clean Tech Tracker, available at <https://european-clean-tech-tracker.bruegel.org/>

Figure 14: Investments in clean tech manufacturing, 2020-2025



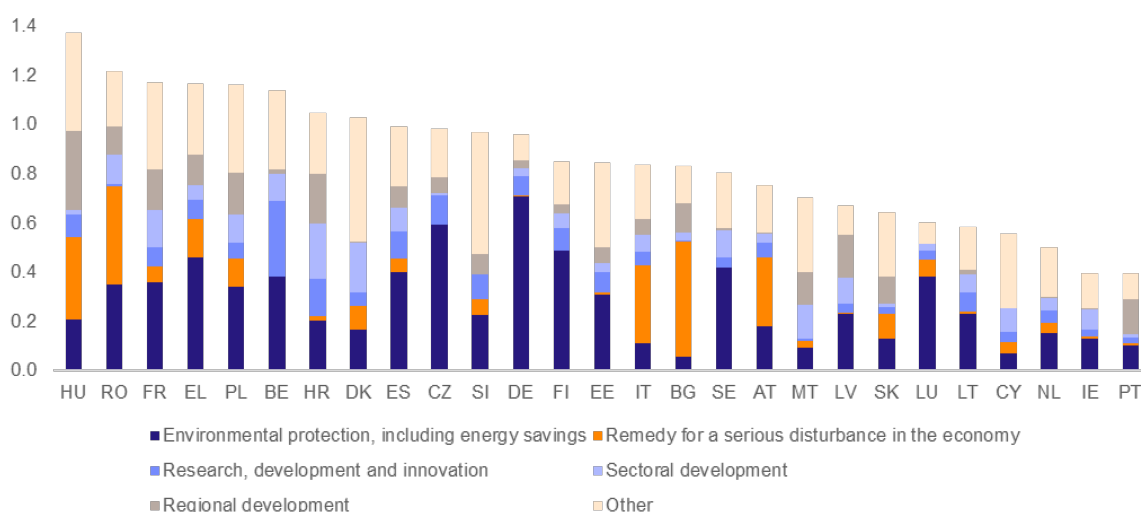
Source: I4CE, The State of Europe Climate Investment Report, 2026 edition.

As clean technological deployment takes place in presence of market failures and frictions, targeted policy measures may be used to support private investment. Green investment projects face different barriers that can lead to a suboptimal situation. A recent OECD publication (Dressler and Warwick, 2025) provides a non-exhaustive list of possible market failures and frictions in the net-zero context where the targeted government intervention might improve the allocation of private investment towards the social optimum. These include unpriced carbon externalities, which weaken the relative competitiveness of clean technologies; technology adoption spillovers, as learning and innovation generate social benefits that are not fully captured by private investors; and firm-level investment frictions, such as financing, information, and policy uncertainty constraints, which can delay or deter capital-intensive green investments.

EU countries also provide State aid to accelerate decarbonisation. The EU State Aid Scoreboard ⁽²⁰⁾ shows that climate- and energy-related measures accounted for EUR 68.82 billion in 2024, making it the leading policy objective with around 45% of total State aid granted for EU policy priorities in 2024 – (see Figure 15). This included EUR 30.45 billion allocated to decarbonisation efforts and EUR 27.31 billion directed towards energy production and the modernisation of infrastructure.

20 [EU State Aid Scoreboard](#). See also [State Aid Scoreboard 2025](#)

Figure 15: State aid expenditure by aid intensity and policy objective (% of GDP), 2024



Source: State aid scoreboard

Decarbonisation is a key pillar to strengthen the EU's competitiveness. The Competitiveness Compass identifies decarbonisation as one of three transformational imperatives ⁽²¹⁾. High energy prices and price volatility burden energy-intensive sectors in particular, such as steel, metals, and chemicals. The long-term competitiveness of these industries hinges on a well-managed clean transition that reduces energy use and dependencies, while providing support for the particularly large investment needs they face to adopt clean technologies. The Net-Zero Industry Act ⁽²²⁾ will moreover increase the competitiveness of the net-zero technology sector, attract investments, and improve market access for clean tech in the EU, based on a scope of technologies considered central to achieving the EU's net-zero objectives ⁽²³⁾.

The Clean Industrial Deal (CID) provides a policy framework to help reduce carbon emissions and facilitate the transition to low carbon technologies. Published on 26 February 2025, the CID ⁽²⁴⁾ builds on the decarbonisation pillar of the Competitiveness Compass and sets out measures to strengthen industrial production while advancing climate objectives, with a particular focus on two areas. It presents measures to boost production by targeting: (1) energy-intensive industries, which require urgent support to decarbonise, electrify, and confront high energy costs, unfair global competition and complex regulations, all limiting their competitiveness; and (2) the clean-tech sector, which is at the heart of future competitiveness and necessary for industrial transformation, circularity and decarbonisation. The CID is designed to channel over EUR 100 billion towards clean manufacturing.

As part of the CID, State aid rules enable Member States to support the development of clean energy, industrial decarbonisation and clean technology. The State aid framework supporting the Clean Industrial Deal (CISAF), adopted in June 2025, set out the conditions under which Member States can grant support to boost clean industry in line with EU State aid rulebook ⁽²⁵⁾. The CISAF replaces the Temporary Crisis and Transition Framework and it will be in place until 31 December 2030. Among its features, it introduces

21 See [Competitiveness Compass](#)

22 [Net-Zero Industry Act](#)

23 The Net-Zero Industry Act defines the range of net-zero technologies covered by the regulatory framework, encompassing: solar technologies; onshore and offshore renewable technologies; battery and energy storage technologies; heat pumps and geothermal energy technologies; hydrogen technologies; sustainable biogas and biomethane technologies; carbon capture storage technologies; grid technologies; nuclear fission energy technologies; sustainable alternative fuels technologies; hydropower technologies; other renewable energy technologies; energy system-related energy efficiency technologies; renewable fuels of non-biological origin; biotech climate and energy solutions; other transformative industrial technologies for decarbonisation; CO₂ transport and utilisation technologies; wind and electric propulsion technologies for transport; other nuclear technologies.

24 [Clean Industrial Deal](#)

25 [State aid framework supporting the Clean Industrial Deal \(CISAF\)](#)

simplified procedures to enable the quick roll-out of renewable energy schemes, and it allows Member States to provide flexible support to a wide array of decarbonisation technologies such as electrification, hydrogen, biomass, carbon capture utilisation and storage.

To guide policy makers, the Commission also set out a Recommendation on Tax Incentives to support the Clean Industrial Deal ⁽²⁶⁾ most effectively. This Recommendation (see also Section 3) sets out common guiding principles for Member States when introducing tax incentives to contribute to the objectives of the CID, and advocates for tax credits and accelerated depreciation up to immediate expensing.

Effective design of tax incentives can minimise possible negative effects. Indirect costs of CIT-based incentives may include market distortions and reduced competition (Millot and Rawdanowicz, 2024). As noted by Aliu et al. (2025), effective design requires a clear and targeted definition of eligibility, specifying which firms and activities are covered and how objectives are measured. It also involves choices regarding the type of incentive used, the period over which support is granted, and the gradual phasing out of incentives as technologies become more competitive and widely adopted, in order to limit high redundancy. Finally, the literature emphasises the importance of administrative simplicity, ease of access for eligible firms, and safeguards to ensure transparency and control fiscal costs.

Expenditure-based tax incentives are a more cost-effective tool than income-based tax incentives. Income-based tax incentives reduce the tax burden on the income generated by an investment by altering the applicable tax rate, thereby increasing the after-tax return once the investment becomes profitable; examples include reduced tax rates and tax exemptions for qualifying income. However, income-based incentives are generally found to be fiscally costly and may create incentives for profit shifting and tax avoidance, while being less conducive to generate additional investment. By contrast, expenditure-based tax incentives lower the upfront cost of investment by providing tax relief directly linked to investment spending, such as investment allowances, accelerated depreciation, and tax credits or deductions against taxes due. Expenditure-based incentives are therefore more directly targeted at reducing the cost of investment, and are better aligned with the objective of stimulating investment in low-carbon technologies (Dressler and Warwick, 2025).

Accelerated depreciation allows firms to deduct a larger share of investment costs in the earlier years of an asset's life, mitigating the erosion of tax deductions caused by inflation and the cost of capital and thereby strengthening investment incentives. Accelerated depreciation acts primarily as a deferral of tax rather than a reduction in the amount of tax ultimately due. Immediate expensing is the most generous form, as it allows firms to deduct the full cost of an investment in the year it is made, reducing taxable income and improving cash flow. These measures reduce the negative impact of CIT on investment decisions. Depreciation can be 'discretionary' or 'flexible' which means that it allows companies to depreciate the assets at a time convenient to them.

Tax credits reduce the amount of tax ultimately due and, when expenditure-based, are calculated directly on the basis of investment spending. Operating within the corporate income tax system, they can provide strong incentives for investment, particularly when designed with sufficient generosity and flexibility. In some cases, tax credits can have effects similar to direct grants. They can be particularly well suited to support projects with high upfront capital costs.

In addition to these initiatives, EU legislation also places strong emphasis on supporting the automotive sector's transition to zero-emission vehicles. On 5 March 2025, the European Commission published the Automotive Action Plan ⁽²⁷⁾ and the Communication on Decarbonising Corporate Fleets. This was followed on 5 November 2025 by a Sustainable Transport Investment Plan ⁽²⁸⁾ and on 16 December 2025 by

²⁶ [Recommendation on Tax Incentives to support the Clean Industrial Deal](#)

²⁷ See [Automotive Action Plan](#)

²⁸ See [Sustainable Transport Investment Plan](#)

an Automotive package ⁽²⁹⁾, including a proposal for a legislative initiative to Decarbonise Corporate Fleets ⁽³⁰⁾. In addition, a Recommendation on fiscal and non-fiscal demand-side incentives is due [later in 2026]. These initiatives highlight the importance of ensuring that the European automotive industry undergoes the transition to zero-emission vehicles, including by setting out tax incentives and principles for company cars to accelerate the shift towards zero-emission vehicles through fiscal measures.

EU Member States use a broad and increasing number of CIT incentives to support clean investment.

These include accelerated depreciation and immediate expensing, tax credits, but also enhanced deductions, whereas the use of reduced CIT rates is rare. This distribution generally aligns with the higher effectiveness of expenditure-based incentives. Several Member States combine multiple instruments within their tax systems, while others currently don't have any climate-related CIT incentives. In Estonia and Latvia, profits are not taxed when they are earned but only when they are distributed to shareholders, which means that further CIT incentives have little effect.

Many EU countries allow for accelerated depreciation, often targeting clean investment. For example, these include energy efficiency improvements in buildings and production processes (e.g. Bulgaria, where plant, machinery, and equipment that support energy efficiency may benefit from depreciation rates of up to 30%); zero- or low-emission vehicles (e.g. Germany, where electric vehicles purchased between mid-2025 and 2027 benefit from particularly beneficial treatment for zero-emission vehicles – a 75% depreciation rate in the year of acquisition); and renewable energy installations (e.g. Czechia, where equipment for solar energy production benefits from accelerated depreciation).

Spain and Ireland allow for immediate expensing of specific assets. In Spain, accelerated depreciation takes the form of immediate expensing. This applies to specific categories of assets and investments, including clean vehicles, charging infrastructure, renewable self-consumption installations, and R&D-related assets, subject to eligibility conditions and, in some cases, caps. In Ireland, the Accelerated Capital Allowances (ACA) scheme for energy-efficient equipment sets a 100% first-year capital allowance on qualifying expenditure, allowing the full cost of eligible assets to be deducted from taxable profits in the year in which the equipment is acquired and brought into use. The scheme applies to specified categories of energy-efficient equipment and is currently time-limited until 31 December 2030.

EU countries also provide tax credits to support climate-related investment. Across Member States, tax credits are commonly used to support renewable energy production and related manufacturing (e.g. France, where credits target the production of batteries, photovoltaic panels, wind turbines and heat pumps), energy efficiency and decarbonisation of production processes (e.g. Hungary, where credits are linked to verified energy savings), and broader environmental and sustainability objectives (e.g. Malta, where credits support investments that reduce emissions, improve resource efficiency, and enhance environmental performance). The design of tax credit schemes often varies by firm size, with higher rates for SMEs, and typically includes ceilings on eligible investment amounts or annual credit use to contain fiscal costs.

Several EU countries also allow for enhanced deductions to support clean investment. Enhanced deductions allow firms to deduct more than 100% of eligible investment costs from taxable profits, increasing the total tax benefit and providing a stronger incentive for targeted investments. In practice, enhanced deductions are used, for example, to target energy efficiency and renewable energy investments (e.g. Denmark, where firms may deduct 108% of expenditure on climate-friendly production assets, including renewable energy technologies and energy-efficient machinery). Other countries use enhanced deductions to support zero- or low-emission transport and related infrastructure (e.g. Austria, where higher deduction rates apply to emission-free vehicles, charging infrastructure, and hydrogen-related assets). Enhanced deductions are also

29 See [Automotive package](#)

30 [COM/2025/994 final](#)

applied to environmental protection investments more broadly (e.g. Slovakia, where deductions are available for expenses related to the operation of in-house facilities for environmental protection).

The design of enhanced deduction regimes varies across countries. Several countries developed lists of eligible assets; in Belgium, for example, the list of qualifying investments under the thematic deduction is explicitly designed to be revised periodically (every three years) to account for technological progress. Enhanced deduction regimes are also commonly subject to caps on eligible expenditure, such as in the Netherlands, where the maximum amount of qualifying environmental investment is limited to EUR 25 million per year. In addition, some countries differentiate deduction rates by firm size to improve targeting, with higher rates applying to individuals and SMEs than to larger firms (e.g. Belgium, where SMEs benefit from a 40% deduction compared to 30% for other companies).

A CIT reduced rate is rarely used in EU Member States. A CIT a tax rate below the standard rate to qualifying profits increases after-tax returns once investments become profitable. This instrument is observed for example in Croatia, where it forms part of a broader investment incentive scheme. Eligibility is linked to investments that contribute to environmentally safe business activities and strategic objectives, including the green and digital transition, adoption of advanced technologies (Industry 4.0), productivity growth, and regional development. The reduced rate applies for a limited period, up to five years for micro enterprises and up to ten years for other firms, and is conditional on meeting minimum investment and employment thresholds. The level of support increases with the scale of investment and job creation, ranging from a 50% CIT reduction to a full exemption for large qualifying projects.

The effectiveness of CIT-based incentives depends on ensuring their complementarity with broader policy efforts. Tax design can offer governments a strategic tool to advance societal and environmental goals, including the transition to a net-zero economy. However, tax incentives should be seen as one element of an evolving policy mix, including carbon pricing, regulatory standards, and public investment priorities. For example, it is crucial to combine tax incentives for clean investment with other policies that continue to provide proper price signals to activities with negative environmental externalities, such as carbon pricing and the removal of fossil fuel subsidies.

2

The tax mix: recent developments and revenue trends

The current chapter provides an overview of tax revenues across the EU countries from different perspectives. It aims to answer frequently asked questions such as: How much tax revenue is collected? What is the split across labour, capital and consumption? Who collects the revenue? Which fiscal instruments or tax types are used? Moreover, by observing recent developments and detecting trends, this survey provides an updated view of the tax policy landscape in the EU. The first section presents the most recent data on overall tax revenues (reference year 2024), including relevant country developments. The second section provides analysis of tax revenue by economic function (labour – including social contributions, capital and consumption) as well as by category and level of government. Section 3 is a comprehensive survey of the most important tax types in the EU and their role in Member States, and in particular: social contributions – SC, personal income tax – PIT, corporate income tax – CIT, value added tax – VAT, environmental and property taxes. Finally, the last section reflects on the structural implications of underlying trends and shifts in the tax mix.

Tax revenue data used in this section are based on the [Taxation Trends Data](#) produced by DG TAXUD and available online, with information per country and for the various indicators. The 2025 edition of TAXUD's Taxation Trends data was released on 31 March 2026 and has a cut-off date of 30 January 2026 ⁽³¹⁾.

2.1. Recent developments in tax revenue in the EU

Total tax revenue picked up to 39.4% of GDP in 2024 after decade-low in 2023, boosted by higher revenues from personal income tax and social contributions. EU Member States collected EUR 7 100 billion in taxes 2024 (including actual compulsory social contributions – SC) ⁽³²⁾ ⁽³³⁾, representing a 5.6% increase compared to 2023. As this rate outpaced that of nominal year-on-year GDP growth (4.4%), the tax-to-GDP ratio ⁽³⁴⁾ reached 39.4%, up from 39.0% in 2023 (see Figure 16). This increase came after a sharp decline in 2022 and 2023, when the fast growth of nominal GDP in an inflationary economic context, combined with tax policy changes to cushion the impact of inflation, resulted in a cumulative decrease of 1.2 pp – from 40.2% of GDP in 2021 to 39.0% in 2023. When we zoom into the composition of tax revenues by economic function (see Section 2.2), the rise in 2024 was driven by higher revenues from labour taxes (up to 20.3% of GDP, from 19.9% of GDP in 2023), while revenues from consumption and capital taxes remained stable at

31 https://taxation-customs.ec.europa.eu/taxation-1/economic-analysis-taxation/data-taxation-trends_en

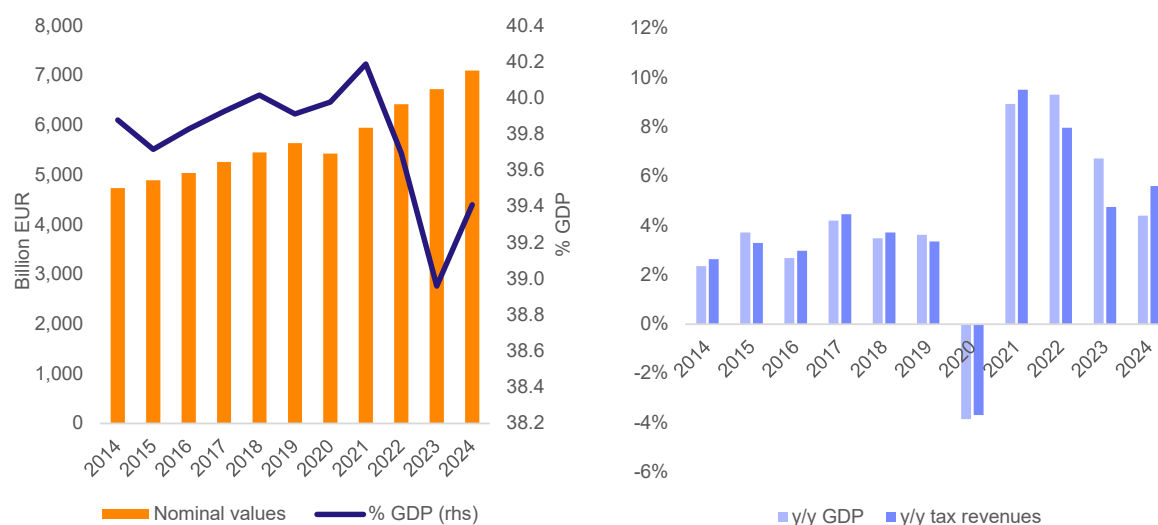
32 Measured by Indicator 2 of Eurostat National Accounts Working Group, as defined in June 2001: Total receipts from taxes and actual compulsory social contributions payable to general government, including those for government as an employer. This indicator is consistently used across this report to measure tax revenues and might slightly differ from other headline indicators used by other institutions.

33 Actual compulsory social contributions are distinct from imputed and voluntary social contributions which are excluded from Indicator 2 and therefore from the analysis of tax revenues in the Annual Report on Taxation. See [European Commission \(2026c\)](#) and further explanations in Section 2.2.2.

34 The tax-to-GDP ratio represents the average macroeconomic tax burden and better reflects the evolution of tax revenues in real terms. In periods of large economic volatility (e.g., 2020-2022), the evolution of the ratio must be analysed carefully by looking at the specific variation of both tax revenues (numerator) and GDP (denominator), as multiple factors may weigh in.

10.6% and 8.5% of GDP, respectively. The picture is similar when zooming into the tax revenue composition by type of tax, where joint revenues from PIT and SC added 0.5 pp of GDP (see Section 2.3 for details).

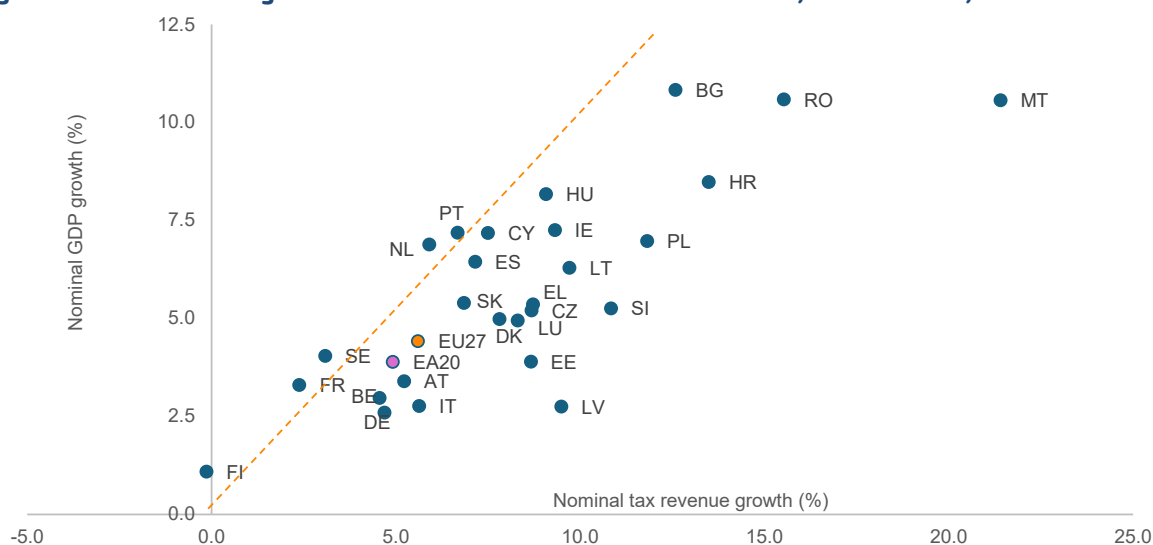
Figure 16: Tax revenue in nominal and GDP terms (left-hand) and y-o-y growth rate of nominal GDP and nominal tax revenue (right-hand), EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data [gov_10a_taxag] and [nama_10_gdp]. For the aggregation, nominal values converted in EUR for non-EA countries.

In 2024, nominal tax revenue grew faster than GDP in all but five Member States. Nominal tax revenue increased in 2024 across all EU countries except Finland, that registered a marginal reduction of 0.1% (Figure 17). Increases were led by Malta (21.4%), Romania (15.5%) and Croatia (13.5%). Slowdown of price inflation and economic growth (see Section 1.1) facilitated that nominal tax revenue grew faster than nominal GDP in 22 Member States, thus increasing their tax-to-GDP ratio. The largest differences between both rates took place in Malta, Latvia and Slovenia, resulting in larger increases in their tax-to-GDP ratio. By contrast, nominal GDP growth outpaced tax revenue growth in five Member States: Finland, France, the Netherlands, Sweden and Portugal, resulting in a reduction in their tax-to-GDP ratio.

Figure 17: Rate of change of nominal tax revenue and nominal GDP, EU countries, 2023-2024

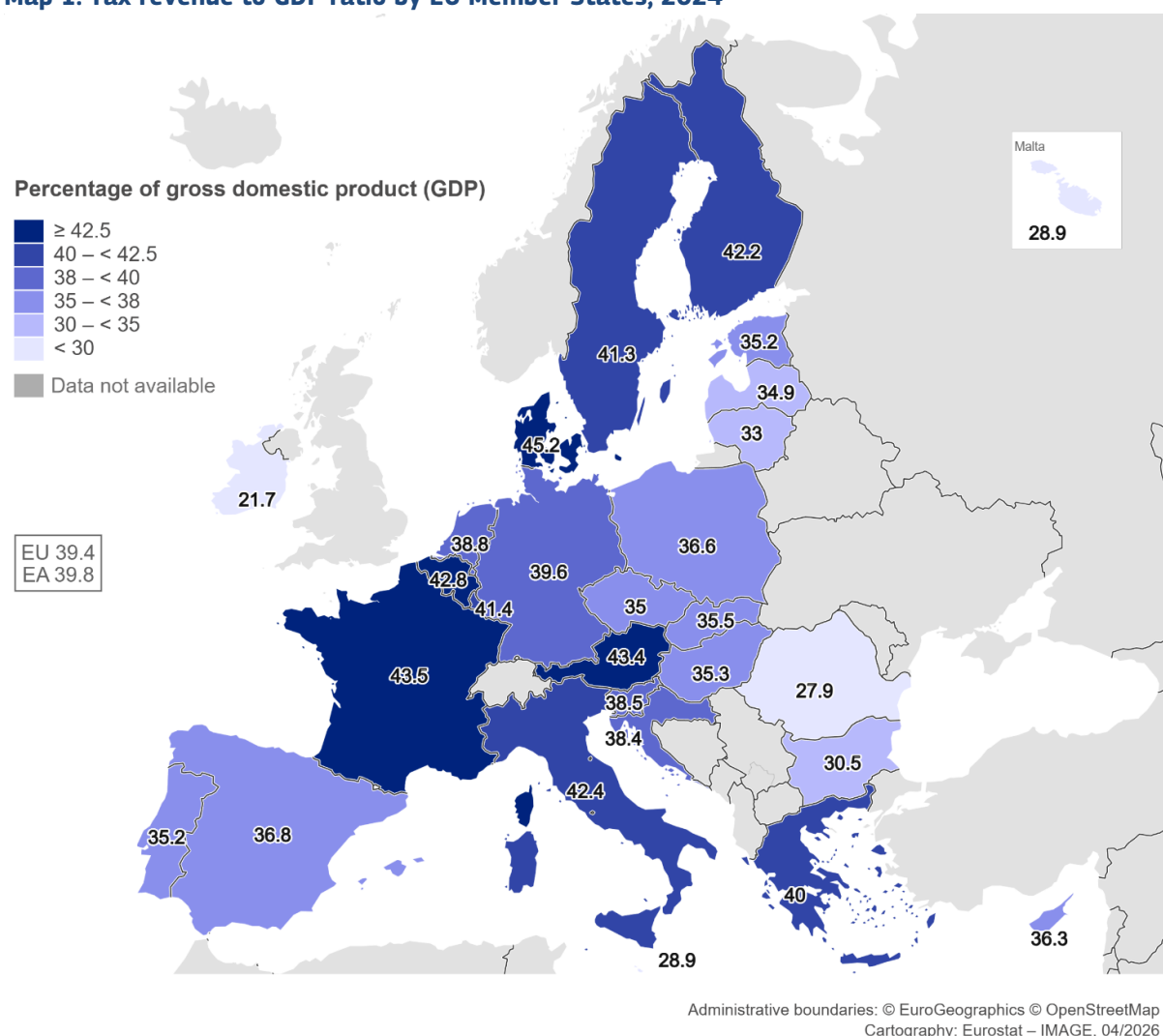


Source: European Commission, DG Taxation and Customs Union, based on Eurostat data [gov_10a_taxag] and [nama_10_gdp]. Nominal values measured in national currencies.

In 2024, Denmark, France and Austria recorded the highest tax-to-GDP ratio in the EU, while Ireland, Romania and Malta the lowest. At 45.2%, in 2024 Denmark led again the tax-to-GDP ratio in the EU,

followed by France (43.5%) and Austria (43.4%) (Map 1). Since the beginning of the historic series in 1995, these three countries have been at the top of the ranking, alternating with others such as Belgium, Italy, Sweden or Finland. Ireland (21.7% of GDP in 2024) ⁽³⁵⁾, Romania (27.9%) and Malta (28.9%) on the other hand are at the bottom-3 of the tax-to-GDP ratio ranking since 2019. As said above, 22 Member States increased their tax-to-GDP ratio in 2024 vis-à-vis 2023. The largest increases of tax-to-GDP ratio took place in Malta (+2.6 pp), Latvia (+2.4 pp, leading to a historic-high of 34.9%) and Slovenia (+1.9 pp). Finland (-0.5 pp), France (-0.4 pp) and the Netherlands (-0.4 pp) recorded the largest decreases. As two of the largest EU economies, France and The Netherlands saw declines in the tax-to-GDP ratio which limited an increase of the EU aggregate to 0.4 pp. This was despite substantial rises in other major economies including Poland (+1.6 pp), Italy (+1.2 pp) and Germany (+0.8 pp).

Map 1: Tax revenue to GDP ratio by EU Member States, 2024



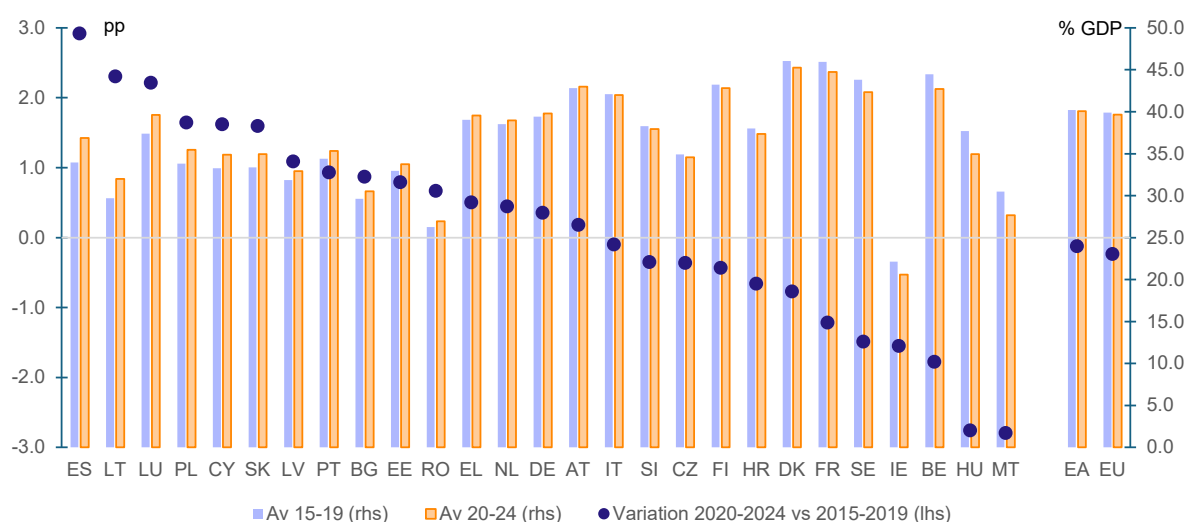
Source: European Commission DG Taxation and Customs Union, based on Eurostat data [gov_10a_taxag] and [nama_10_gdp]; Eurostat IMAGE.

Despite the volatility of recent years, tax revenue in the EU remains close to pre-pandemic levels as a share of GDP. To better assess the underlying trends in the evolution of tax revenue across the EU, we have compared the averages of the two last five-year subperiods: 2020-2024 and 2015-2019 (Figure 18).

³⁵ Ireland's tax-to-GDP ratio must be used carefully, as the denominator (GDP) is distorted by the disproportionate impact of foreign direct investment's (FDI) flows. For a better proxy of the actual size of Ireland's economy, the authorities have created the indicator *modified GNI* (GNI*), that excludes certain FDI elements and was in 2024 43% lower than the standard GDP. Using this denominator, Ireland's tax revenue reached 39.5% of GNI* in 2024, much closer to the EU average.

This also allows a comparison between pre-COVID-19 years and post-COVID-19 years, thus reflecting potential structural changes in macroeconomic and fiscal terms since the outbreak of the pandemic. At the EU level, we observe that tax revenue decreased only moderately (by 0.2 pp of GDP) between both periods. This masks that the tax-to-GDP ratio in the EU has been more volatile in the 2020-2024 subperiod, also influenced by the volatility in the denominator, nominal GDP (see Figure 16-left above). At the aggregate level, tax revenue in the EU has not dipped below 39% of GDP over the past decade and, as discussed in Section 1.1, is due to stabilise in the vicinity of 40% in the near term.

Figure 18: Tax to GDP ratio, EU countries, averages 2015-2019 and 2020-2024 (% GDP, rhs) and variation between both periods (pp, lhs)



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data. Countries are ranked by percentage point change between 2015-2019 and 2020-2024 (averages).

At country level, the magnitude of recent variations in the tax-to-GDP ratio in certain Member States could reflect structural changes in their tax systems. The comparison between 2020-2024 and 2015-2019 shows increases in the tax-to-GDP ratio higher than 2 pp in three Member States (Spain, 2.9 pp; Lithuania, 2.3 pp, and Luxembourg, 2.2 pp), and higher than 1 pp in four more (Poland, Cyprus, Slovakia and Latvia). Conversely, the tax-to-GDP ratio has decreased by more than 2 pp in Malta and Hungary (-2.8 pp in both cases), and by more than 1 pp in Belgium, Ireland, Sweden and France. Although each case should be analysed carefully to understand the country-specific developments, in a few of them changes could be of structural and long-lasting nature. Throughout this chapter, observations are made to help identify the drivers behind these changes in each specific case.

2.2. Tax revenues by economic function, category and level of government

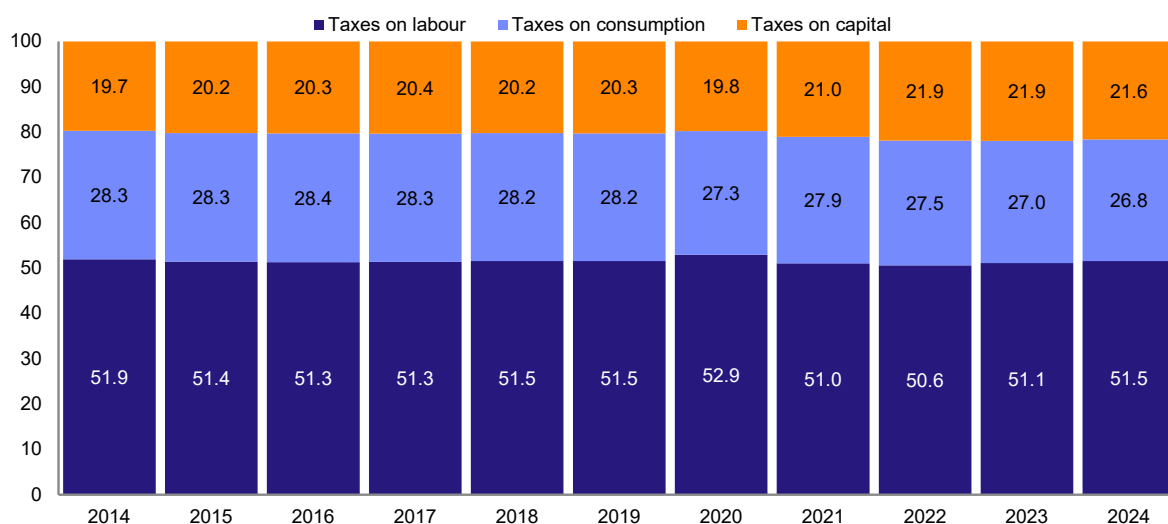
2.2.1 Tax revenues by economic function

This subsection analyses the tax structure of the EU and its Member States according to the economic function assigned to each tax line in national tax systems. The analysis relies on data provided by the Member States and processed by the DG TAXUD following a methodology improved over more than two decades within the Expert Group of Structures of Taxation Systems (European Commission, 2026c). The purpose of the exercise is to assign each line of tax revenue included in the National Tax Lists of the 27 Member States to one of three possible economic functions embodied in the following tax bases: consumption,

labour and capital ⁽³⁶⁾. This is a mechanical exercise that does not determine the incidence (or burden) on those who supply labour and capital or consume goods and services, which would require further analysis. Taxes on consumption, labour and capital add up to the total of tax revenues received by general government.

The share of labour tax revenues in the tax mix increased further in 2024, at the expense of consumption and capital taxes. While there are limited fluctuations over the years, the breakdown of tax revenues by economic function in the EU-27 tends to stay rather stable over time. Since the beginning of the historic series in 1995, the share of labour taxes (including social contributions, SC) ⁽³⁷⁾ in total tax revenues has systematically been above 50% (Figure 19). In particular, this share increased in 2024 for second consecutive year, reaching 51.5% of total tax revenue (0.4 pp more than in 2023 and 0.9 pp more than in 2022). In turn, the share of consumption (from 27.0% to 26.8%) and capital taxes (from 21.9% to 21.6%) decreased slightly. Recent shifts in the share on total tax revenue go in line with the changes in terms of GDP, as explained in Section 2.1. In particular, the increase in the share of labour tax revenues was propelled by higher revenues from personal income taxes and social contributions in a robust labour market. In a wider perspective, the weight of labour taxes in the tax mix is now roughly at the same level as in the 2015-2019 period, when the revenue structure by economic function barely changed. By contrast, capital taxes have increased circa 1.3 pp since then, at the expense of consumption taxes, thus suggesting a sustained rebalancing in the tax mix between capital and consumption bases. Further discussion about the underlying long-term trends can be found along this section and in Section 2.4.

Figure 19: EU-27 tax revenues by economic function (tax base), 2014-2024 (% of total)



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

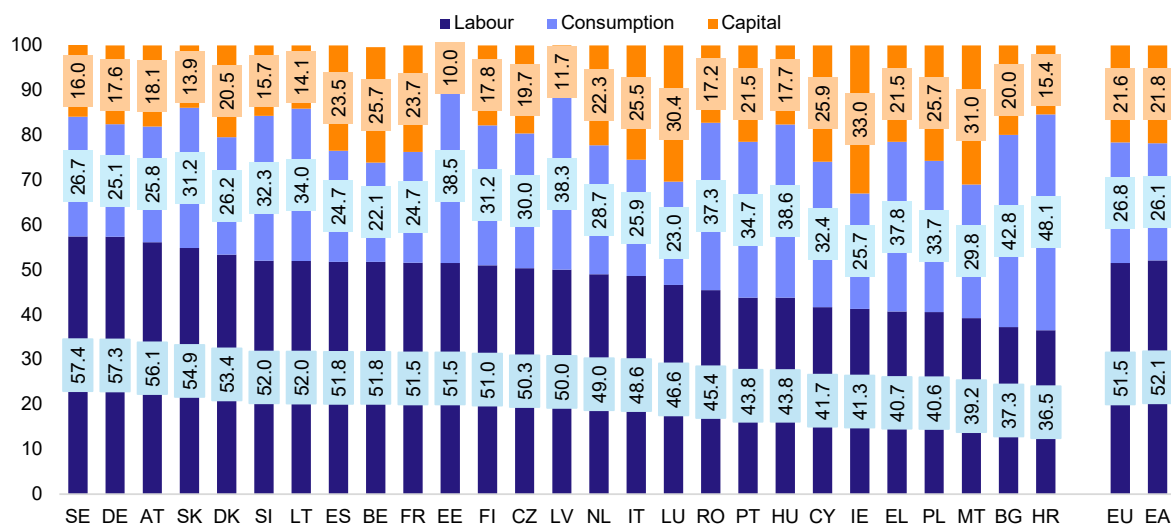
With the addition of Latvia in 2024, 14 Member States obtain more than half of their tax revenue from labour taxes (including social contributions). Sweden (57.4%) and Denmark (57.3%) are the most reliant on labour taxes in their overall tax mix (Figure 20). Labour taxes were in fact the dominant tax base in all but two Member States, Croatia and Bulgaria, where consumption taxes were the most important source of tax revenues (with 48.1% and 42.8% of total revenue, respectively). Capital taxes were not the main tax base in any Member State, but it should be noted that in three (Ireland, Malta and Luxembourg) their share in the overall tax mix went beyond 30%. The design of national tax policies and differences in economic structure influences the weight of each tax base across the EU. As we will analyse in this section, the weight of each

³⁶ A key methodological problem stems from certain tax types related to multiple tax bases. The most notorious challenge concerns the personal income tax (PIT), where tax revenues are related to labour bases as well as capital bases. Hence, in cooperation with national tax administrations a methodology has been developed to split PIT revenues, in most cases using unpublished data supplied by the national tax administrations. Methodological aspects are discussed in detail in [European Commission \(2026c\)](#).

³⁷ Although the bulk of social contributions in the EU-27 are attributed to labour bases, there is a small portion (circa 5% of SC revenues) that are attributed to capital bases as part of the social contributions paid by the self-employed.

economic base in the tax mix can be influenced by a large variety of features such as the age structure, the size of the corporate sector, the prevalence of foreign investment, the design of social protection systems or mere political choices, among others.

Figure 20: Tax revenues by economic function in the EU countries, 2024 (% of total)



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data. Countries are ranked by the share of labour taxation in the tax mix.

Member States in pursuit of additional revenues rely more on labour taxation. In Figure 21 we have broken down the changes in the tax-to-GDP ratio between 2015-2019 and 2020-2024, following the same approach as in Figure 18. Looking into the 11 Member States where the tax-to-revenue ratio has increased the most between both subperiods, we observe that in nine countries (Spain, Lithuania, Luxembourg, Cyprus, Slovakia, Latvia, Portugal, Estonia and Romania) the rise has been driven by increases in revenues from labour taxes of above 1 pp of GDP (Figure 21). The cases of Spain and Cyprus are the clearest examples, as the increase in labour tax revenues has exceeded 2.5 pp of GDP while the two other economic bases either have barely grown (capital) or decreased (consumption). It is possible that, among countries pursuing fiscal consolidation in the short to medium term, policymakers perceive labour taxes as a more readily mobilizable source of revenue, as governments have a range of instruments at their disposal to increase them without incurring prohibitive political costs. In Spain, non-indexation of PIT brackets and rises in social security rates have accelerated the country's shift towards labour taxation⁽³⁸⁾. Increases in Cyprus' labour tax revenues have stemmed mostly from the social contributions side⁽³⁹⁾. All that, in a context of strong job creation supported by improved labour market conditions in both countries.

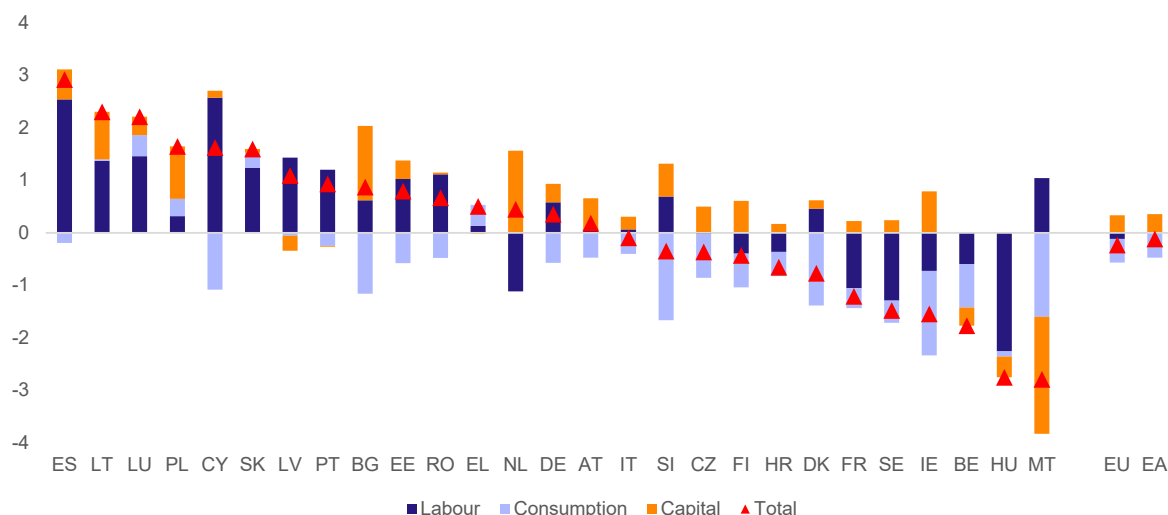
The tax wedge in the EU countries is at its highest level in almost a decade for a typical single worker, with further increases in 2025. According to OECD (2026a), effective tax rates on labour income for a single worker earning the average wage rose across a majority of OECD (and EU) countries for the fourth consecutive year in 2025. The tax wedge also increased for all other seven household types analysed in the report. OECD (2026a) also highlights that labour tax systems tend to become more progressive, with higher-

38 At central government level, the current structure of labour income brackets remains essentially unchanged since 2015, while more recently some autonomous communities have deflated their brackets to cushion the impact of inflation -in Spain, policy competences on PIT rules are split between the central government and the regions. In addition, to fund the pension system Spain has recently introduced incremental and cumulative increases in social contributions. Specifically, the so-called Intergenerational Equity Mechanism increased SC rates of dependent employment by 0.6 pp in 2023, with additional increases of 0.1 pp envisaged until 2029; employers pay 5/6 of the increase and employees 1/6. Moreover, the new "solidarity contribution" applies since 2025 to incomes exceeding the maximum contribution base, and it does not generate additional pension rights. Finally, unlike the PIT brackets, the maximum contribution bases are updated every year, thus increasing social contributions from middle/high earners. As shown in Figure 38, rises in PIT and SC revenues have contributed in roughly the same proportion to the overall increase in labour tax revenues in Spain.

39 Including a stepwise rise in dependent employment rates of 1 pp between 2018 and 2024, increases in contribution ceilings and, importantly, the introduction as from 2019 of the new health contribution ('GESY') non-existing before.

income households paying higher taxes. The so-called bracket-creep may be playing an important role in the upward trend of the tax wedge. It describes a situation in which nominal tax brackets are kept constant and wage inflation pushes a household's income into a higher tax bracket, even though its income has not increased in real terms. While most EU countries adjust their personal income tax brackets on a discretionary basis, Belgium, Denmark, Lithuania, the Netherlands, Slovakia, Slovenia, Sweden and more recently Austria have an automatic adjustment mechanism in place ⁽⁴⁰⁾. In fact, most of the nine Member States singled out in the previous paragraph for their strong increase in their labour tax-to-GDP ratio did not apply indexation to the PIT brackets during the inflation crisis of 2022–2023, contributing to the described structural increase.

Figure 21: Changes in tax revenues by economic function, 2020–2024 (average) vs 2015–2019 (average), percentage points of GDP, EU countries



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data. Countries are ranked by total change in tax revenues in 2019–2024 (average) vs 2015–2019 (average) (pp of GDP).

For countries with low or negative growth in their overall tax burden, the shift away from consumption taxes has been predominant. At EU level, when comparing the 2015–2019 and 2020–2024 subperiods, only revenues from capital taxes have increased (by 0.3 pp of GDP, Figure 21). Despite the push-up in the countries discussed in the previous paragraph in the relative composition of taxes, EU revenues from labour taxes in terms of GDP have decreased by 0.1 pp. Finally, revenues from consumption taxes have decreased by 0.5 pp of GDP, with declines in 21 Member States, –in some cases by more than 1 pp of GDP (Slovenia, Ireland and Denmark). In fact, the common pattern among the Member States with low or negative growth in their tax burden has been the decline in consumption taxes (mainly, environmental, see Section 2.3.6). In addition, there are some noteworthy developments in a number of Member States: in the Netherlands, the strong increase in revenues from capital taxes have outpaced the fall in labour taxes. In Ireland, stronger reliance on capital taxes has partly offset shrinking revenues (always in GDP terms) from consumption and labour bases ⁽⁴¹⁾. In France, Sweden and Hungary, the fall in revenues from labour taxes have been predominant (by more than 1 pp of GDP in the two first cases, and by more than 2 pp in the latter). Hungary, together with Belgium and Malta, are the only Member States where revenues from the three economic bases have decreased.

2.2.1.1 Revenues from labour taxes

Revenues from labour taxes increased to 20.3% of GDP in 2024, with a stable breakdown by source.

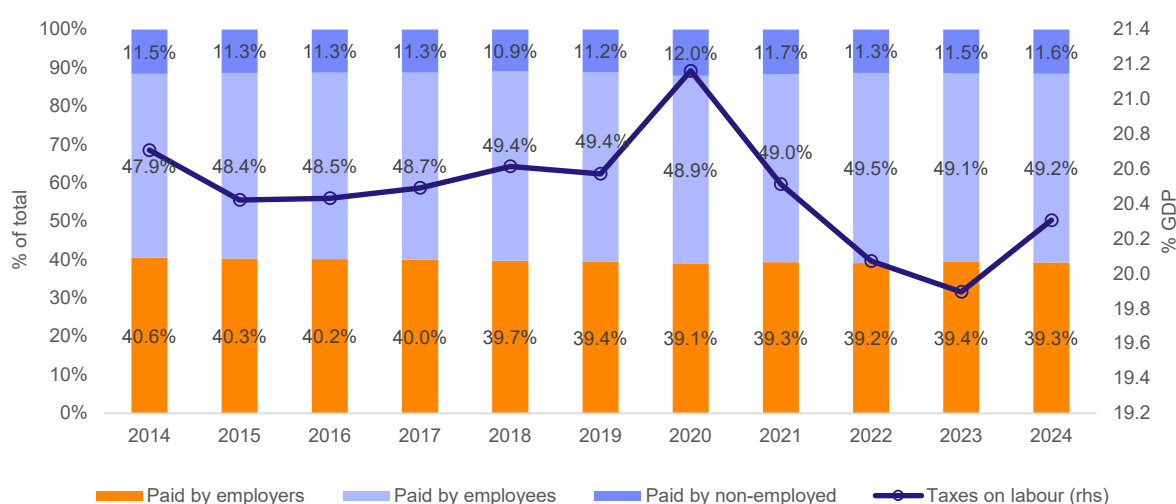
After the dip in 2021–2023, tax labour revenue picked up in 2024 to 20.3% of GDP, a substantial increase of 0.4 pp of GDP year-on-year. The strong labour market, together with the phasing out of some of the relief

40 For a detailed description of different approaches to indexation across the EU, see Table 3 in the [Annual Report on Taxation 2023](#) and [European Commission \(2023b\)](#). On fiscal and distributional effects of fiscal drag in the EU, see [García-Miralles, E., et al. \(2026\)](#).

41 The growing reliance on revenues from corporate income taxes observed in The Netherlands, Ireland and other Member States is analysed in Section 2.3.4.

measures introduced during the inflationary spiral of 2022-2023, contributed to this development. Poland, Latvia (by 1.3 pp of GDP in both) and Croatia (by 1.2 pp) were the Member States with largest increases in the year. Looking into the breakdown by source (Figure 22), we observe a shift at aggregate EU level as employer-paid taxes make up a declining share compared with payments from employees and from non-employed. As the latter category includes groups such as pensioners, further increases in its share could be expected given the ongoing increase in expenditure in public pensions (⁴²).

Figure 22: Labour tax revenues: total (% of GDP, rhs) and breakdown by source (lhs), EU-27, 2014-2024

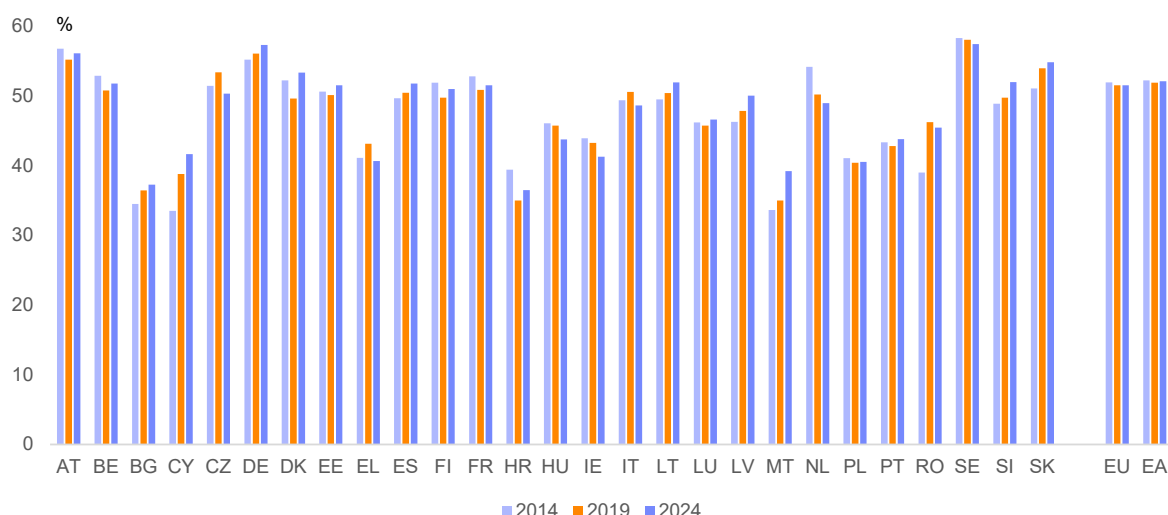


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

Labour tax revenues have increased their share in the tax mix in 14 Member States since 2014, though decreased in the EU aggregate. In aggregate levels, the share of labour tax revenues in the EU have decreased from 51.9% in 2014 to 51.5% in 2024. This covers increases in 14 Member States and decreases in the remaining 13 (Figure 23). In Cyprus, the increase (by 8.2 pp) reflects increasing social contributions -both in rates and bases. Increases in Romania (by 6.4 pp) and Malta (by 5.6 pp) have also been sizeable. Looking at those countries that witnessed a decrease in labour taxes, the largest decline in the share of labour taxes on total tax revenue has taken place in The Netherlands (by -5.2 pp between 2014 and 2024), driven by shrinking revenues from social contributions (see Section 2.3.2) in a context of expanding self-employment. Decreases in the share have been also relatively pronounced (above 2 pp) in Croatia, Ireland and Hungary.

⁴² According to European Commission (2024), aggregate expenditure in public pensions in the EU is expected to increase from 11.4% of GDP in 2022 to 12.2% in 2036 (peak year of the projection period).

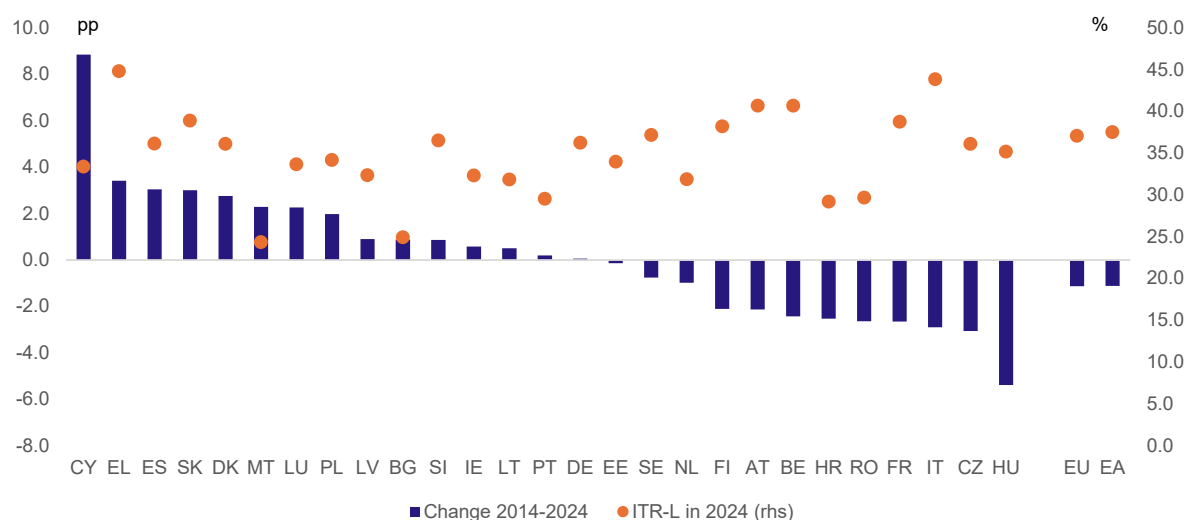
Figure 23: Labour taxes as share of total tax revenues in EU countries, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

Despite the overall decline EU-wide, the implicit tax rate (ITR) on labour has increased in 15 Member States over the last decade. The EU aggregate ITR on labour ⁽⁴³⁾ stabilised in 2024 at 37.1%, 0.1 pp above the 2023 rate. In 2024, Greece (44.8%) had the largest ITR on labour in the EU, followed by Italy (43.9%) and Belgium (40.7%). Malta (24.4%), Bulgaria (24.9%) and Croatia (29.2%) had the lowest rate (Figure 24). At EU level, the ITR on labour has followed a downward trend over the last decade (38.2% in 2014), although results have been very varied across Member States. The rate has increased in 15 Member States, with Cyprus at the top (by 8.8 pp), followed by Greece (by 3.4 pp) and Spain (by 3.0 pp). In Cyprus and Spain, the hike in the ITR is reflected in higher labour tax revenues (see Box 2.1). On the other hand, between 2014 and 2024 the ITR on labour decreased in the remaining 12 Member States, with Hungary (by -5.4 pp) at the bottom, followed by Czechia (by -3.1 pp) and Italy (by -2.9 pp).

Figure 24: Change in Implicit Tax Rate on labour (pp, 2014-2024) and 2024 levels (%)



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists and National Accounts data. Countries are ranked by changes in the ITR on labour between 2014 and 2024 (pp).

⁴³ The ITR on labour measures the overall tax burden on all employed labour incomes. It does so by dividing revenue from taxes and social contributions on employed labour income by total compensation of employees (including payroll taxes).

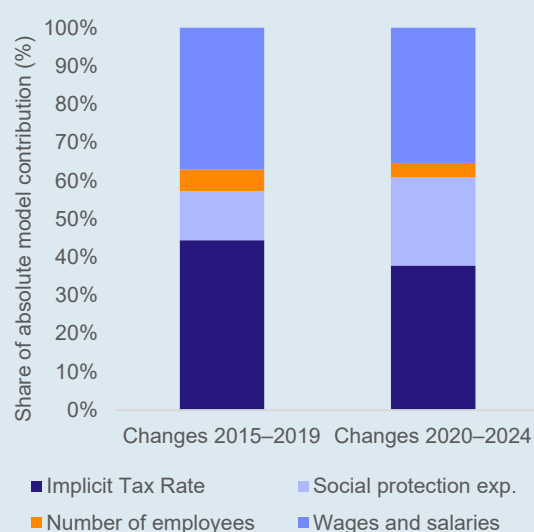
Empirical econometric analysis points to a growing importance of social protection expenditure in explaining changes in labour tax revenues. Box 1 summarises the findings of an econometric exercise that analyses the drivers behind changes in the labour tax-to-GDP ratio of the 27 Member States. It concludes that wages and salaries, plus policy changes captured through the implicit tax rate, continue to be the main explanatory variables of labour tax revenues, with social protection expenditure gaining prevalence after the COVID-19 pandemic.

Box 1: Drivers of labour-tax revenue developments in the EU

Empirical econometric analysis can relate changes in labour tax revenues to changes in underlying economic and policy variables across countries and over time. Here, the model is specified in first differences of logarithms, such that the dependent variable is the change in the logarithm of labour tax revenues, and the explanatory variables are expressed as changes in logarithms of the corresponding regressors. To capture potential shifts over time in the relative importance of the explanatory variables, the contributions in absolute values are averaged over predefined subperiods, namely 2015–2019 and 2020–2024 (five years in each of the two periods), and then normalised within each subperiod. These shares represent the proportion of the model-implied variation in labour tax revenues that is associated with each explanatory variable, conditional on the estimated model.

The results of the econometric exercise indicate increasing importance of social protection expenditure as a channel for changes in labour tax revenues. Figure 25 shows the EU aggregate

Figure 25: Decomposition of EU-wide labour tax revenue drivers (% in total model-explained change), 2015–2024



Source: European Commission, DG Taxation and Customs Union.

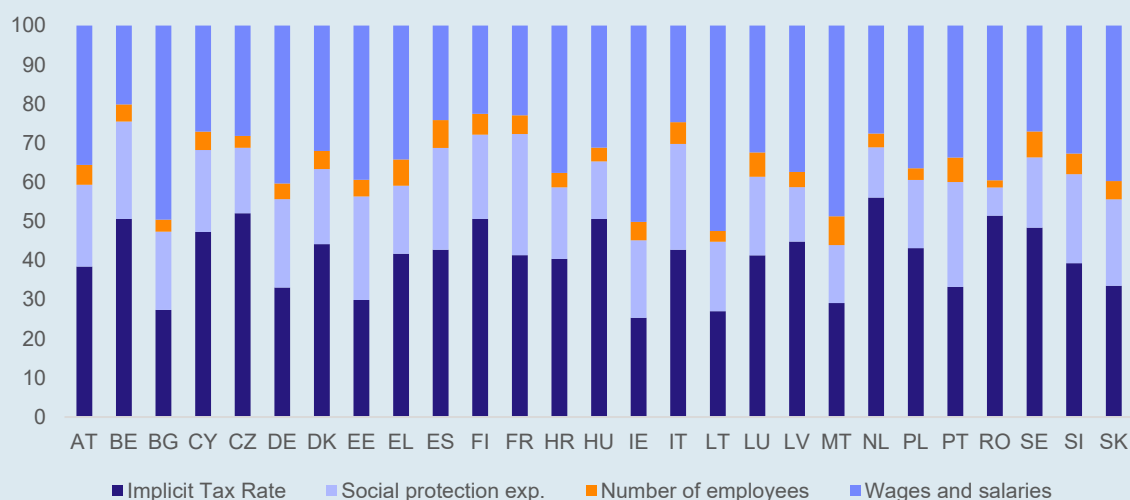
contribution of the four selected explanatory variables (employment, wages and salaries, policy changes captured through the implicit tax rate on labour, and social protection expenditure) to changes in labour tax revenues. The analysis suggests that labour market developments (i.e., dependent employment and wages) and policy changes have a diminishing importance in explaining changes in the labour tax-to-GDP ratio, while the explanatory power of social expenditure has almost doubled since 2020 ⁽¹⁾. This is related to the fact that, in most of the Member States, social protection systems tax pension and unemployment benefits at some moment under the category of labour taxes. The short-time work schemes deployed in 2020–2021 to preserve jobs, and the growing trend in pension expenditure (from 10.4% of GDP in 2019 to 10.7% in 2024), would have reinforced the interlinks between labour tax revenues and social expenditure.

At country level, the importance of one or another driver diverges. Figure 26 shows the contribution of each driver to changes in labour tax revenues in each Member States during the period 2015–2024. The implicit tax rate explains more than half of the variation in The Netherlands, Czechia, Romania, Belgium, Finland and Hungary. Wages and salaries explain around 50% of the changes in Lithuania, Bulgaria, Malta and Ireland. Dependent employment, despite a relatively minor role, plays a more prominent role in Malta, Spain, Greece and Sweden (7%). And social protection expenditure contributes to more than 25% of the changes in labour tax revenues in France, Italy, Portugal, Estonia and Spain.

(1) According to the model, the contribution of wages and salaries to changes in labour tax revenues has decreased from 37.1% in 2015–2019 to 35.3% in 2020–2024; that of number of employees from 5.6% to 3.7%; that of the implicit tax rate from 44.4% to 37.8%; and that from social protection expenditure has increased from 12.9% to 23.1%.

Box 1 (continuation)

Figure 26: Decomposition of labour tax revenue drivers in Member States (% in total model-explained change), 2015-2024



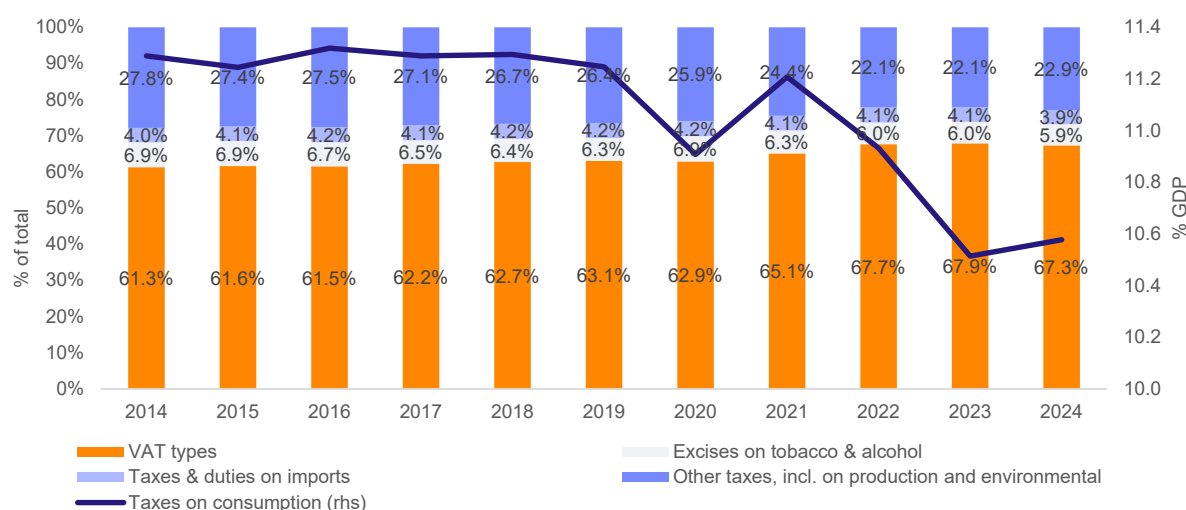
Source: European Commission, DG Taxation and Customs Union.

2.2.1.2 Revenues from consumption taxes

Revenues from consumption taxes edged up to 10.6% of GDP in 2024, thanks to the gradual phasing-out of temporary relief measures. In 2024, EU revenues from consumption taxes increased marginally (by 0.1 pp of GDP) for first time since 2021 (Figure 27). The phasing out of some of the relief measures adopted during the inflationary crisis (see ART 2025 for further reference) contributed to stabilise revenues from VAT and environmental taxes ⁽⁴⁴⁾, the latter after seven years of decline (see Section 2.3.6). While consumption tax revenues remain very close to the historic-low of 2023 (and around 0.6 pp of GDP below the values recorded during the 2010's decade), VAT revenues remain strong and close to historic-high levels (see Subsection 2.3.5). As a result, VAT types represented in 2024 67.3% of revenues from consumption taxes, a 6.0 pp increase compared to 2014. Other types of consumption taxes, i.e. excise taxes from tobacco and alcohol accounted for 5.9%, taxes and duties on imports accounted for 3.9%, and other consumption taxes (including taxes on production and environmental taxes) accounted for 22.9%. This residual category has lost prominence over the last decade (27.8% of consumption tax revenues in 2014) due to the decline of environmental taxes (see Subsection 2.3.6).

⁴⁴ Environmental taxes are split between consumption (circa 2/3 of annual revenues) and capital taxes (circa 1/3), depending on the nature of the tax base. In Figure 27, environmental taxes under a consumption base are put in a residual category together with other consumption taxes (notably, on production). It is done this way due to methodological constraints that stem from the classification used in the preparation of the National Tax Lists.

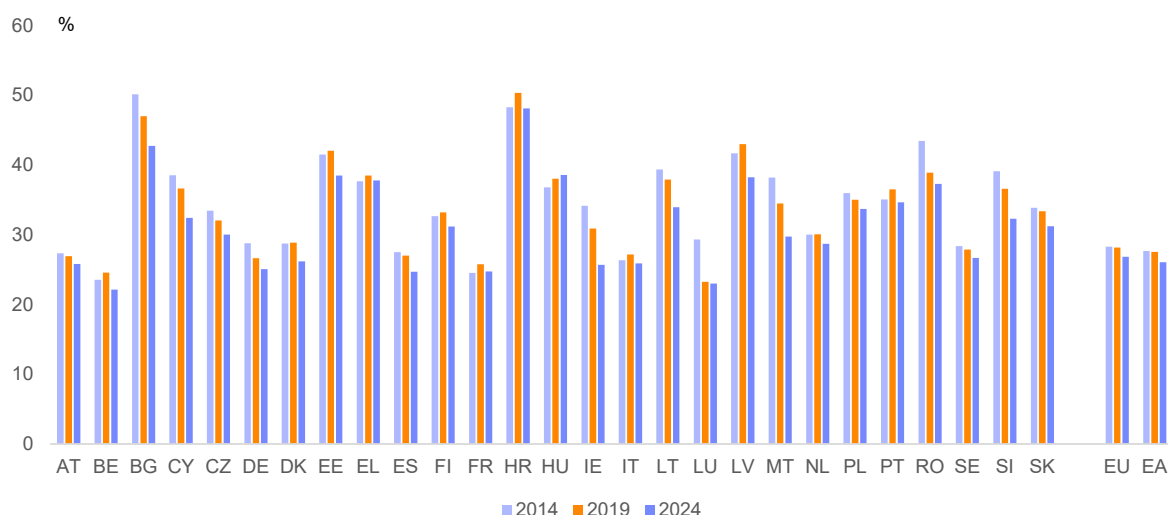
Figure 27: Consumption tax revenues: total (% of GDP, rhs) and breakdown by source (lhs), EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

The weight of consumption taxes in the tax mix has decreased in almost all Member States since 2014. The share of consumption taxes in the EU's total tax revenue has decreased from 28.3% in 2014 to 26.8% in 2024, with declines in all but three Member States (Hungary, Greece and France). The largest reductions have taken place in Ireland, Malta (by -8.5 pp in both) and Bulgaria (by -6.8 pp) (Figure 28). While in the first two cases there has been a clear rebalancing towards other revenue sources (CIT in Ireland and CIT and PIT in Malta), Bulgaria seems to be a good example of gradual decline in revenues from externality-based taxes (notably, environmental taxes and tobacco excises) due to the materialisation of the induced behavioural change. Despite it, Bulgaria is, along with Croatia, the only Member States where consumption taxes still have a larger share in the tax mix than labour taxes (43% and 48% in 2024, respectively).

Figure 28: Consumption taxes as share of total tax revenues in EU countries, 2014-2024



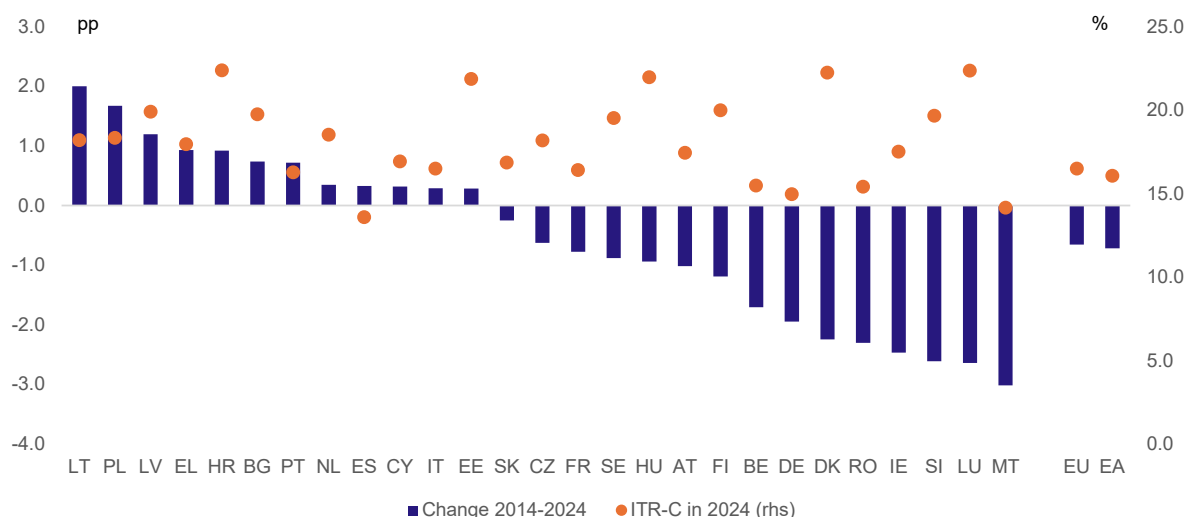
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

The ITR on consumption has decreased in 15 Member States since 2014, and by 0.7 percentage points EU-wide. Like the ITR on labour, the ITR on consumption ⁽⁴⁵⁾ stabilised in 2024 in the EU, reaching 16.5% (0.1 pp more than in 2023). In 2024, Croatia, Luxembourg (both, 22.4%) and Denmark (22.2%) had the

⁴⁵ The ITR on consumption is the relationship between the revenue in consumption taxes and its estimated tax base.

largest ITR on consumption, while Spain (13.6%), Malta (14.2%) and Germany (15.0%) the lowest (Figure 29). EU-wide, the ITR on consumption has decreased by 0.7 pp since 2014, although the decline since the peak in 2021 (17.9%) is even larger, induced by the temporary tax reliefs implemented by national governments during the inflation spiral in 2022-2023. At country level, the ITR on consumption has decreased in 15 Member States since 2014, with the strongest falls in Slovenia (by -3.0 pp), Greece and Belgium (by -2.6 pp in both). The largest increases have been recorded in Lithuania (by 2.0 pp), Poland (by 1.7 pp) and Latvia (by 1.2 pp). The gradual and substantial decrease in the VAT compliance gap of these three countries ⁽⁴⁶⁾ has likely contributed to this development.

Figure 29: Change in Implicit Tax Rate on consumption (pp, 2014-2024) and levels of ITR-C (% , 2024)



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists and National Accounts data. Countries are ranked by changes in the ITR on labour between 2014 and 2024 (pp).

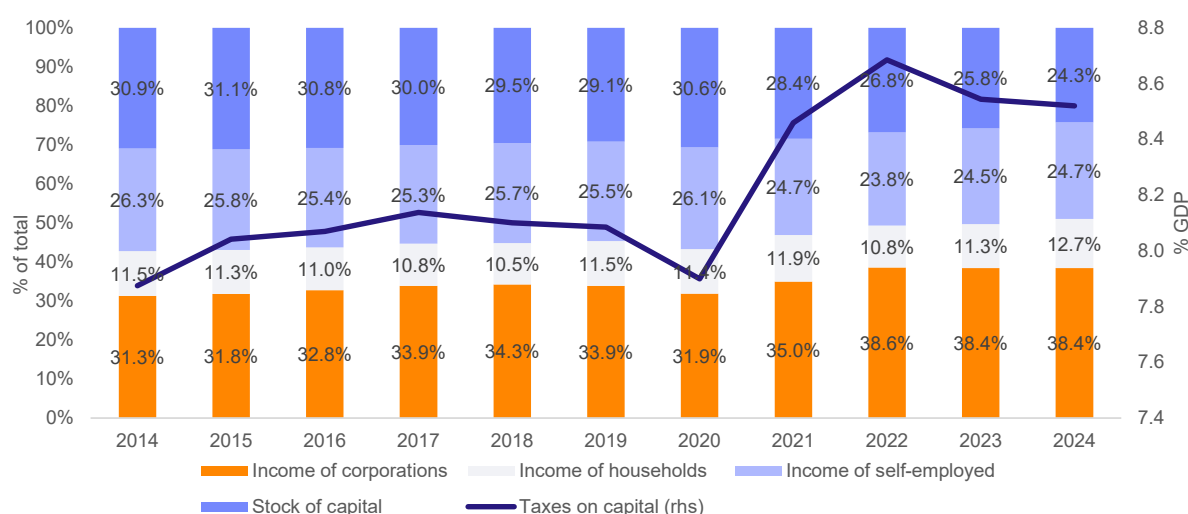
2.2.1.3 Revenues from capital taxes

Revenues from capital taxes remained stable at 8.5% of GDP in 2024, with a significant increase in the contribution from household income. Capital tax revenues remained unchanged in 2024 at 8.5% of GDP, still close to the historic high of 2022 (8.7%). Two main revenue sources can be underlined to explain the consolidation of this level: first, the persistence of CIT revenues in the vicinity of 2022 record levels in a context of high corporate profitability (see Section 2.3.3); and second, the new historic high in 2024 of capital taxes on household income (i.e., the part of PIT revenues attributed to capital instead of labour). The latter is likely explained by recent rallies in European (and global) stock and real estate markets, which are pushing up rents, dividend payments and capital gains ⁽⁴⁷⁾. In 2024, taxes on income of corporations accounted for 38.4% of capital tax revenues, and on income of households to 12.7% (see Figure 30). Taxes on income of self-employed represented 24.7%, a share broadly stable since 2021 after receding in the previous years. Finally, taxes on stock of capital accounted for 24.3%, following a strong decline since 2020 linked to shrinking revenues from property taxes (see Section 2.3.7 for details).

⁴⁶ European Commission (2025a). *Mind the Gap – Full Report*. See also the *Mind the Gap* website.

⁴⁷ Furthermore, the use of tax arbitrage can be behind some of the latest developments in capital taxation. Most OECD countries have moved in the direction of taxing dividend income more favourably than wage income (Zawisza et al., 2024) in the years between 2000 and 2022. In 2000, most of OECD countries had a higher tax rate on dividends than the top all in rate on wages in 2000, but by 2022 only 12 countries taxed dividends at a higher rate. This provides a clear incentive for closely held business owners to shift to dividend income. Furthermore, preferential treatment of capital income in some systems also acts as an incentive for tax arbitrage. See the ART 2025 for further discussion on the subject.

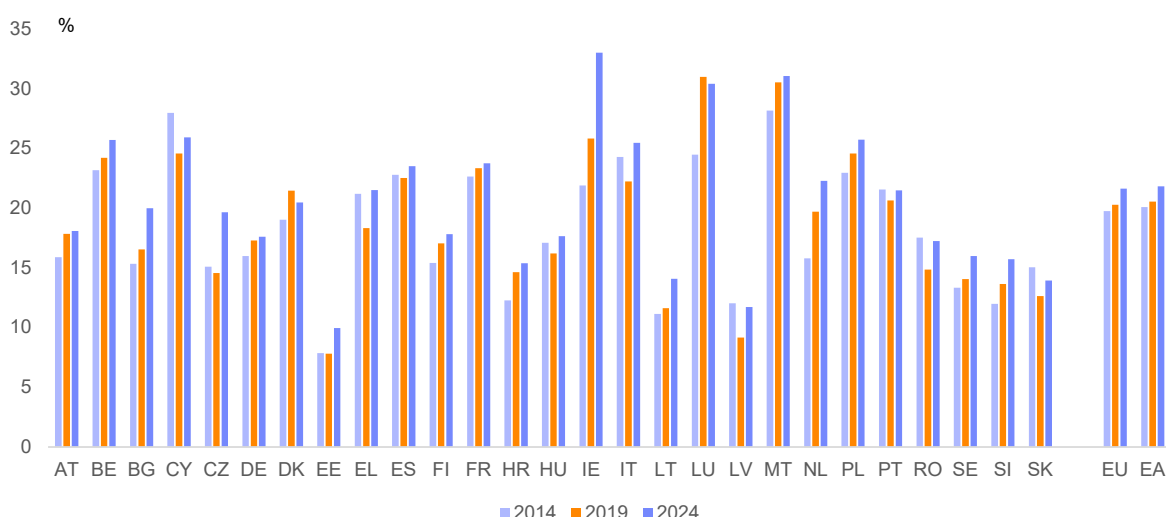
Figure 30: Capital tax revenues: total (% of GDP) and breakdown by source, EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

The share of capital taxes in the tax mix has increased in 22 Member States since 2014, with Ireland at the top. The share of capital taxes in EU-wide total tax revenue has increased from 19.7% in 2014 to 21.6% in 2024. It grew the most in Ireland (by 11.1 pp), The Netherlands (by 6.5 pp) and Luxembourg (by 5.9 pp) (Figure 31). These three countries increasingly rely on CIT revenues, particularly generated by multinational enterprises (MNEs); further analysed in Box 2.3 in Section 2.3.4. The share of revenues from capital taxes evolved most negatively in Cyprus (-2.0 pp), Slovakia (-1.1 pp) and Romania (-0.3 pp). The decline in Cyprus is explained by decreasing revenues from property taxes (see Section 2.3.7), while it remains one of the EU countries with the strongest reliance on CIT revenues.

Figure 31: Capital taxes as share of total tax revenues in EU countries, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

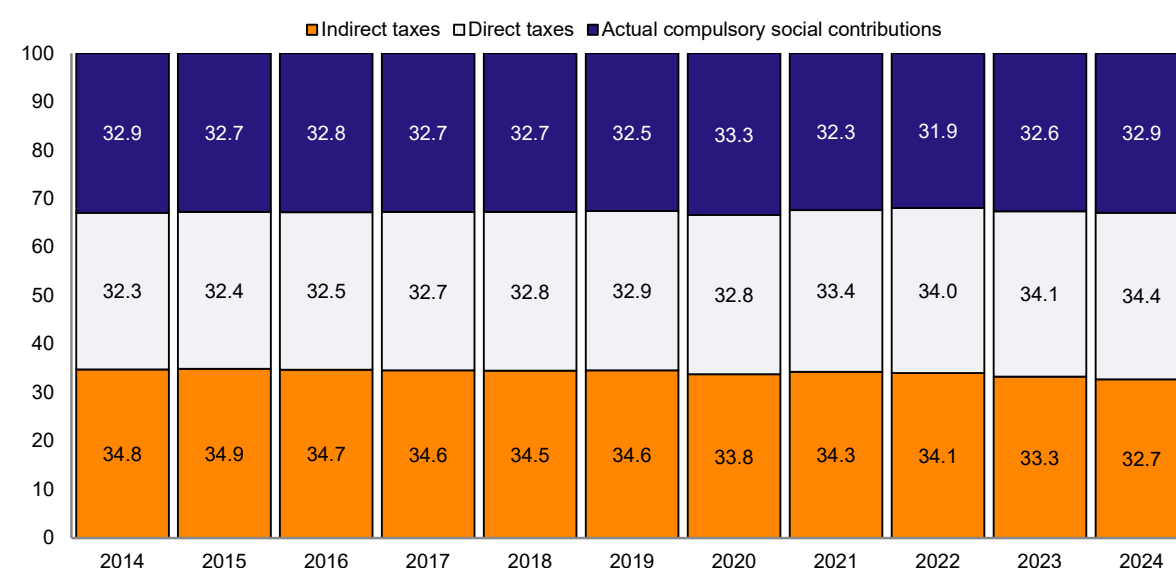
2.2.2 Tax revenues by tax category and level of government

The tax structure can be characterised along two additional dimensions: traditional tax categories and the levels of government that collect them. We distinguish between three tax categories, namely,

direct taxes, indirect taxes, and actual compulsory social contributions –SC⁽⁴⁸⁾ ⁽⁴⁹⁾. Each of them has historically represented around a third of aggregate tax revenue in the EU-27, although there are marked disparities across countries and some recent trends that deserve attention. Depending on a country's administrative set-up, revenues can be split among up to four levels of government: central, state, local governments, and social security funds.

The share of revenues from indirect taxes decreased for the third consecutive year in 2024. Indirect taxes, direct taxes and social contributions represent roughly one third each of total tax revenues in the EU. Between 1998 and 2022, revenues from indirect taxes were slightly above the two other categories, but the decline of consumption taxes in recent years coupled with the positive evolution of direct taxes such as CIT and PIT, have increased the importance of direct taxes relative to indirect taxes and social contributions. In 2024, revenues from direct taxes accounted for 34.4% of the total, followed by those from social contributions (32.9%) and indirect taxes (32.7%) (Figure 32).

Figure 32: EU-27 tax revenues by category, 2014-2024 (% of total)



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

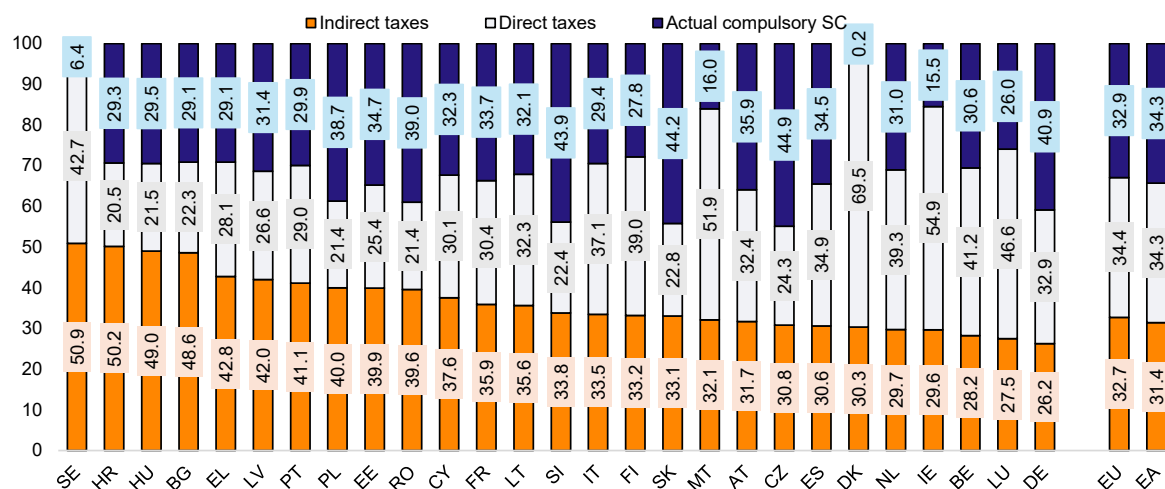
Indirect taxes remain the main source of tax revenue in 13 Member States. Across the Member States, receipts from indirect taxes remain the main category in almost half of them, accounted for around 50% of total tax revenue in Sweden, Croatia, Hungary and Bulgaria (Figure 33). Direct taxes are the main category in nine Member States, led by Denmark (69%), Ireland (55%) and Malta (52%). Finally, SC are the largest category

48 Direct tax is a tax levied on a situation that is durable by nature and directly on a specific (legal or natural) person via a notice of assessment, e.g. personal income tax (PIT), corporate income tax (CIT), or recurrent property tax. Indirect tax is a tax levied on a material or legal event of an accidental or temporary nature and on a (legal or natural) person that can often be an intermediate and not the person responsible for the event (hence the indirect character of the tax), e.g. VAT, import levies, excise duties. Finally, social contributions are compulsory payments done to the general government that confer entitlement to receive a (contingent) future social benefit; contributions can be levied on employees, self-employed, employers or non-employees. This classification follows the [ESA 2010](#) accounting framework.

49 **Actual** social contributions consist of payments made by employers or employees to insurers (social security and other employment-related social insurance schemes) on the basis of a work contract, by self-employed on the basis of their professional or economic activity, and by non-employed persons on the basis of the social protection benefits they receive. **Imputed** social contributions represent the counterpart to actual social contributions and are paid without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. **Voluntary** social contributions cover a) social contributions which persons who are not legally obliged to contribute to a social security fund; b) Social contributions paid to insurance enterprises (or pension funds classified in the same sector) as part of supplementary insurance schemes organised by enterprises for the benefit of their employees and which the latter join voluntarily; c) contributions to provident insurance schemes with membership. **Compulsory** social contributions are the counterpart to voluntary social contributions and are much bigger; they may be compulsory by virtue of a statute or regulation, or they may be paid as a result of collective agreements in a particular industry or agreements between employer and employees in a particular enterprise, or because they are written into the contract of employment itself.

in the remaining five Member States, accounting for around 45% of total revenue in Czechia, Slovakia and Slovenia. Further analysis on the evolution of revenues from social contributions is featured in Section 2.3.2.

Figure 33: Tax revenues by category of tax in EU Member States, 2024 (% of total)



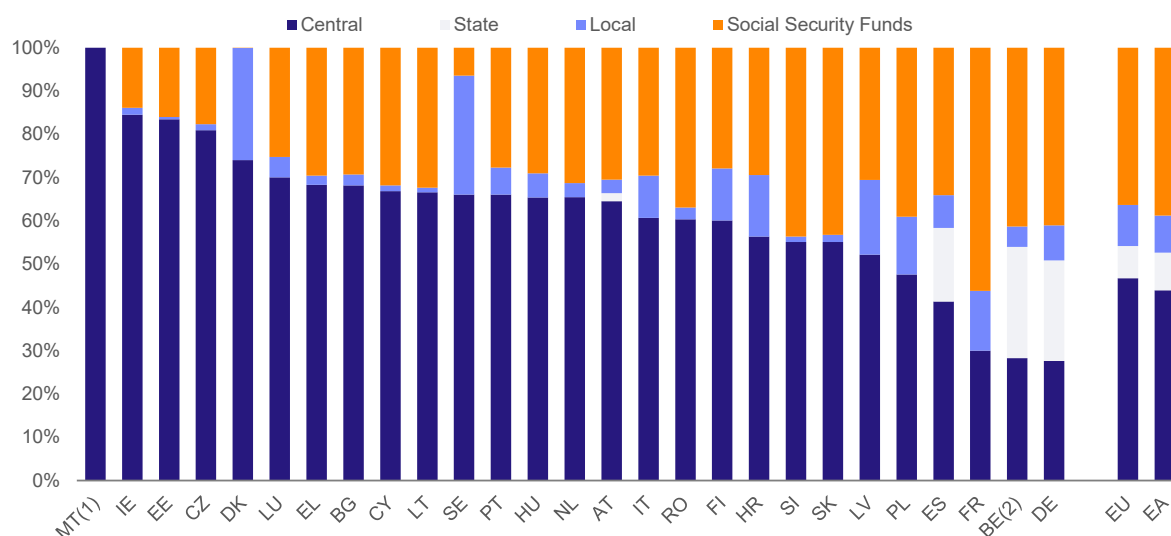
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data. Countries are ranked by the share of indirect taxes in total tax revenues.

The breakdown of tax revenues by level of government is determined by the political and administrative organisation of a country. Central governments (excluding social security institutions) were competent ⁽⁵⁰⁾ on 46.6% of total tax revenue in 2024, being the main administrative entity in all the Member States but three: France, Germany and Belgium. In these three countries, the social security funds subsector is in charge of the largest share of total tax revenue. EU-wide, the social security funds subsector accounted for 36.1% of total tax revenue in 2024 (Figure 34). Local entities ⁽⁵¹⁾ collected 9.5% of total tax revenue in the EU in 2024, with the largest shares in Sweden (27.0%) and Denmark (25.8%). The state subsector had an EU-wide share of 7.4% in 2024, although it collects taxes in only four Member States: Belgium (25.4% of total), Germany (23.2%), Spain (16.9%) and Austria (1.9%). The breakdown by level of government looks different when considering expenditure data, as national fiscal equalisation systems allocate tax receipts to subnational entities irrespective of their devolved tax collection competences. In most EU countries, sub-national governments have limited own-source revenue, a low tax base, and high investment and expenditure responsibilities, giving rise to a vertical fiscal gap and to possible unfunded mandates if it is not matched by adequate intergovernmental transfers (OECD, 2027). The national shares of sub-national government revenues can also mask disparities across regions within Member States, a territorial dimension that is highly relevant for economic, social and territorial cohesion.

⁵⁰ Understood it as the entity responsible for designing the tax instrument, including the tax base, the tax rate and the exemptions.

⁵¹ In the 23 non-federal Member States (i.e. excluding Germany, Austria, Belgium and Spain), the local government subsector encompasses all subnational government tiers, according to the ESA 2010 classification. Therefore, it is not limited to municipalities but also includes regional governments. In the remaining four Member States, regional governments are included in the state subsector.

Figure 34: Revenue structure by level of government, 2024 (% of total tax revenue)



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data. Total tax revenues exclude those claimed by institutions and bodies of the EU. Countries are ranked by the share of tax revenues on which central governments are competent. (1) In the ESA 2010 national accounts, the social security funds subsector is not distinguished for MT. (2) Alternative allocation of tax revenue by sub-sector according to “ultimately received revenue”; Belgium’s data are therefore not comparable with other countries’ data.

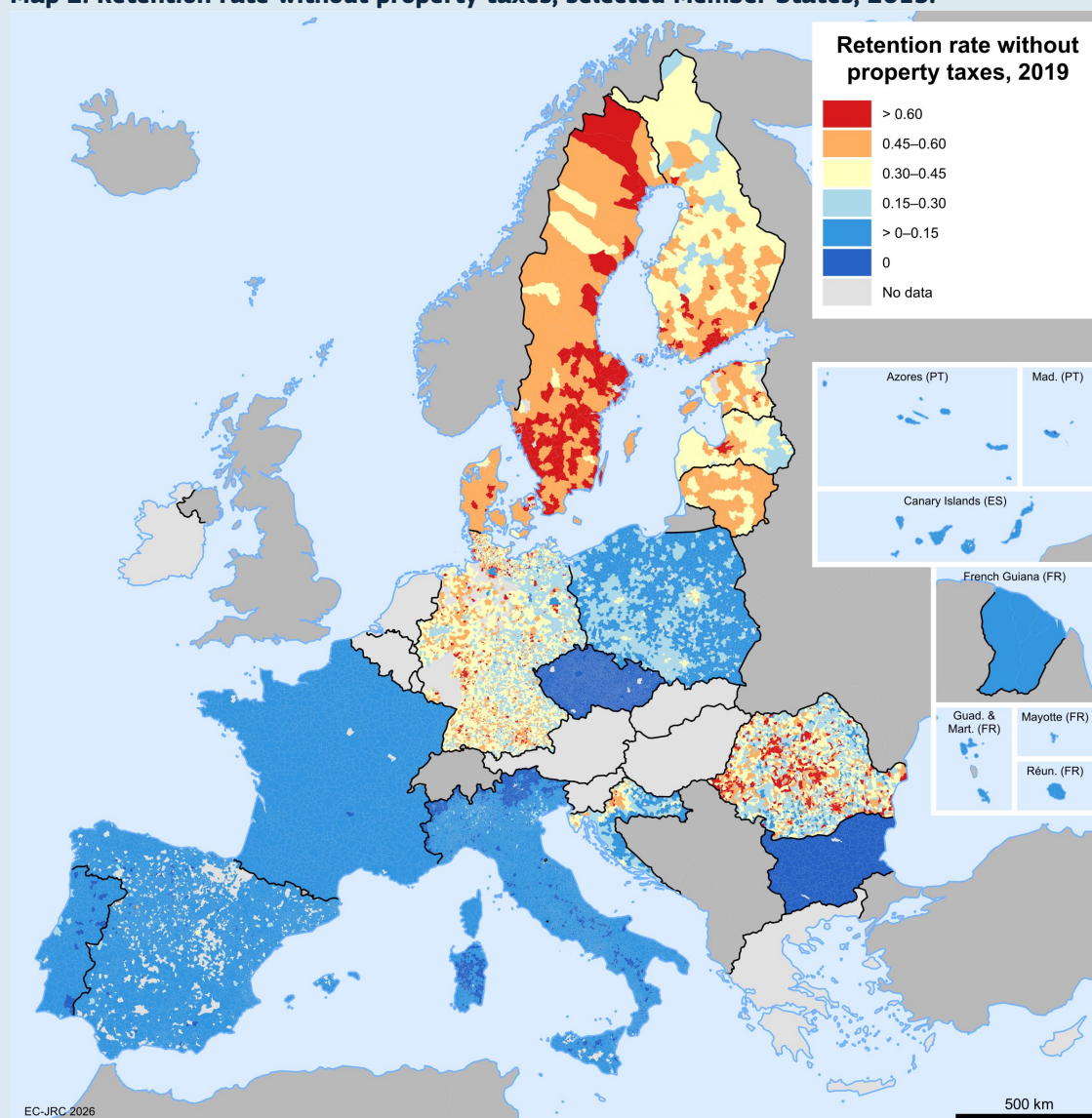
Closely engaged with citizens and businesses, municipalities play an important role in fostering tax compliance and the local business climate. There is growing recognition that allocating taxes to local governments on an origin basis (e.g., allocating part of the taxes paid by individuals living in a municipality to the municipal budget) fosters higher levels of tax compliance (Torgler et al, 2010) and growth of income (Ferraresi et al, 2026). Such benefits need to be pondered though with other considerations such as professionalism or risk of yardstick competition ⁽⁵²⁾. Box 2 shows the share of income taxes allocated to municipalities on an origin basis varies widely across EU Member States (2019 data). In countries such as Denmark, Finland, and Sweden, such allocations can account for more than 60% of all municipal revenues, while in others, such as Bulgaria and the Czech Republic, no origin-based allocations to municipalities exist.

⁵² Local governments may adjust taxes not only to attract mobile bases, but also because voters compare tax levels and policy outcomes across neighbouring jurisdictions. See Blöchliger et al. (2011) for further detail.

Box 2: Municipal revenue retention rates of income taxes in selected Member States, 2019.

The "realised revenue retention rate" is a new indicator developed to analyse incentive effects of letting municipalities retain revenue collected. This indicator, introduced by [Preyer et al \(2026\)](#), aims to capture the extent to which taxes on local economic activities paid on an origin basis accrue to municipal budgets, rewarding municipalities which manage to strengthen the local economy. The "realised revenue retention rate" measures the share of locally generated revenues that remain in the originating jurisdiction, net of intergovernmental transfers made for horizontal or vertical equalisation purposes. Rather than reflecting merely what is collected locally, it captures the effective degree of fiscal autonomy by accounting for what is genuinely retained — thereby quantifying the financial incentive local governments have to broaden their own tax base. Map 2 shows the realised revenues retention rates for all kinds of personal and corporate income taxes in selected EU Member States for the year 2019. While property taxes play a role as well, they are excluded from the analysis due to data limitations.

Map 2: Retention rate without property taxes, selected Member States, 2019.



Source: Preyer et al., 2026.

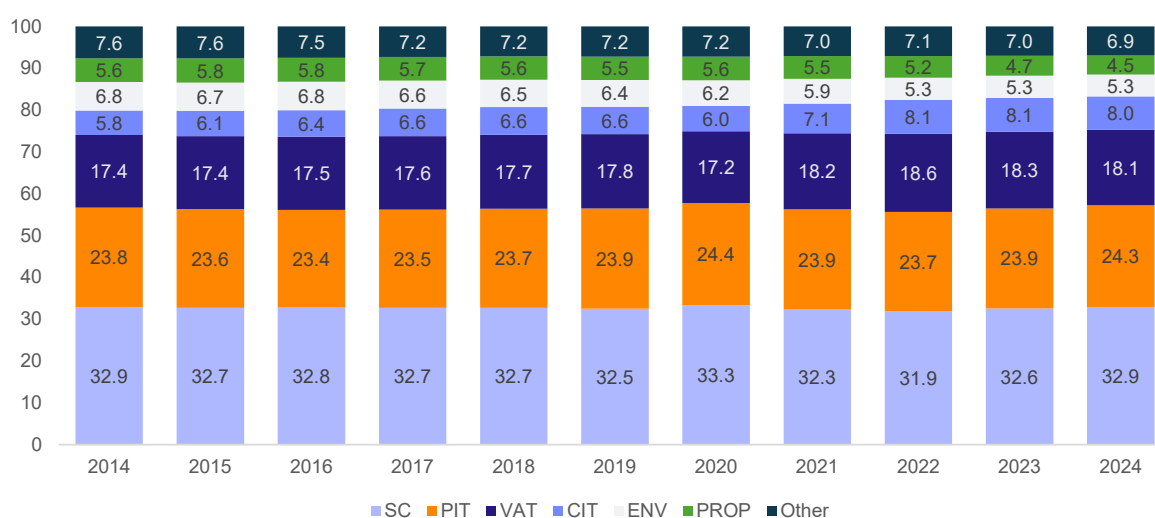
2.3. Tax revenues by tax type

This section provides an overview of the main tax types across the EU, followed by a detailed analysis of the most significant types. Beyond the classification by economic function (labour, consumption and capital) discussed across Section 2.2.1, tax revenues can be classified according to its tax type, which is defined in relation to certain common attributes such as the kind of transaction or activity upon which the tax is levied or the pursued policy goal. The classification by tax type complements and expands the analysis by economic function, allowing for a greater level of granularity and a clearer view of the fiscal instrument deployed, of which some have policy objectives that go beyond mere revenue mobilisation. This section includes a study of revenues from actual compulsory social contributions (SC), personal income taxes (PIT), corporate income taxes (CIT), value added taxes (VAT), environmental taxes (here categorised in energy, transport taxes and pollution and resources taxes) and property taxes (here categorised in recurrent taxes on immovable property, inheritance and gift taxes, and other property taxes) ⁽⁵³⁾.

2.3.1 Overview

In 2024, the share of PIT and SC increased further, combining for 57.2% of total tax revenue. SC and PIT are the two largest revenue sources in European tax systems (Figure 35). Their combined weight on total tax revenue has historically fluctuated between 55% and 60%. In 2024, SC accounted for 32.9% of total tax revenue in the EU (0.3 pp more than in 2023), and PIT for 24.3% (0.4 pp more than in 2023). The increased combined weight of both tax types since 2022 (by 1.5 pp) is related to the momentum of labour tax revenues.

Figure 35: Evolution of EU-27 revenue share by tax type (% of total)



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Among the remaining tax types, the share of property taxes has decreased every year since 2020.

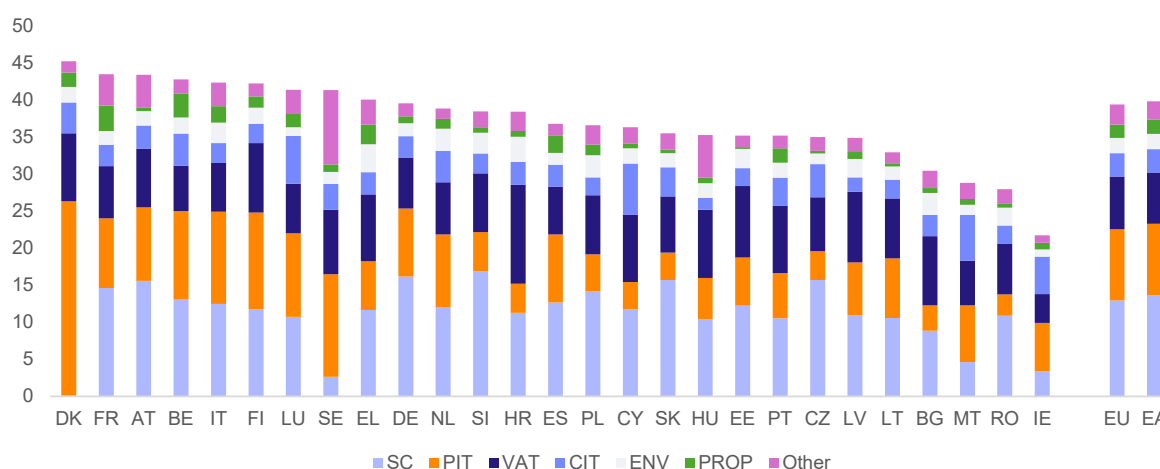
In 2024, the share of VAT revenues on total decreased slightly from 18.3% in 2023 to 18.1%, and so the share of CIT revenues (from 8.1% to 8.0%) (Figure 35). In any case, both tax types are above their historical trend, as both recorded in 2024 their fourth highest share since the beginning of the data series in 1995. The share of revenues from environmental taxes remained stable at 5.3% in 2024, unchanged since 2022. By contrast, the share of revenues from property taxes declined for fourth consecutive year, accounting for 4.5% of total (compared to 5.6% in 2020). The category of other taxes includes tobacco and alcohol excises, as well as other

⁵³ Property taxes encompass a large variety of taxes. [European Commission \(2026c\)](#) groups property taxes in three main categories. First, recurrent taxes on immovable property, which can concern residential (usually paid by households) or non-residential (usually paid by the businesses) properties. Second, inheritance and gift taxes, also referred as taxes on capital transfers in other classifications. And finally, under the category of other property taxes we can find, among others, taxes on net wealth, on financial or real estate transactions, and stamp duties.

taxes on production. They accounted for 6.9% of total tax revenue in 2024, a marginal decrease vis-à-vis 2023 (7.0%) ⁽⁵⁴⁾.

The breakdown by tax type is heterogenous across Member States, though PIT and SC represent more than a half of tax revenue in 17 Member States. Figure 36 shows the breakdown of revenues from the different tax types across the EU countries in 2024. Once again, we observe a large variation among Member States resulting from differences in economic structure and the design of their tax systems. PIT and SC together accounted for more than a half of total tax revenues in 17 Member States, amounting to more than 20% of GDP in 11 of them. Size of VAT revenues varied from 3.9% of GDP in Ireland to 13.3% in Croatia. Malta was the Member State with the largest CIT revenues (6.2% of GDP) and Hungary with the smallest (1.6% of GDP). Environmental taxes reached 3.8% of GDP in Greece but only 1.0% in Ireland. France was the Member State with the largest collection of property taxes (3.4% of GDP) and Estonia with the smallest (0.3%).

Figure 36: Revenues by type of tax in % of GDP, 2024



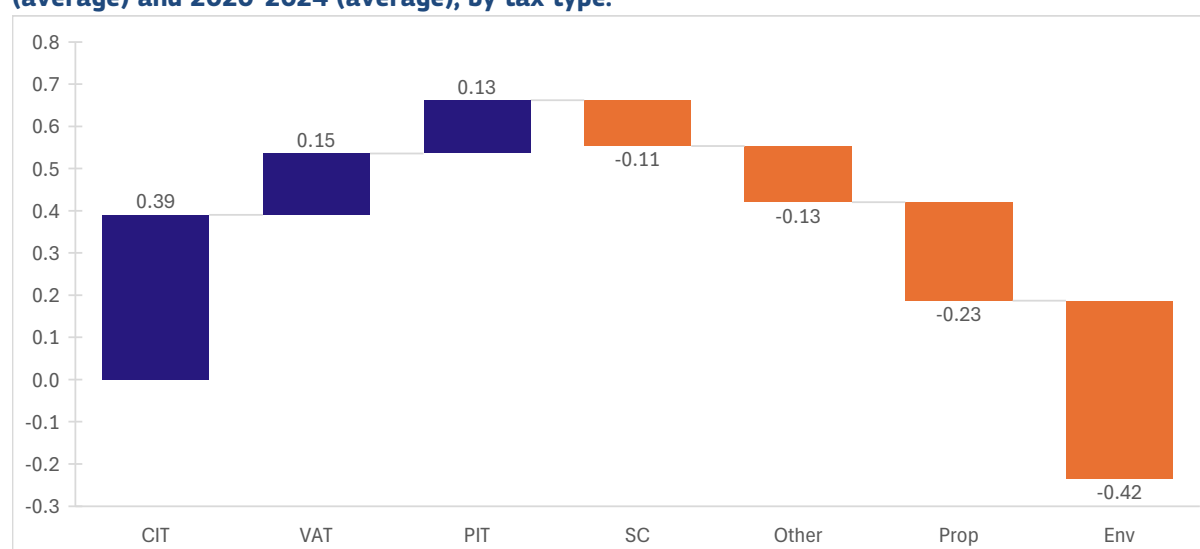
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag]. Countries are ranked by total tax revenues (% of GDP, 2024).

Environmental and property taxes are dragging down the tax-to-GDP ratio in the 2020's decade.

The underlying trends in the evolution of tax types across the EU become apparent when comparing revenue averages of the two last five-year subperiods: 2020-2024 and 2015-2019. Figure 37 shows the decomposition of the -0.23 pp of GDP decrease in the EU aggregate. CIT revenues have increased by 0.39 pp of GDP when comparing between both subperiods, while VAT revenues have added 0.15 pp. The slight increase in PIT revenue (0.13 pp of GDP) is to a large extent offset by the slight decline in SC revenues (-0.11 pp of GDP). Revenues from other tax types (including tobacco and alcohol excises, as well as other taxes on production) have decreased by 0.13 pp of GDP. Finally, revenues from property taxes have shrunk by 0.23 of GDP, and those from environmental taxes by 0.42 pp, thus combining for a drag of 0.65 pp of GDP. In conclusion, higher revenues from CIT have not been enough to balance out the large decrease in revenues from environmental and property taxes. In the following subsections we analyse in detail the underlying factors behind this evolution.

54 Within it, revenues from tobacco and alcohol excises represented 1.6% of total tax revenue, the same as in 2023 but 0.4 pp below the levels of a decade ago. On the Commission proposal for a revision of the Tobacco Taxation Directive, see Section 3.3.

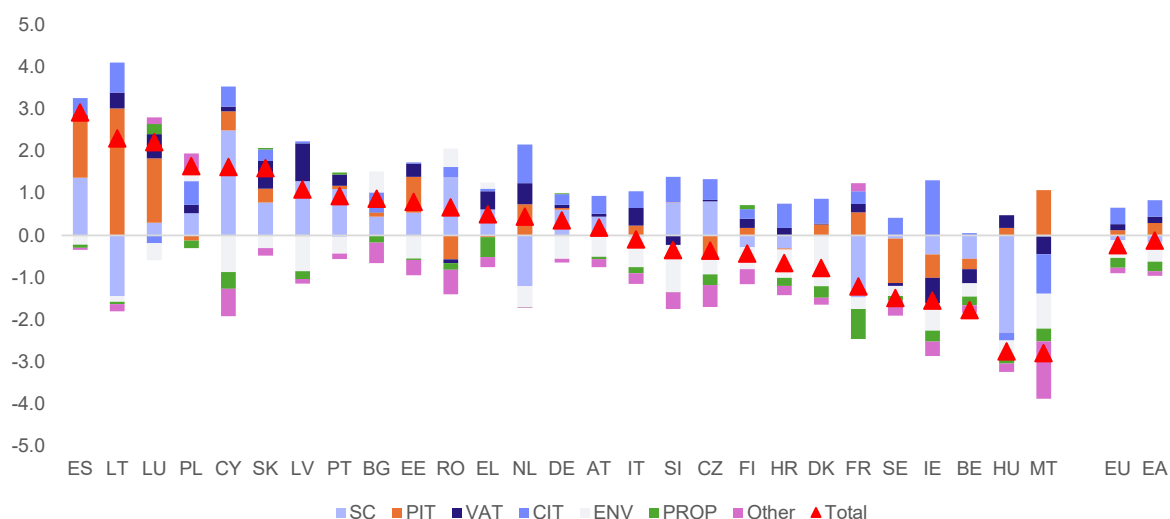
Figure 37: Breakdown of the variation of the EU-27 tax burden (pp of GDP) between 2015-2019 (average) and 2020-2024 (average), by tax type.



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Tailwinds supporting CIT and VAT revenues in most Member States contrast with headwinds affecting environmental and property taxes. Figure 38 displays the breakdown by tax type, as Figure 21 does by economic function. When comparing revenue averages of the two last five-year subperiods (2020-2024 and 2015-2019), CIT revenues in terms of GDP have increased in 23 Member States, while revenues from environmental taxes have decreased in 23 Member States. While property taxes have declined in 22 Member States, VAT revenues have increased in 21 Member States. In line with the analysis in Figure 21, the EU countries where the overall tax-to-GDP ratio has increased the most, predominantly record higher revenues from PIT and/or SC (e.g.: Spain, Lithuania, Luxembourg, Cyprus, Slovakia, Latvia, Portugal, Estonia and Romania).

Figure 38: Changes in tax revenues by tax type, 2020-2024 (average) vs 2015-2019 (average), percentage points of GDP, EU countries

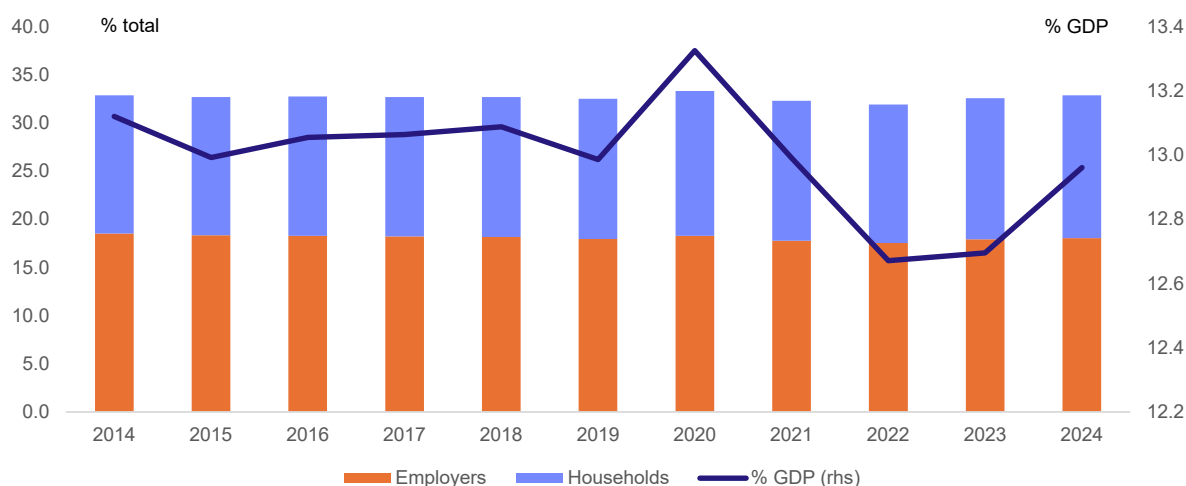


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag]. Countries are ranked by change in total tax revenue (pp of GDP).

2.3.2 Actual compulsory social contributions (SC)

Revenues from actual compulsory social contributions increased by 0.3 pp to 13.0% of GDP in 2024, returning to the pre-pandemic level (Figure 39). The historic high in 2020 (13.3% of GDP) reflected the retention schemes implemented during the COVID-19 pandemic. Following it, SC revenues recoiled to 12.7% in 2022, stabilised in 2023, and returned in 2024 to the usual pre-pandemic values. As a percentage of total tax revenue, SC revenues accounted for 32.9% in 2024, up from 32.6% in 2023 and the same as in 2014. The split between payments from employers and from households (including self-employed) has remained broadly stable in the relation 55-45 over the last decade.

Figure 39: Revenues from social contributions: total (% of GDP) and breakdown by source (% of total tax revenue), EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

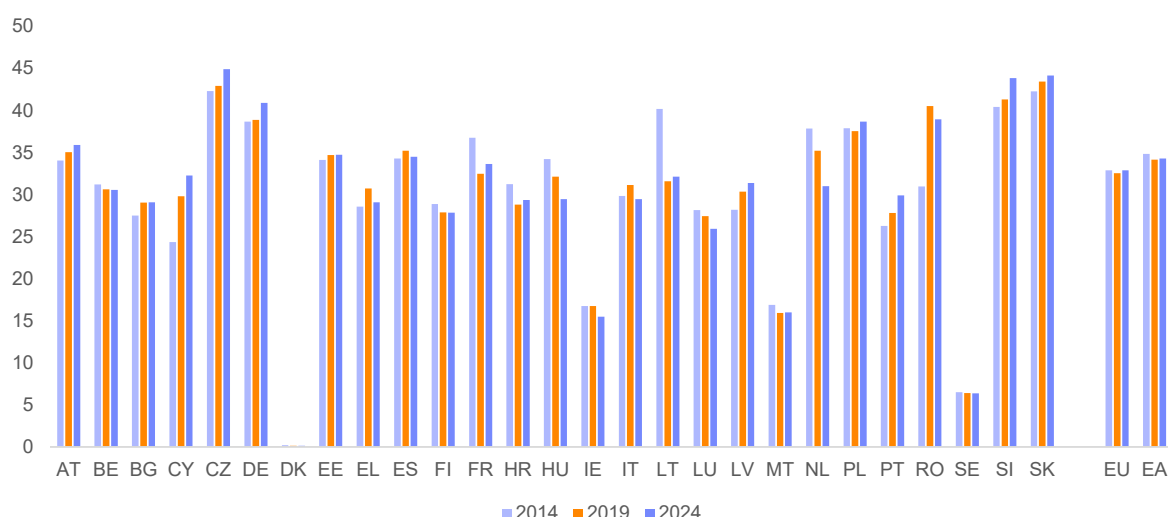
Since 2014, social contributions as a share of total tax revenue have increased the most in Romania and Cyprus, while Lithuania, the Netherlands and Hungary had the sharpest decrease. As shown in Figure 33 in Section 2.2.2, the weight of SC revenues across the Member States is wide ranging. Figure 40 below shows how the share has changed over the last decade. Increases are observed in 14 Member States since 2014, most notably in Romania (by 8.0 pp), Cyprus (7.9 pp) and Portugal (3.6 pp) ⁽⁵⁵⁾. The largest decreases have been recorded in Lithuania (by -8.1 pp), The Netherlands (-6.8 pp) and Hungary (-4.8 pp). In Lithuania, the 2019 tax wedge recalibration introduced a sharp cut in employers' SC, offset by increased employees' contributions and an increase in the PIT rate from 15% to 20% ⁽⁵⁶⁾. In the Netherlands, the proliferation of (solo) self-employment and other non-standard forms of work has eroded the contribution base and favoured tax arbitrage ⁽⁵⁷⁾. In Hungary, employer SC rates have decreased from 27% in early 2010s to 13% now, with a steep decrease of 7 pp only in 2017-2018. The effect of these sustained cuts has been strong enough to largely outpace the broadening of the labour tax base prompted by strong job creation and fast-growing salaries.

⁵⁵ In **Romania**, the shift in social contributions from employers to employees, implemented in 2018, set up strong incentives for formalisation of wages and reduction of (informal) envelope payments; as a result, the tax base became more transparent and enforceable, and collection improved significantly. Regarding **Portugal**, increases in SC revenues have been mostly driven by labour market developments that have broadened the tax base. The case of **Cyprus** is discussed in Subsection 2.2.1.

⁵⁶ As a result, despite the decline in SC revenues, revenues from labour taxes increased significantly between 2014 and 2024, both in terms of GDP (by 3.4 pp) and as a share of total tax revenue (by 2.4 pp), also influenced by labour market developments.

⁵⁷ According to European Commission (2026d), past policies have created an unequal playing field between employees and (solo) self-employed individuals and have also enabled bogus self-employment. For a definition of bogus self-employment, see the Glossary.

Figure 40: Social contributions as share of total tax revenues in EU countries, 2014-2024



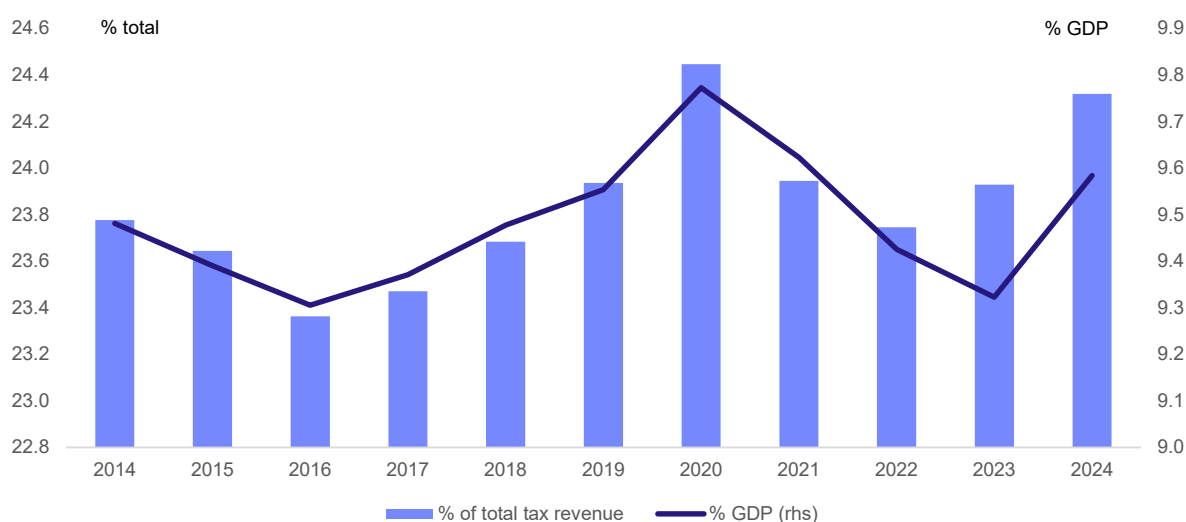
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

2.3.3 Personal Income Tax (PIT)

PIT revenues surged in 2024, on the back of strong labour markets and flourishing capital income.

As depicted in Figure 41, revenues from personal income taxes reached 9.6% of GDP in 2024, a 0.3 pp increase over the previous year and not far from the peak of 2020 (9.8%). Likewise, PIT revenues accounted for 24.3% of total tax revenue, the second highest value in the historic timeseries. Other than labour taxation dynamics (discussed in Subsection 2.2.1.1), the momentum of PIT revenues is clearly upheld by the broadening of capital bases, as rising prices in financial (including non-conventional assets) and real estate (both rent and sale) markets are feeding into higher materialised capital income for the European households (see Figure 30 above to complement). Revenues from taxes on households' capital income (excluding those from self-employed) increased from 0.96% of GDP in 2023 to 1.08% in 2024, roughly 0.2 pp above the historic trend.

Figure 41: PIT revenues as % of GDP and % of total revenues, EU-27, 2014-2024

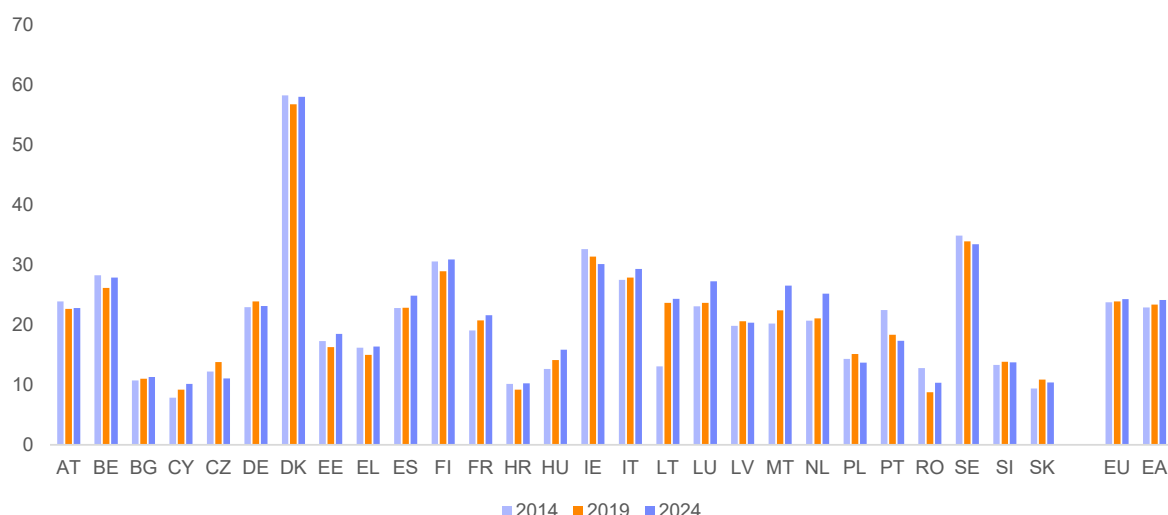


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Lithuania has registered the largest increase in PIT share since 2014, and Portugal the largest decrease. Between 2014 and 2024, the share of PIT revenues on total tax revenue increased in 18 Member States (Figure 42), with Lithuania at the top (11.2 pp) due to the 2019 tax wedge recalibration explained in the previous subsection. Malta (6.4 pp) also recorded a large increase in the share due to a base expansion spurred

by exceptional employment growth. Increasing PIT in The Netherlands (4.5 pp) was counterbalanced by a strongly declining share in social contributions. Regarding the nine countries where the PIT share decreased, the most significant declines took place in Portugal (by -5.2 pp) followed by Ireland and Romania (-2.5 pp both). These country examples suggest that both revenue sources are often seen as complementary, as increases (decreases) in SC can be offset against decreases (increases) in PIT in order to preserve revenue stability.

Figure 42: PIT revenues as share of total tax revenues in EU countries, 2014-2024



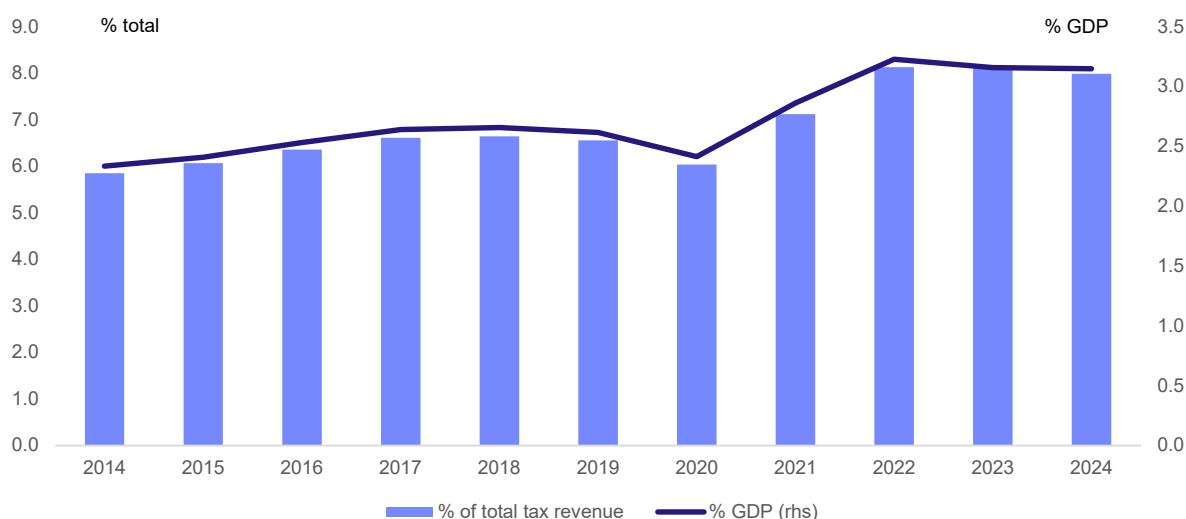
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

2.3.4 Corporate Income Tax (CIT)

CIT revenues remained above 3% of GDP and 8% of total tax revenue in 2024. After the peak recorded in 2022, CIT revenues have consolidated in levels well above the historic trend (Figure 43). At 3.1% of GDP in 2024, they remained above 3% for the third consecutive year, the longest-ever period above such level. Prior to that, CIT revenues had surpassed that threshold only in 2006-2007. Likewise, CIT revenues accounted for 8.0% of total tax revenue in 2024 (only 0.1 pp below the levels in 2022 and 2023), roughly 1.5 pp above the average values in the five-year period preceding the COVID-19 pandemic. The post-pandemic business cycle is characterised by a strong rebound in corporate profitability, with gross operating surplus exceeding its pre-COVID trajectory amid unusual price pressures. Broader tax bases have largely compensated for gradual declines in statutory CIT rates (see ART 2024 and 2025 for further analysis). Recent evidence suggests that cuts to statutory tax rates represent a costly way of spurring investment ⁽⁵⁸⁾. Other factors, such as tax arbitrage (shifting capital income from PIT to CIT) and progress in fighting against base erosion and profit shifting (BEPS), seem to be pushing CIT revenues up as well.

⁵⁸ [European Commission \(2026b\)](#) discusses how reforms in Member States related to taxation, in particular business taxation, can contribute to spurring investment, while respecting the need to maintain public revenue in a context of high debt and significant fiscal needs. It finds that targeted incentives for investment, including investment tax credits and accelerated depreciation rules, may be a more cost-effective way to spur investment than other broad-based measures such as cuts in statutory tax rates, although their stimulative effects are not sufficient to counterbalance the static fiscal costs. Business taxation based on tax bases other than profits (e.g. on real estate or turnover) has also been found to be more distortive and harmful to investment than profit-based taxes. Specific aspects of the tax code may open the way for aggressive tax planning (ATP) whereby taxpayers reduce their corporate tax liability through arrangements that may be legal but are in contradiction with the intent of the law.

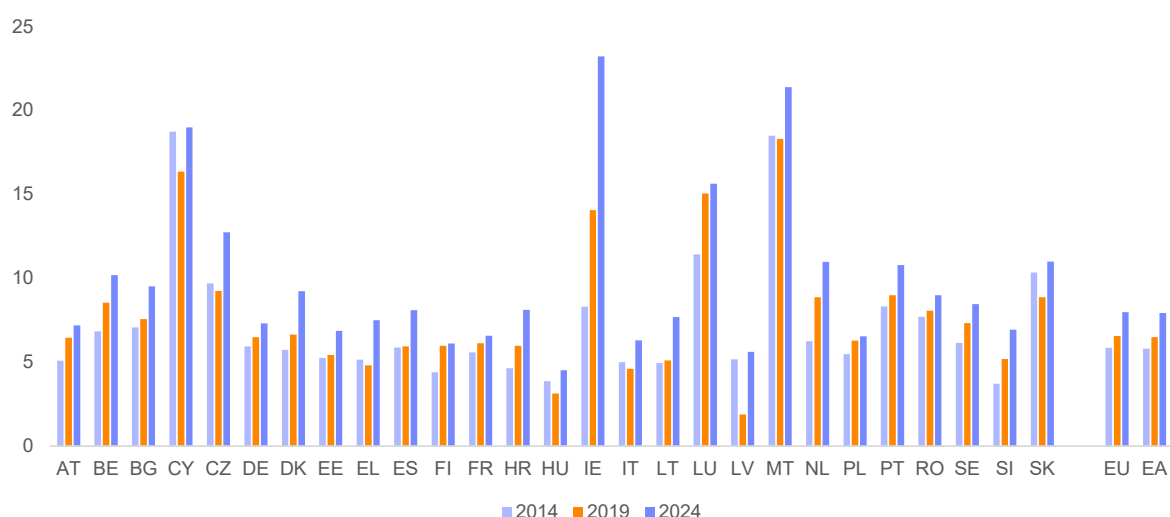
Figure 43: CIT revenues as % of GDP and % of total revenues, EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

The share of CIT revenue has increased in all Member States since 2014, with Ireland at the very top. The immediate consequence of the rising trend is that CIT increased its weight in the tax mix of all the Member States between 2014 and 2024 (Figure 44). Reliance on CIT revenues is particularly strong in Ireland: 23.2% of total tax revenue, a massive 14.9 pp increase since 2014 (see Box 3 for further detail). CIT revenues as a share of total have also increased significantly in The Netherlands (by 4.7 pp to 11.0%) and Luxembourg (by 4.2 pp to 15.6%). Four other Member States obtained in 2024 more than 10% of their tax revenue from CIT: Malta (21.4%), Cyprus (19.0%), Czechia (12.7%) and Slovakia (11.0%). Among the listed countries, Luxembourg, Malta, Cyprus and, to a lesser extent, The Netherlands and Ireland, have extremely high stock of foreign direct investment (FDI)-to-GDP ratios (⁵⁹).

Figure 44: CIT revenues as share of total tax revenues in EU countries, 2014-2024



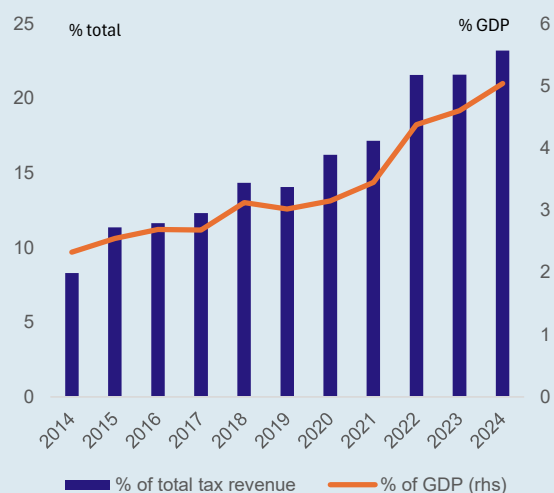
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

⁵⁹ In 2024, the inward stock of FDI as % of GDP was 3 128% in Luxembourg, 2 074% in Malta, 1 075% in Cyprus, 314% in The Netherlands and 194% in Ireland. Outward stock of FDI was 4 395% of GDP in Luxembourg, 1 958% in Malta, 954% in Cyprus, 387% in The Netherlands and 212% in Ireland.

Box 3: Vulnerabilities stemming from growing reliance on corporate income taxes and its concentration

Excessive reliance on CIT revenues and their concentration on a few taxpayers may make the tax system of small EU open economies vulnerable. The Member States with the strongest reliance on CIT revenue are small open economies, namely Ireland (23.2%), Malta (21.4%), Cyprus (19.0%) and Luxembourg (15.6%). Moreover, CIT revenues in these countries tend to be concentrated on a few taxpayers or single sectors. The latest feature also applies to another small open economy such as Denmark, where the share of CIT on total tax revenue is following a growing trend in the current decade (from 6.1% in 2020 to 9.2% in 2024) boosted by its pharmaceutical sector. In this box the case of Ireland is analysed in detail, based on the rich data publicly available.

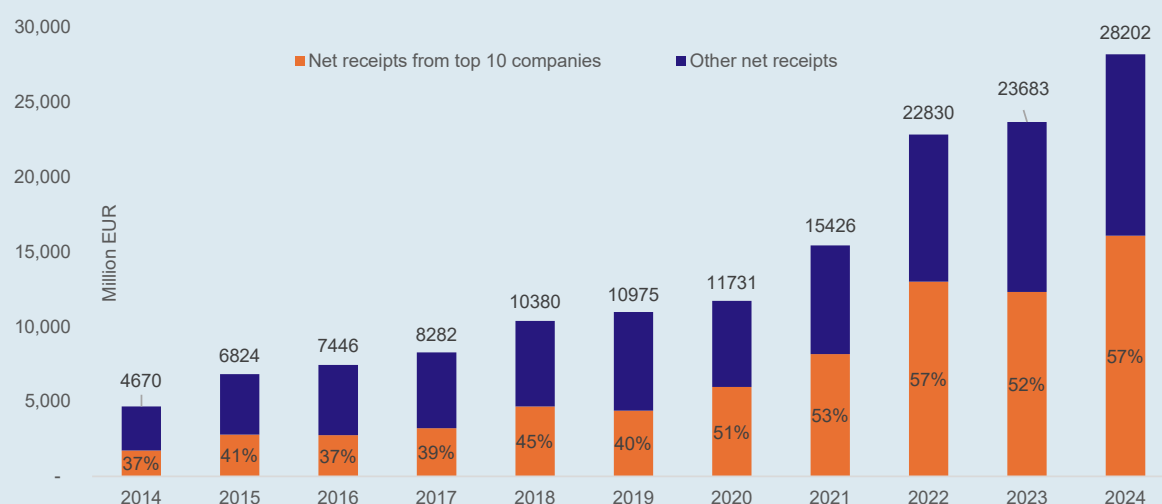
Figure 45: CIT revenue as % of GDP and % of total revenues, Ireland, 2014-2024



Source: European Commission, DG Taxation and Customs Union.

CIT revenues in Ireland reached 23.2% of total and 5.0% of GDP in 2024. The evolution of CIT revenues in Ireland shows a growing reliance on this tax type, as its weight in the tax mix has moved from 8.3% in 2014 to 14.1% in 2019 and 23.2% in 2024 (Figure 45). In nominal terms, CIT revenues roughly doubled between 2016 and 2021 and again between 2021 and 2024, with a new all-time high of EUR 28 billion. This rapid growth reflects the growing importance of foreign owned corporations, whose share increased steadily over time (Figure 46). The 2024 revenue does not include the EUR 14 billion one-off revenue that Ireland is collecting from Apple, following the 10 September 2024 European Court of Justice ruling as repayment of unlawfully granted State aid.

Figure 46: Ireland: CIT revenues from top 10 companies (2014-2024)



Source: European Commission, DG Taxation and Customs Union, based on [Revenue](#).

Since 2020, the top ten companies by reference to payments contribute more than half of Ireland's total CIT revenue. In 2024, that share stood at 57%. Ireland's heavy reliance on tax revenue from a small number of foreign MNEs - particularly in the tech and pharmaceutical sectors - poses

Box 3 (continuation)

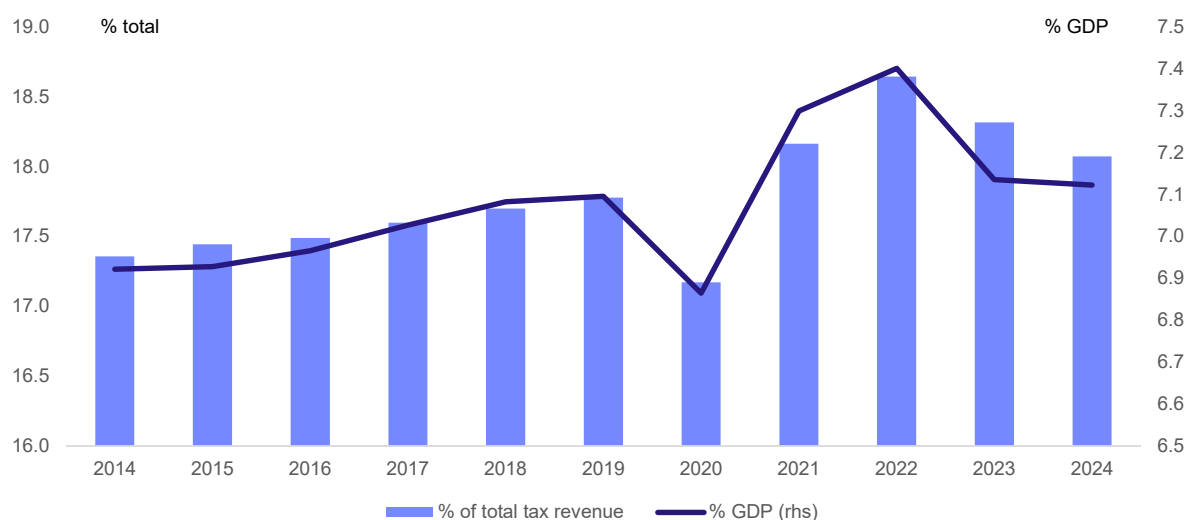
significant economic vulnerability. It exposes the economy to volatile political and economic global trends, corporate restructuring, or sector-specific downturns, undermining fiscal stability. A loss or relocation of even one major MNE could create substantial budgetary shortfalls. The Irish government consequently distinguishes between regular and ‘windfall’ corporate tax receipts ⁽¹⁾. Additionally, the strong concentration distorts domestic economic priorities, potentially crowding out investment by Ireland’s domestic firms. Diversifying Ireland’s tax base and reducing vulnerability to external shocks has therefore been a policy recommendation in the context of the European Semester.

(1) <https://www.oireachtas.ie/en/debates/question/2025-10-14/342/>

2.3.5 Value added tax (VAT)

Despite the slight decrease in 2024, VAT revenues remain above historical trend levels. In 2024, revenues from VAT accounted for 18.1% of total tax revenue, 0.2 pp below 2023. In terms of GDP, they remained stable at 7.1% (Figure 47). With nuances, VAT is following a similar trajectory as CIT, as the peak in 2022 has been followed by small corrections in 2023-2024 that keep revenues (both in share of total and in share of GDP) above their historical trend. Likewise, inflation played an important role in the peak of 2022 for both tax types, and their effects have not yet fully dissipated. Moreover, the gradual phase-out of temporary reductions in VAT rates for certain goods and services, introduced by national governments to cushion the inflationary impact in 2022, contributed to maintaining VAT revenues high.

Figure 47: VAT revenues as % of GDP and % of total revenues, EU-27, 2014-2024

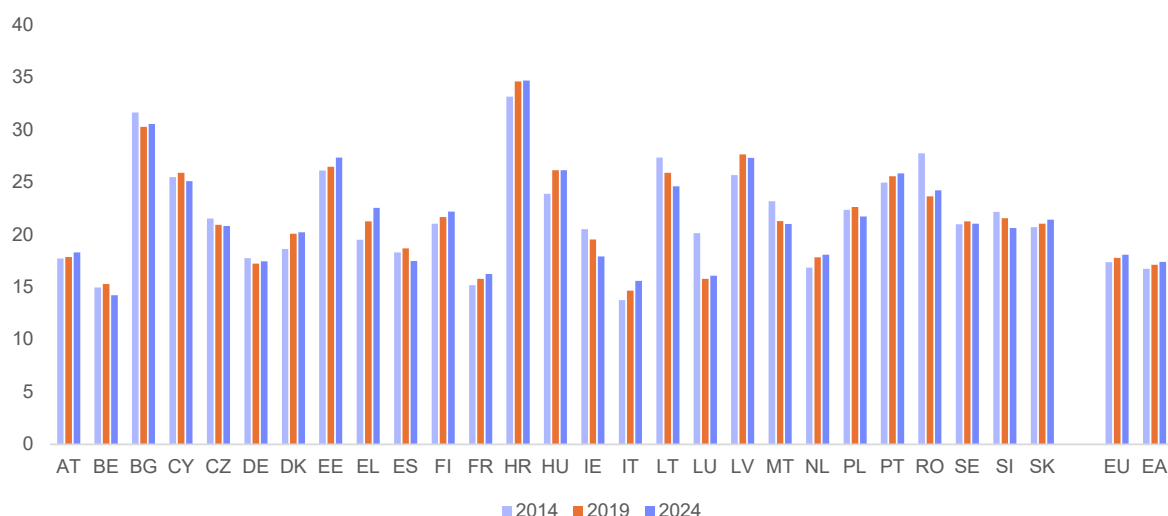


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Since 2014, VAT revenues have gained weight in the tax mix of 14 Member States, with Greece registering the largest increase. Croatia is the Member State with the strongest reliance on VAT revenues (34.7% of total in 2024), followed by Bulgaria (30.6%) and Latvia (27.3%). The lowest is recorded in Belgium (14.2% of total), Italy (15.6%) and France (16.3%). Looking into the evolution over the last decade, the largest increase in the share has taken place in Greece (by 3.1 pp since 2014), followed by Hungary (2.3 pp) and Italy (1.8 pp) (Figure 48). By contrast, the largest decrease happened in Luxembourg (by -4.1 pp), Romania (-3.5 pp) and Lithuania (-2.7 pp). Several factors may influence the evolution of VAT revenues across Member States. Certain macroeconomic developments, notably private consumption and inflation, and VAT policy decisions

tend to strongly and quickly affect revenues. In addition, taxpayer compliance ⁽⁶⁰⁾ can have significant impact over time. The evolution is closely monitored and analysed by the European Commission using different VAT gap indicators in the annual *VAT Gap in Europe* publication.

Figure 48: VAT revenues as share of total tax revenues in EU countries, 2014-2024.



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

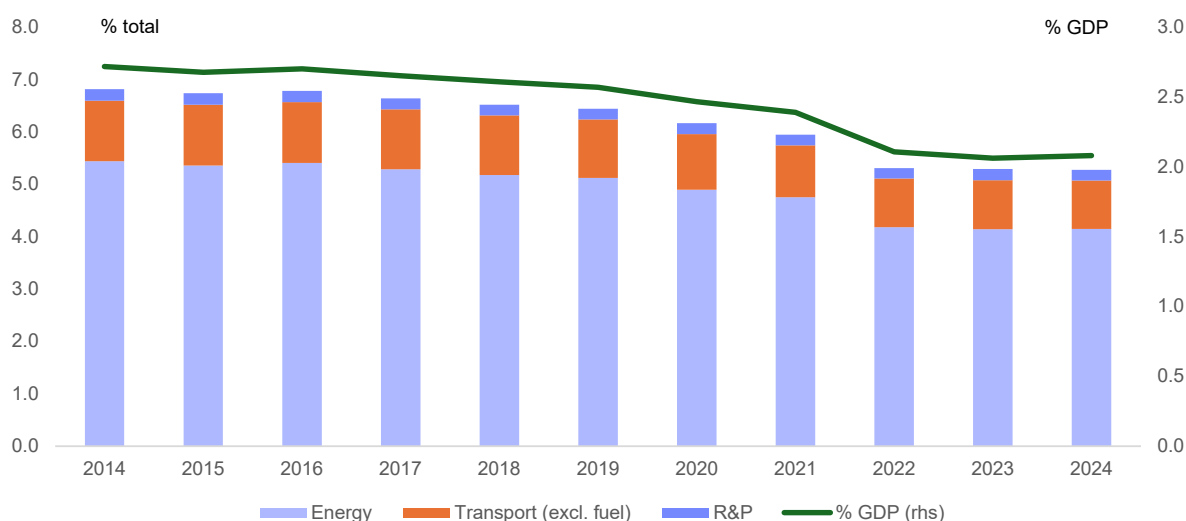
2.3.6 Environmental taxes

Revenues from environmental taxes have stabilised since 2022 after years of continuous decline.

In 2024, Member States collected 5.3% of their tax revenue from environmental taxes, amounting to 2.1% of GDP (Figure 49). Both ratios have remained stable since 2022, well below those recorded a decade ago (6.8% of total tax revenue and 2.7% of GDP in 2014). Energy taxes are the main type of environmental taxes and accounted for 4.1% of total tax revenue in 2024 (vs 5.4% in 2014). Transport taxes (excluding fuel taxes, that are included within energy taxes) represented 0.9% of total tax revenue in 2024, compared to 1.2% in 2014. Finally, the share of resources and pollution taxes (R&P) have remained stable at 0.2% since 2014.

60 See [European Commission \(2025b\)](#). The VAT compliance gap is the estimated difference between potential VAT revenue under full compliance and the actual amount collected by tax authorities. Cross-country variations in the estimated VAT compliance gap can point to differences among Member States in terms of tax compliance, fraud, avoidance, bankruptcies, insolvencies, and the performance of tax administrations. The VAT policy gap represents an estimate of the VAT revenues forgone due to the application of reduced VAT rates and exemptions, compared to a single, flat statutory VAT rate. It therefore reflects the discretion of Member States in applying the VAT rules, sometimes to favour specific economic sectors or specific groups of consumers. High VAT gaps (compliance or policy) are normally translated into low implicit tax rate on consumption (see Section 2.2.1.2).

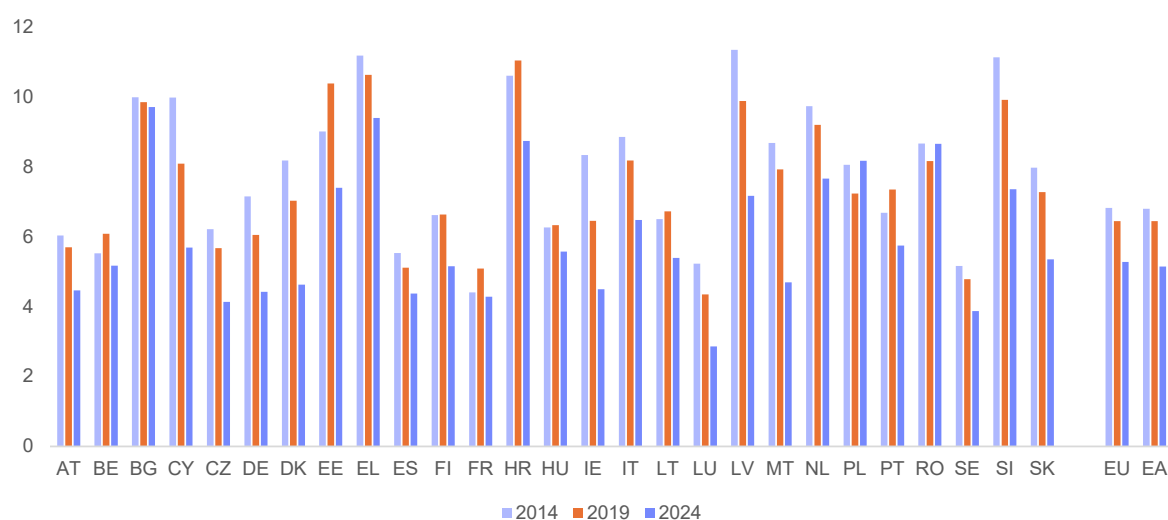
Figure 49: Revenues from environmental taxes: total (% of GDP) and breakdown by source (% of total tax revenue), EU-27, 2014-2024



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

Over the last decade, environmental taxes have lost weight in the tax mix of all Member States but Poland. Bulgaria (9.7% of total tax revenue), Greece (9.4%) and Poland (8.7%) were in 2024 the Member States with the strongest reliance in environmental taxes. Luxembourg (2.9%), Sweden (3.9%) and Czechia (4.1%) had the lowest share from this revenue source. Since 2014, the share of environmental taxes on total tax revenue had declined in all Member States but Poland, with the largest decreases in Cyprus (by -4.3 pp), Latvia (-4.2 pp) and Malta (-4.0 pp). As shown in Figure 50, the decline accelerated in most of the Member States as from 2019. As highlighted in European Commission (2025c), the drivers of the decline in revenues from environmental taxes are numerous and heterogeneous across countries. They include reductions in the tax base, the absence of indexation for decades or the political unpopularity of environment taxes. Another factor playing a crucial role in recent years has been the adoption of temporary measures since early-2022 to curb households' energy bills following Russia's war of aggression against Ukraine. Several of these measures were phased out in 2023-2024, thus contributing to stabilise revenues from environmental taxes.

Figure 50: Revenues from environmental taxes as share of total tax revenues in EU countries, 2014-2024.

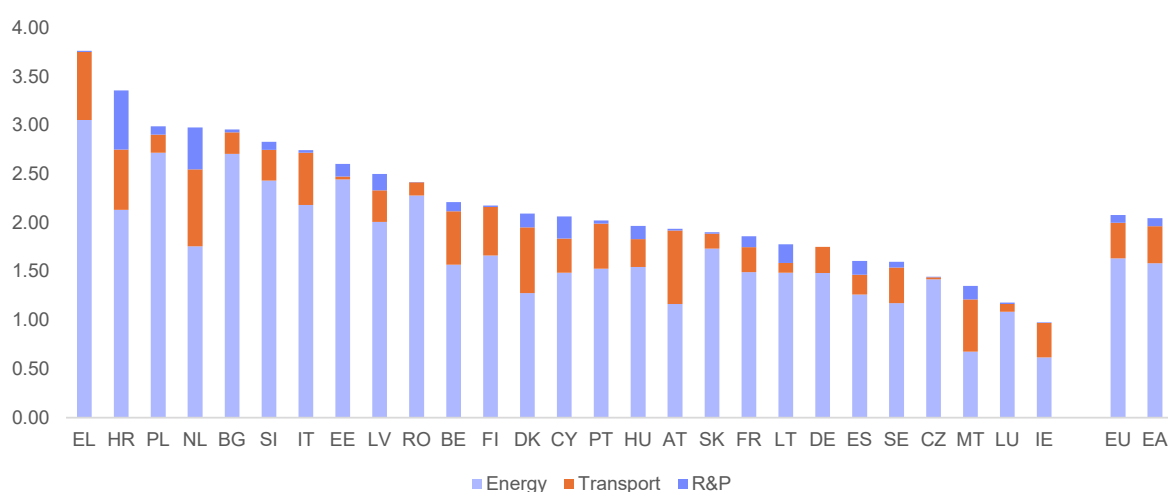


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

Energy taxes represent the main environmental tax in all Member States, whereas the importance of transport taxes differs across countries. In 2024, Greece (3.8% of GDP), Croatia (3.4%), the Netherlands, Bulgaria and Slovenia (3.0% all of them) were the Member States with the highest revenues from environmental taxes. Ireland (1.0% of GDP), Luxembourg (1.2%) and Malta (1.4%) had the lowest (Figure 51). In 2024, energy taxes accounted for the largest share of revenues from environmental taxes, ranging from as high as 98% in Czechia to 50% in Malta. Transport taxes (excluding fuel taxes) show much greater variation, representing between 40% of environmental tax revenues in Malta and around 1% in Czechia and Estonia.

The use of non-energy R&P taxes remains limited, as they account for less than 4% of all environmental tax revenues EU-wide. Their scale, coverage and associated rates vary substantially among Member States. In 2024, revenues from R&P taxes accounted for more than 10% of environmental tax revenues in five Member States: Croatia (18%), The Netherlands (14%), Cyprus (11%), Lithuania (11%) and Malta (10%). In ten countries, they accounted for less than 1%: Austria, Bulgaria, Czechia, Germany, Greece, Finland, Ireland, Italy, Romania and Slovakia. Box 4 explores existing tax tools to promote the polluter pays principle and circularity on the basis that environmental taxation can help internalise environmental costs, influence behaviour and, when well designed, contribute to competitiveness, fiscal resilience and social fairness.

Figure 51: Breakdown of revenues from environmental taxes in EU countries, % of GDP, 2024.



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data. Countries ranked by total revenues from environmental taxes as share of GDP, 2024.

Box 4: Tax tools to promote the polluter pays principle and circularity

Pollution taxes

Pollution taxes are applied to activities that generate harmful emissions to air, soil, and water, as well as waste and noise pollution. Their main aim is to internalise the negative externalities of environmental harm, imposing prices that nudge polluting businesses and individuals into changing their behaviour towards more sustainable practices. Pollution taxes may include taxes on agricultural activities, NO_x, SO_x, and other pollutant emissions, plastic bags and packaging, polluting products, noise emissions, waste disposal, or wastewater.

151 pollution taxes and 93 resource taxes are currently in place across the EU, with differing designs across countries and sectors (European Commission, 2026e). Pollution tax revenues come to a large extent from wastewater, waste disposal and a vast range of “other pollution” taxes, which account for more than three-quarters of revenues (see Figure 52). A smaller portion of overall revenues comes from taxes on NO_x, SO_x, and other air pollutants, as well as those imposed on polluting products.

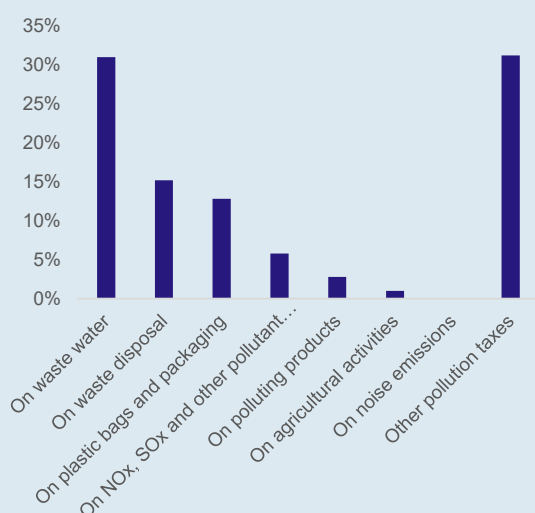
Box 4 (continuation)

In the EU, 48 taxes on waste disposal are in place across 19 countries, representing 15.2% of all pollution tax revenues in 2023. These include landfill taxes, taxes on incineration of waste, pay-as-you-throw charges, as well as taxes on plastic bags and plastic packaging:

- Landfill taxes are of particular importance for ensuring a stable financing source for the waste management sector and serve also to discourage environmentally harmful disposal practices.
- Incineration taxes aim to discourage the combustion of recoverable materials and to shift waste treatment up the waste hierarchy.
- Pay-as-you-throw charges consist of directly charging waste generators based on the quantity or frequency of their waste disposal, thereby offering a behavioural incentive to reduce waste.
- Charges on plastic bags have become more widespread in the last decade and aim to limit the number of single-use plastics by internalising the environmental costs of plastic production, consumption, and disposal.

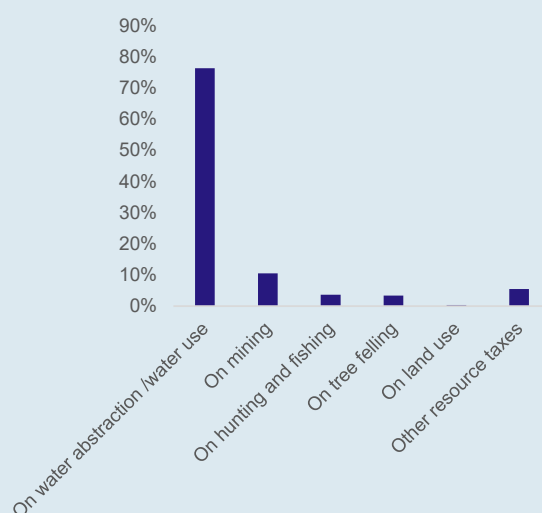
Other pollution taxes. There are 20 taxes on NO_x, SO_x and other pollutant emissions in place, across 14 countries, representing 5.8% of all pollution tax revenues in 2023. Taxes on agricultural activities are in place in five Member States and contributed to 1% of all pollution tax revenues in 2023.

Figure 52: Pollution taxes in the EU (% of pollution tax revenues, 2023)



Source: European Commission, DG Taxation and Customs Union, based on <https://data.europa.eu/doi/10.2779/5298889>

Figure 53: Resource taxes in the EU (% of resource tax revenues, 2023)



Source: European Commission, DG Taxation and Customs Union, based on <https://data.europa.eu/doi/10.2779/5298889>

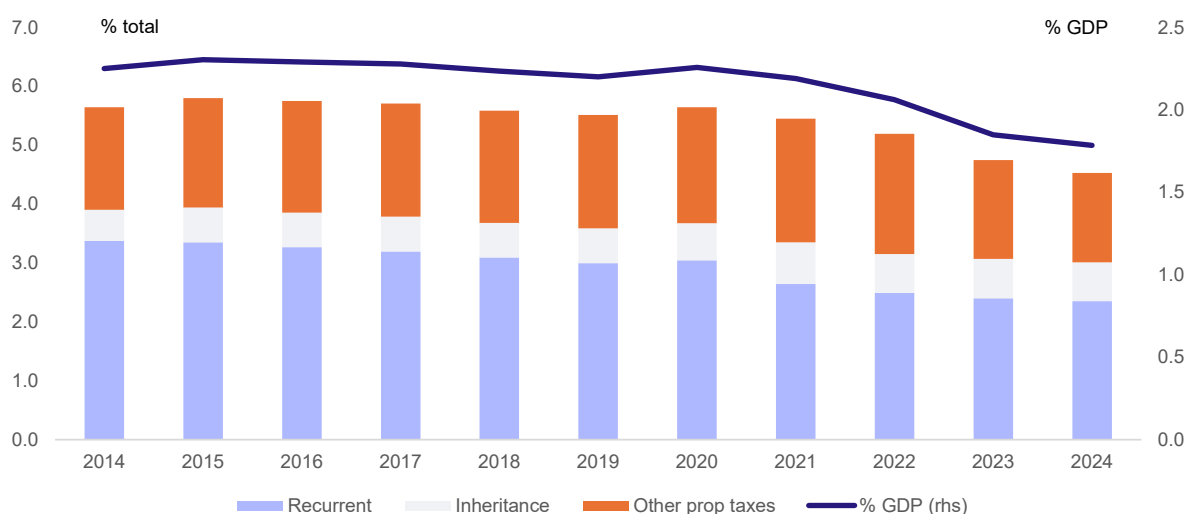
Resource taxes

Resource taxes are applied on natural assets, including land, water, minerals, and forestry resources, to promote their sustainable use by internalising the environmental costs associated with their extraction. Across the EU, 93 resource taxes were identified. Taxes on water abstraction or water use represented 76.4% of all resource tax revenues in 2023 (Figure 53), with 33 such taxes identified across 10 Member States. Taxes on forest felling are in place in five Member States, contributing to 3.4% of all resource tax revenues in 2023. Taxes on agricultural land use are in place in four Member States and contributed to 0.4% of resource tax revenues in 2023.

2.3.7 Property taxes

Revenues from property taxes decreased in 2024 for the fourth year in a row, both in terms of GDP and share on total tax revenue. After remaining broadly stable between 2014 and 2020, property tax revenues exhibit a downward trend (Figure 54). In 2024, they amounted to 1.8% of GDP in the EU, 0.1 pp less than in 2023 and 0.5 pp less than in 2020. The decline is also evident when measuring it as a share of total tax revenue, moving down from 5.6% in 2020 to 4.5% in 2024. Recurrent taxes on immovable property are the main type of property taxes, accounting for 2.4% of total tax revenue in 2024 (compared to 3.0% in 2020 and 3.4% in 2014). Inheritance and gift taxes have increased slightly since 2014, from 0.5% of total tax revenue to 0.7% in 2024. Finally, other property taxes ⁽⁶¹⁾ have increased from 1.7% of total tax revenue in 2014 to 2.0% in 2020, receding to 1.5% in 2024.

Figure 54: Revenues from property taxes: total (% of GDP) and breakdown by source (% of total tax revenue), EU-27, 2014-2024



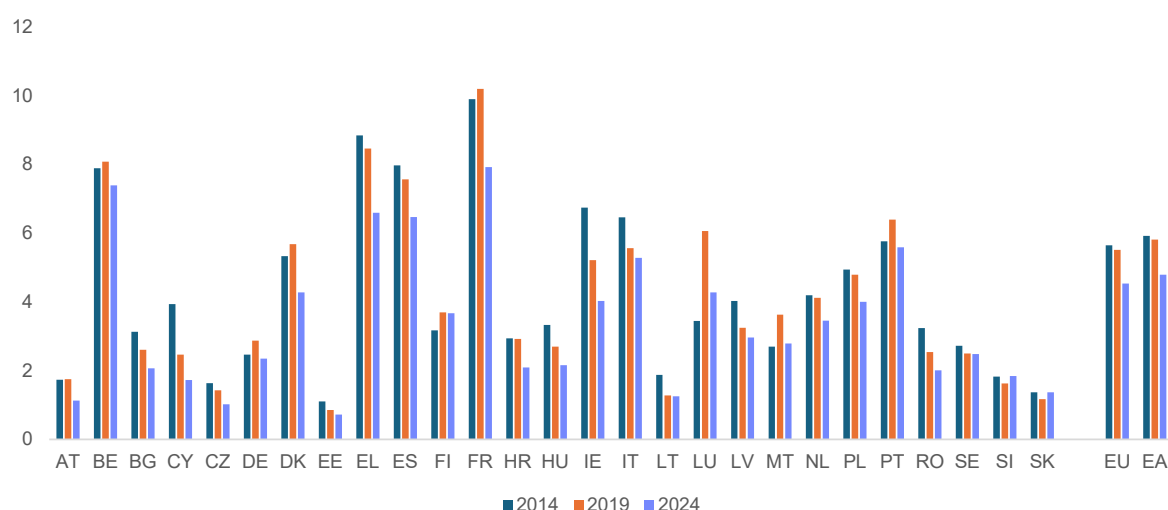
Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

The share of property taxes on total tax revenue has decreased in 22 Member States since 2014.

Compared with 2019 (Figure 55), the same is valid for 25 Member States which confirms the turning point at the beginning of the current decade. The relative weight of property taxes in the tax mix of the EU countries is very diverse. They represented in 2024 7.9% of total tax revenue in France, 7.4% in Belgium and 6.6% in Greece, but less than 2% in Austria, Cyprus, Czechia, Estonia, Lithuania, Slovenia and Slovakia. Compared to 2014, the largest decreases in this share were recorded in Ireland (by -2.7 pp), Greece and Cyprus (-2.2 pp in both). The largest increases took place in Luxembourg (by 0.8 pp), Finland (0.5 pp) and Malta (0.1 pp). Several factors weigh on the recent evolution of property taxes across the EU, although two stand out. First, outdated cadastral values in a context of fast-growing housing prices are eroding the tax base of recurrent taxes on immovable property. Second, the slowdown in property transactions and reduced borrowing capacity in a context of rising interest rates are dragging on revenues from transaction taxes.

61 Other property taxes is a residual category that include recurrent net wealth taxes, stamp taxes, taxes on financial and capital transactions, capital levies and certain current taxes on capital (European Commission, 2026c).

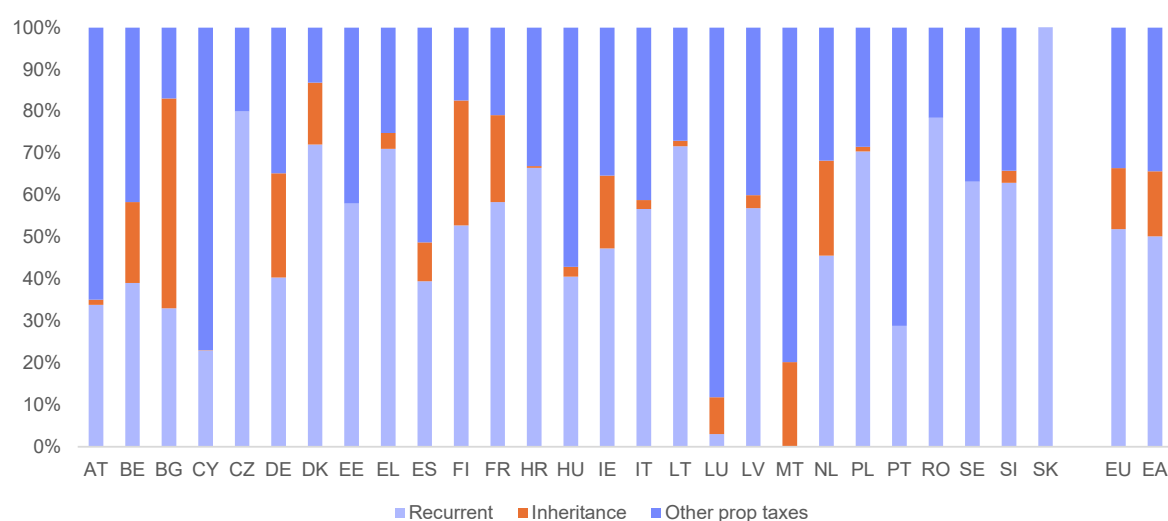
Figure 55: Revenues from property taxes as share of total tax revenues in EU countries, 2014–2024.



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Despite their advantages, recurrent immovable property taxes are losing ground in the tax mix, and their use remains very limited in certain Member States. Recurrent immovable property taxes are seen as one of the least distortionary forms of taxation (Arnold, J.M. et al., 2011), as they offer a stable and predictable revenue source, are difficult to avoid, usually have little impact on economic activity and on economic agents' behaviour. They can also capture economic rents that accrue to homeowners from house price growth, which results from the scarcity of land (European Commission, 2026f). Recurrent taxes on immovable properties are implemented in most EU countries and are still the most important property tax: EU-wide, they represent 52% of total revenue from property taxes, and more than a half in 15 Member States (Figure 56). Their importance is quite limited in some Member States, though. In five of them (Austria, Cyprus, Estonia, Luxembourg and Malta), they account for less than 0.5% of total tax revenue. Overall, revenue from immovable property taxes (both in terms of GDP and as a share of total tax revenue) has been decreasing steadily since 2014, due to insufficient support for updating the cadastral values that feed into the tax base.

Figure 56: Breakdown of revenues from property taxes in EU countries, 2024.



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

The use of other property taxes, including inheritance and gift taxes, is very heterogenous across the EU. Inheritance and gift taxes levy the gratuitous transfer of capital *inter vivos* or *inter mortis*. It is gaining

increasing attention in academia and in policy debates, for its potential to generate revenue and for redistributive aspects ⁽⁶²⁾. EU-wide, revenues from inheritance and gift taxes are gaining weight within property taxes and represented 15% of total revenues from property taxes in 2024 (Figure 56). However, revenues from this source are not insignificant (i.e., above 0.1% of total tax revenue) in only 13 Member States, with France (1.6%) and Finland (1.1%) at the top. The residual basket of other property taxes is the dominant subcategory in Austria, Cyprus, Hungary, Luxembourg, Malta and Portugal. Net-wealth taxes are included within this category, currently only levied in Spain.

A recent report prepared for the European Commission informs the debate on the use of different forms of wealth and property taxes. The study *Wealth Taxation, including Net Wealth, Capital and Exit Taxes* (European Commission 2026g and 2026h), was published in April 2026 ⁽⁶³⁾. It aims to provide a better understanding of these taxes, their interrelation and consequences. Its main insights from the report are summarised in Box 5 hereunder.

62 For instance, [Barrios, S. et al \(2026\)](#) find that the tax revenues obtained from reformed inheritance tax systems could be sizeable, depending on their design, yet they would not compensate the projected cost of ageing population.

63 Available on https://taxation-customs.ec.europa.eu/news/publication-study-wealth-taxation-including-net-wealth-capital-and-exit-taxes-2026-04-15_en. The study does not consistently follow the tax classification used in the Annual Report on Taxation and Taxation Trends Data. For instance, it includes a section on taxes on capital gains that are often collected through personal income taxes, therefore out of the scope of what is considered property taxes here.

Box 5: Wealth Taxation, including Net Wealth, Capital and Exit Taxes

Private wealth in the EU has grown substantially over the past three decades and has become increasingly concentrated at the top of the distribution. Between 1995 and 2023, the share of total household wealth in the EU held by the top 10% rose by 3 pp to 60%. Over the same time, the top 1% in the EU have increased their share of total wealth, driven by rising asset prices and expanding pension and financial portfolios, while middle-class households have seen slower gains. The study follows global discussions in international fora on the topic of wealth taxation and aims to support an informed debate.

The performance of net-wealth taxes is strongly dependent on tax design, administrative capacity, and integration within the broader fiscal framework. A case study analysis of countries which currently have or have had a net-wealth tax concluded that narrow bases, extensive exemptions and inconsistent valuation contributed to low revenues and declining political support. Empirical research points to significant avoidance and planning responses, while international mobility responses appear to be modest. This suggests that the success (or failure) of these taxes is strongly related to their design features and to the enforcement mechanisms in place.

Reforms to capital gains taxation can represent more practical and administratively robust approaches to raise revenue and fairness, compared to introducing new instruments. Non-recurrent capital gains constitute a core component of capital taxation across Member States, although their design varies. Empirical evidence highlights the challenges to these taxes that arise from the concentration of unrealised gains at the top of the wealth distribution, together with high risks of tax avoidance and planning. At the same time, taxes on unrealised capital gains are very rare due to the significant challenges behind their implementation. Furthermore, due to risks posed by tax migration some Member States have implemented exit taxes, which can safeguard revenue if valuation rules are enforceable and international cooperation is robust. In this context, the report highlights that enhancing the comprehensiveness, neutrality and enforcement of existing capital gains taxes could improve both revenue and fairness.

Inheritance and gift taxes are widely used to target intergenerational transfers, and their revenues have increased in recent decades. Seventeen Member States currently levy such taxes, however their effectiveness in reducing wealth concentration is somewhat disputed in the literature. Existing empirical evidence suggests evidence of tax avoidance and planning, as well as evasion. The mapping of current regimes in the EU finds that extensive exemptions, allowances and reliefs for certain assets limit the effectiveness of these taxes. The high concentration of inheritances and gifts, as well as simulations suggesting an approaching “great wealth transfer” from older to younger cohorts, will expand the revenue and redistribution potential of inheritance taxation.

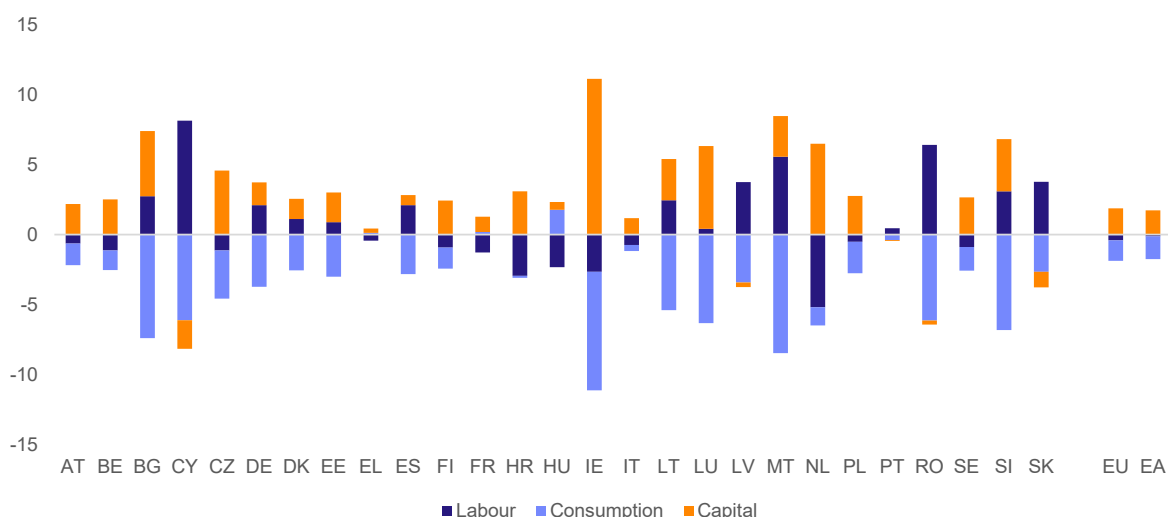
The cross-country analysis highlights substantial heterogeneity, limited revenues, and strong dependence on institutional capacity. While there are strong differences in the use and design of these taxes across Member States, their revenue mobilisation has often declined over the long run mostly due to extensive reliefs and exemptions. Institutional factors, such as asset registers, third-party reporting and automatic exchange of information, have a decisive role in determining the effectiveness and feasibility of wealth-related taxes.

The analysis finds that wealth-related taxes face various challenges associated with their implementation, which require careful consideration. The implementation of these taxes is associated with various challenges which range from administrative and technical constraints to behavioural responses and overarching legal/political considerations. Administrative challenges, such as the valuation of assets, are often complex and resource intensive. Furthermore, the exposure of wealth-related taxes to avoidance and planning responses, as well as evasion, highlights the importance of efforts to address existing gaps. Lastly, legal and political challenges can strongly determine the success or failure of these taxes.

2.4 Tax-mix shifts and medium-term prospects

The evolution of the tax mix over the last decade across the Member States suggests a general EU-wide shift away from consumption, towards capital, while the reliance on labour taxes have developed in both directions. Figure 57 disaggregates changes in the distribution of tax revenue by economic function between 2014 and 2024. As the aggregate changes by country must be equal to zero, countries with the longest bars have seen the biggest changes in their tax mix over the last decade. While there have been large shifts across the three economic bases in certain Member States, such as Ireland, Cyprus, Malta, Bulgaria and The Netherlands, the aggregation at EU level results in more limited adjustments in the tax structure. Even so, since 2014 the share of capital taxes in EU total tax revenue has increased by 1.9 pp, while that of consumption taxes has decreased by 1.5 pp and that of labour taxes by 0.4 pp. At country level, capital taxes have gained weight in the tax mix of 22 Member States (Ireland at the top, 11.1 pp) and lost it in five (Cyprus at the bottom, -2.0 pp). The share of labour taxes has increased in 14 Member States (led by Cyprus, 8.2 pp), and decreased in 13 (led by The Netherlands, -5.2 pp). Finally, the share of consumption taxes has increased only in three Member States (Hungary: 1.8 pp) and decreased in the remaining 24 (Ireland: -8.5 pp).

Figure 57: Changes in the share of total tax revenues for the three economic bases (EU countries, 2014-2024, percentage points).

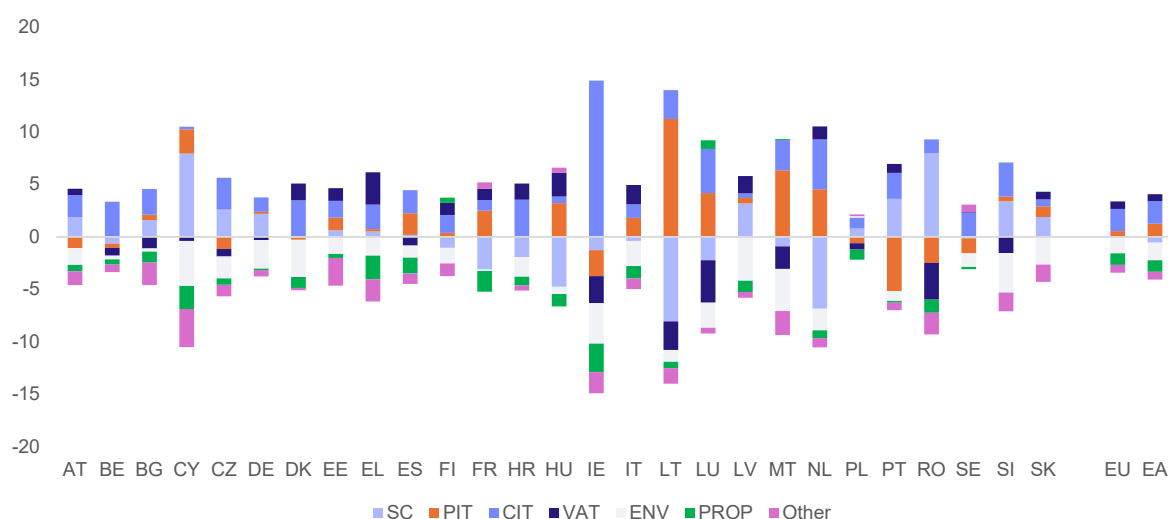


Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data.

Looking into the tax types, the main shift is from environmental and property taxes to CIT and PIT.

Figure 58 shows the disaggregation by tax type of the changes between 2014 and 2024. EU-wide, the share of CIT revenue in the tax mix has increased by 2.1 pp, VAT by 0.7 pp, and PIT by 0.5 pp. By contrast, the share of revenues from environmental taxes has decreased by 1.5 pp, property taxes by 1.1 pp, and other taxes by 0.7 pp. The weight of social contributions in the tax mix has remained stable. Looking across the Member States, we see that the CIT share of total tax revenue has increased in all of them, and that of PIT in 18. VAT and SC revenues have gained weight in 14 EU countries. On the downside, the share of environmental tax revenue has increased in only one Member State, that of property taxes in five, and that of other taxes in four.

Figure 58: Changes in the share of total tax revenues for the different tax types (EU countries, 2014–2024, percentage points).



Source: European Commission, DG Taxation and Customs Union, based on National Tax Lists data and Eurostat [gov_10a_taxag].

Looking ahead, it is unlikely that the decline of environmental taxes is reverted in the coming years, while prospects for property taxes may be more positive. As discussed in Subsection 2.3.6, revenues from environmental taxes have only stabilised, but not recovered, following the partial phasing-out of the temporary measures implemented during the energy crisis of 2022. In response to the war in Iran, many Member States have taken extraordinary measures for curbing fuel prices, which may result in further declines in revenues from environmental taxes depending on the duration of the conflict and the ability of the energy sector to respond to its effects. More generally, as a corrective Pigouvian instrument, well-designed environmental taxes should generate declining revenues as long as the targeted behaviour is corrected, while tax incentives are seen as a powerful tool to pursue long-term decarbonisation objectives. Medium-term prospects may be more positive for the other underperforming tax type of recent years, i.e. property taxes, provided that current bottlenecks in the housing market are resolved and national (and local) governments engage in a gradual update of cadastral values. Moreover, the so-called “Great Wealth Transfer” (Gale et al., 2024), associated to the death of the baby-boom generation, will likely push up revenues from inheritance and gift taxes.

Population ageing may prompt substantial shifts in the tax mix. A shrinking labour force stemming from an ageing population may put into question the stability of labour tax revenues. These challenges, together with those posed on the public expenditure side, were examined in the ART 2025 (European Commission 2025c). Sicsic et al. (2026) suggests that the static negative effect on labour bases (employed people) could be partly offset by a positive static effect on other labour bases (pensioners), on capital bases (from capital gains, inheritance and real estate taxes) and on consumption bases (from a higher propensity to consume), leading to a moderate decline in the tax-to-GDP ratio until 2060. The simulated results vary widely across countries.

The implementation of OECD Pillar Two rules for the Global Minimum Tax is expected to maintain CIT revenues going forward. While the final impact on consolidated effective tax rates for in-scope MNEs is not yet known, the OECD is due to release updated estimates of the expected impact shortly.

3

Recent tax-related reforms in the EU and its Member States

3.1 Recent reforms in the EU Member States

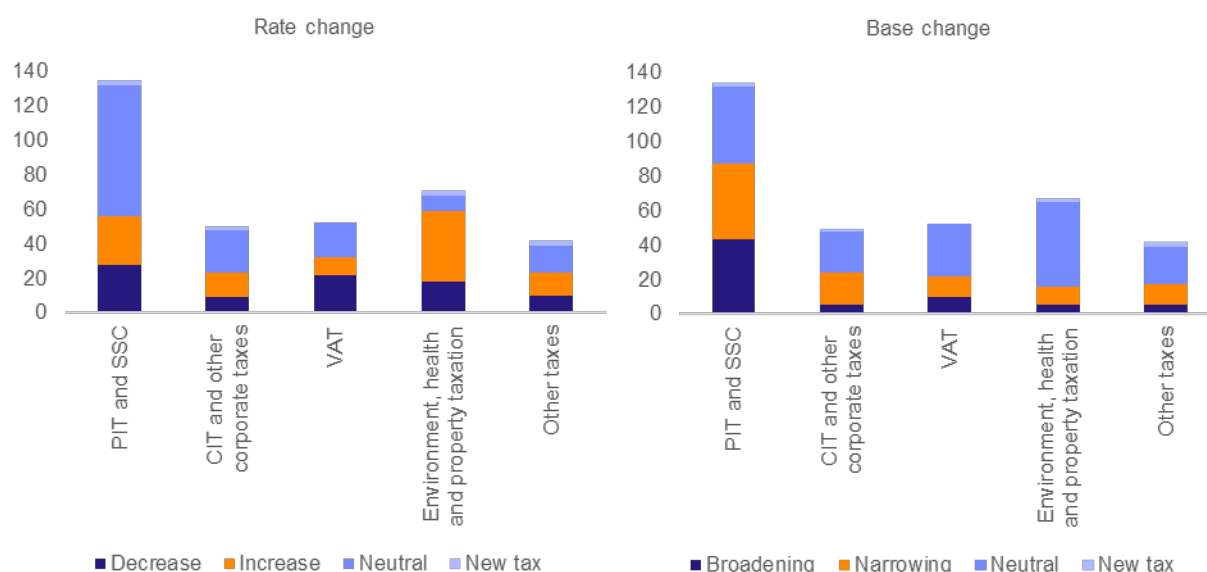
This section focuses on recent tax reform measures adopted by EU Member States. The information is based on the tax measures reported by national administrations in the *Joint OECD-European Commission Annual Tax Policy Reform Questionnaire*, by aggregating and processing the responses received to the 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 ⁽⁶⁴⁾. While comprehensive, the list of tax measures is non-exhaustive, excluding for example tax reforms taking place at the sub-national level (regional or municipal).

3.1.1 Overview of recent reform measures

EU Member States reported 399 tax reform measures in 2026 (reference year 2025), with a prevalence of measures affecting personal income taxation and social security contributions. Reform measures on personal income taxation (PIT) or social security contributions (SSC) were the most common, amounting to 37% of total reforms. The number of VAT and corporate tax reform measures constituted in both cases slightly less than 15% of the total. PIT and VAT reform measures have both been reported in 20 Member States (see Table 3). Among other tax categories, environmentally related taxes were the most prominent comprising around 11% of reform measures. In terms of rate changes, neutral rate adjustments (i.e. measures that did not entail a rate increase or decrease) accounted for approximately 40% of the tax reform measures with available information, as shown in Figure 59. Looking at different tax types, a rate increase was the most common policy lever for CIT and other taxes (particularly those related to environment and health), while most VAT measures featured a rate reduction. Neutral adjustments were also widespread when analysing the changes in the tax base, with almost 47% of the changes based on available data. For most tax types, reform measures narrowing the tax base outnumbered those that broadened it, with the exception of SSC (see also Section 3.1.2). Recent trends in the total number of EU national tax reform measures are analysed in Box 6.

64 Detailed country information can be found on the [Tax Reforms in the EU website](#).

Figure 59: Number of national tax reform measures reported in 2026 by type of tax and rate/base adjustments



Source: European Commission based on responses to the 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaire.
Note: The number of reforms depicted in the graphs is lower than the total number of reforms because the graphs exclude measures for which base or rate changes are not applicable or have not been reported.

Table 3: Latest tax and related reform measures by type of tax as reported by Member States in the 2026 joint Tax Policy Reform Questionnaires

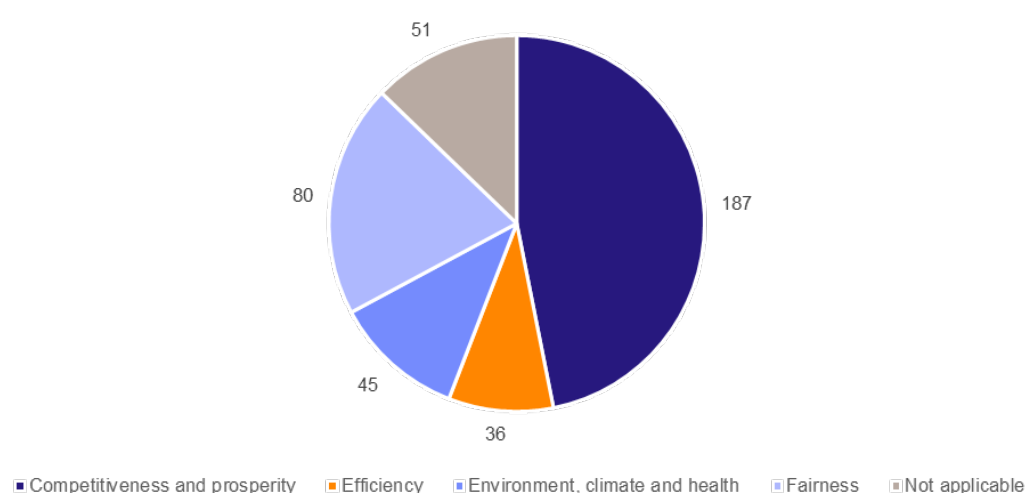
Type of tax	Countries
Personal Income Tax: Earned income	AT, BE, CY, DE, DK, EL, ES, FI, FR, HU, IE, IT, LT, LU, MT, NL, PT, RO, SE, SK
Personal Income Tax: Savings	FI, LU, NL, SI
Personal Income Tax: Unincorporated businesses/Self employment income	BE, BG, DE, HU, LT, PL, SE, SI
Social security contributions: Employee	BE, DE, EL, ES, RO, SI, SK
Social security contributions: Self-employed	CY, EL, ES, HU, LT, SK
Social security contributions: Employer	BE, DE, EL, ES, FR, LT, SE, SI
Corporate income tax	BE, BG, CY, CZ, DE, EL, FI, FR, IE, IT, LT, LV, MT, PL, PT, RO, SI, SK
Other corporate taxes	DK, FR, IT, LV, PL, SE, SK
Value-added tax	AT, BE, CY, CZ, DE, DK, EL, FI, FR, HR, HU, IE, LT, LV, NL, PL, PT, RO, SE, SK
Environmentally-related taxes	BE, DE, DK, EE, EL, FI, FR, IE, IT, LU, LV, MT, NL, RO, SE
Health-related taxes	FI, FR, IE, IT, LT, LU, LV, SE, SI
Other excise duties	AT, DK, HU, SE, SK
Estate duties/inheritances/gift taxes	DK, FI
Transaction taxes (movable and immovable property)	BE, CY, FR, IT, MT
Recurrent taxes on (net) wealth	BE
Recurrent taxes on immovable property (business and residential)	DK, EL, IE, LT, RO
Multiple taxes	BG, CY, CZ, FI, HU, IT, LV, PL
Other taxes	AT, CY, CZ, EE, EL, FI, FR, HR, HU, IE, LT, LV, NL, PL, RO, SI, SK

Source: European Commission based on responses to the 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaires.

Strengthening competitiveness and prosperity was the most common goal of national tax reform measures reported in 2026, followed by increasing fairness.

The 399 tax measures reported by the Member States in 2026 have been grouped by their main area of impact, with aggregate results presented in Figure 60⁽⁶⁵⁾. The categorisation by area of impact is done by DG TAXUD on the grounds of the self-reported main objective of the reform. About 47% of the reported measures are mainly targeted at strengthening competitiveness and prosperity, reflecting objectives such as raising revenues, boosting economic growth, and supporting investment. The main objective of around 20% of the reported measures is to increase equity and fairness. Another 11% of national tax reform measures reported in the 2026 questionnaires focused on environment, climate and health, with their underlying objectives linked to promoting environmental sustainability, supporting clean investment or improving public health. Finally, 9% of reported measures are geared toward increasing efficiency, by pursuing objectives such as simplifying the tax system, increasing compliance, and enhancing tax certainty⁽⁶⁶⁾.

Figure 60: National tax reform measures reported in 2026 by area of impact



Source: European Commission based on responses to the 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaire.

Promoting tax simplification is the main tool for supporting more efficient national tax systems.

Measures targeting tax simplification and increased tax compliance have been reported across all the main tax types and constitute the large majority of measures fostering efficiency. For example, some countries increased the VAT exemption threshold or rationalised PIT rules, while others simplified reporting obligations and tax declaration procedures. National simplification efforts can effectively complement the Commission's tax decluttering and simplification agenda, reducing administrative burden on businesses and citizens and enhancing compliance (see also Section 3.2.1). Since most tax legislation is enacted at the domestic level, EU action will be most effective when accompanied by similar initiatives at the national level, including by limiting "gold-plating" when transposing EU tax directives (with "gold-plating" referring to adding requirements, obligations or standards that exceed those necessary to comply with a directive's minimum provisions).

⁶⁵ The categorisation by type of tax is self-reported by the Member States in their responses. Some tax measures are temporary, while others are permanent.

⁶⁶ Measures assigned to the area of competitiveness and prosperity have one of the following self-reported main objectives: raise revenues, support investment, boost economic growth, support employment or enhance skills, support R&D/innovation, encourage consumption, encourage savings. Measures assigned to the area of fairness have the self-reported main objective of increasing equity/fairness. Measures assigned to the area of environment and health have one of the following self-reported main objectives: support clean investment (climate-change mitigation), improve health and promote environmental sustainability. Measures assigned to the area of efficiency of tax collection have one of the following self-reported main objectives: increase tax certainty, simplify the tax system/increase tax compliance, adjustment made in line with requirements of VAT Directive, in response to Pillar Two. For additional detail on the categorisation by area of impact, see [Annual Report on Taxation 2025](#) (European Commission, 2025b).

3.1.2 Recent reform measures by type of tax

Reform measures of PIT/SSCs

PIT recorded the largest number of measures reported by Member States across all tax types and nearly a third of these aimed to increase fairness. Out of the 109 PIT related measures introduced by 23 Member States, the most common policy objectives related to increasing equity and fairness (33 reforms), supporting employment (17 reforms) and raising revenues (16 reforms).

Several Member States announced reductions to their PIT rates, particularly for low- and middle-income earners, in view of supporting households and increasing fairness. 12 Member States put forward 25 reform measures to decrease the PIT rate by introducing changes to different elements of the PIT system. Namely, Greece introduced a measure aimed at restructuring some of its tax brackets with targeted reductions for families, young taxpayers (under 30), and medical personnel. Italy is reducing its second PIT bracket rate from 35% to 33%. Portugal is lowering the marginal tax rates on its second to fifth income brackets by 0.3%. Malta announced new PIT brackets for families with children to increase their disposable income. Sweden indicated that it would lower its tax on labour to stimulate consumption and support employment.

A minority of countries are raising PIT rates in view of raising revenue or increasing progressivity.

In 2026, seven Member states reported 10 reform measures to increase their PIT rates. Slovakia is moving towards greater progressivity by introducing two new higher rates (30% and 35%) and lowering the threshold for the 25% rate. France is putting in place a 1.5% increase in general social contributions. The Netherlands is increasing the rate for the first and second brackets by 0.05% while limiting inflation adjustment of tax brackets. Romania announced a measure to increase the dividend tax from 10% to 16%. Lithuania reported a reform measure to unify progressive PIT rates across all income categories and abolish the additional non-taxable amount calculation formula applicable to higher earners.

Member States have reported several measures which narrow the tax base, with objectives ranging from increasing the labour supply to supporting workers and families.

In 2026, 36 reform measures were reported that aim to narrow the PIT tax base by introducing exemptions or allowances. Several Member States are introducing or expanding tax-free allowances and deductions for workers, with Austria introducing a tax-exempt employee bonus, and Germany announcing a tax-free allowance on income subject to social security contributions. Family-oriented PIT relief was also reportedly expanded in some Member States, with Hungary expanding exemptions to mothers with two children and for mothers under 30 regardless of childbirth. Luxembourg, Germany and Denmark are putting in place measures that aim at incentivising continued professional activity by creating tax allowances that encourage individuals at or beyond the statutory retirement age to remain professionally active.

A few Member States have also reported reform measures that broaden the PIT tax base, mainly aimed at raising revenues and increasing fairness.

Specifically, seven Member States have announced 21 measures to broaden the tax base. Belgium leads with 13 reform measures with most aiming at raising revenue, such as the phasing out of several tax credits on pensions, marital quotients and unemployment benefits. The Netherlands announced a proposal to adjust the calculation of the actual return in the Box 3 system. Cyprus reported a tax reform measure introducing an obligation for individuals to be registered and submit tax returns, to increase compliance.

SSC reform measures are predominantly about rate and base increases, driven primarily by revenue-raising objectives.

In 2026, Member States have reported 37 measures, with 18 involving rate increases (compared to only three rate decreases), and 22 measures to broaden the tax base (compared to six base narrowing reforms). Greece is increasing the SSC contributions for the self-employed and farmers through new fixed-amount insurance category systems. Spain is introducing additional solidarity contributions on salaries above the maximum contribution base and a new intergenerational equity mechanism contribution.

Slovakia is increasing the healthcare SSC rate by one percentage point. Romania is introducing a temporary 10% health contribution on pension income and removing exemptions. France is announcing a 3% increase in SSC for territorial civil servants. Belgium and Sweden are among the few countries reducing SSC burdens, with the first strengthening the fiscal work bonus and reforming the special SSC, and the second temporarily reducing employer SSC for young workers.

Reform measures of VAT

VAT is the second-largest type of tax that saw reform measures reported in 2026, with rate reductions outnumbering increases by more than two to one. Overall, 20 Member States reported 51 VAT-related reform measures, aimed at addressing simplification and compliance concerns (eight measures), raising revenues (seven measures) and promoting equity and fairness. Out of these reform measures, 22 out are related to rate decreases, reflecting widespread use of reduced rates as a policy lever.

Many Member States have reduced VAT rates on essential goods, food services, energy, and cultural activities. Most of the rate-reduction measures can be broadly grouped into four categories, those targeting essential products and restaurants, those targeting cultural activities, those targeting energy products, and those targeting housing. Austria, Germany, Hungary, Ireland, Latvia, Sweden and Slovakia have reported a total of seven measures to apply or adjust reduced VAT rates to hygiene/food products and restaurants/catering services. The Netherlands, Portugal, Sweden and Slovakia are introducing measures to lower VAT rates applied to the cultural sector. Belgium, Croatia and Ireland reported adjustments to existing VAT reductions on energy products. Greece, Ireland and Slovakia reported one reform measure each aimed at lowering VAT for housing.

A few Member States have reported reform measures aimed at increasing or restructuring the VAT rate, mostly with the aim of raising revenues. Austria is abolishing the zero VAT rate for photovoltaic systems. Belgium is increasing the rates for hotels, sports facilities, take-away and pesticides. France is abolishing the reduced rate for energy and gas subscription. Latvia is increasing the VAT rate for books published in non-EU and OECD languages. Slovakia is increasing the VAT rate on certain food products. At the same time, Romania is abolishing certain exemptions and increased their standard VAT rate by 3 pp and introducing a single reduced rate of 11% which replaces the former 9% and 5% rates.

Reform measures of CIT

CIT reform measures present a mixed picture, with some Member States increasing rates to raise revenue, while others introduce tax incentives to support investment. In 2026, 18 Member States reported a total of 44 measures to CIT regimes. Of these, 16 reform measures aim to narrow of the tax base, compared to four measures aimed at broadening the base. At the same time, nine measures are associated to rate increases, seven to decreases, and 20 are reported to have a neutral effect on the tax rate. Among the reasoning reported for these reform measures by Member States, the more recurrent objectives were supporting investment and boosting economic growth (13), raising tax revenue (11), and increasing equity and fairness (8).

There is heterogeneity of the policy goals behind the CIT rate policy in Member States, with some raising rates toward the global minimum ⁽⁶⁷⁾ while others have introduced cuts to attract investment. Cyprus is raising its CIT rate from 12.5% to 15%, aligning with the global minimum tax framework. Poland is increasing the CIT rate for commercial banks from 19% to 30%. Lithuania is adding one percentage point to both its standard (to 17%) and reduced (to 7%) CIT rates. Conversely, Germany is legislating a gradual reduction of the (federal) CIT ⁽⁶⁸⁾ from 15% down to 10% over the period 2028–2032, and Portugal is cutting its rate by one percentage point per year to reach 17% by 2028.

67 [Council Directive \(EU\) 2022/2523](#) of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union. In force in Member States as of 1 January 2024, setting a minimum effective tax rate of 15% for large MNE and large domestic companies.

68 The combined corporate tax rate in Germany is obtained by adding CIT, trade tax (which is set at local level), and a solidarity surcharge.

Tax incentives are being expanded across multiple Member States to support innovation and investment. Ireland is increasing its R&D tax credit from 30% to 35%. Czechia is expanding its R&D deductions to 150% (up to CZK 50 million). Germany is expanding its R&D incentive by raising the assessment basis and broadening eligible expenses. Bulgaria is introducing a new R&D super-deduction, and Greece has announced a reform to offer expense super-deductions for investments in strategic sectors (e.g., defence, vehicle manufacturing, and aircraft construction). Finland reported a new tax credit for large climate-neutral investments. Bulgaria is introducing accelerated depreciation for electric vehicles, and Lithuania is introducing instant depreciation for certain fixed assets.

Reform measures of environmental, health and property taxation

Several countries are raising environmental tax rates, including in relation to carbon pricing and aviation taxes. Ireland has raised its carbon tax from EUR 63.50 to EUR 71 per tonne of CO₂, and Luxembourg has also increased CO₂ tax rates on energy products. France has increased the airline ticket tax, while the Netherlands is planning to raise its aviation tax as of January 2027 to better internalize the external costs of long-haul flights. In turn, Belgium plans to harmonise and gradually increase taxes on short flights. Measures reported in 2026 also include increases in excise duties on fossil fuels, notwithstanding emergency measures introduced more recently in the wake of the conflict in Iran. In relation to tourism, Greece and Malta are increasing eco-taxes on accommodation.

Environmental tax reductions mainly target the agriculture and automotive sector. Germany is extending the vehicle tax exemption for electric vehicles and Ireland is supporting electric vehicles by extending the corresponding Vehicle Registration Tax relief. Estonia is introducing motor vehicle tax reductions for families with children. Finland is reducing excise duty on transport fuels, and the Netherlands has not indexed the excise rate in order to reduce the cost of car use. Germany is lowering the tax burden on agriculture by reintroducing diesel tax reimbursements for the sector. Measures in this area (44 in total) reflect the complexity of advancing the green transition while reconciling environmental sustainability with affordability and competitiveness considerations.

Health-related tax reform measures predominantly consist of rate increases on the consumption of tobacco, alcohol, and sugary drinks. 13 out of 17 reform measures involve rate increases, reflecting the use of Pigouvian taxation to improve health outcomes (see also Chapter 1) but also as a way to increase revenues. Tobacco taxes are being increased in Bulgaria ⁽⁶⁹⁾, Ireland, Italy, Luxembourg, Slovenia, and Sweden. Alcohol taxes are rising in Finland (with the introduction of automatic indexation), Latvia, and Slovenia. Taxes on sugary and sweetened drinks are being raised in Finland and France, while Lithuania is introducing a new excise duty targeting sweetened drinks. Italy, in turn, has suspended its sugar tax until January 2027. Sweden is reducing excise duties on alcohol for small independent producers, while Latvia is raising excise duties on non-alcoholic beverages.

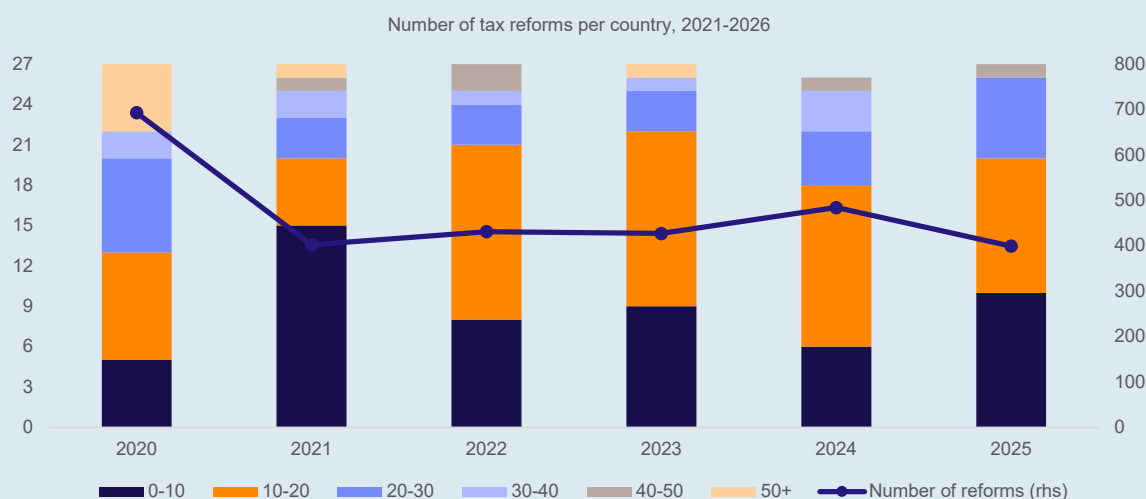
Property tax reform measures are primarily revenue-driven. Reform measures in the area of property taxation mostly concern recurrent taxes on immovable property, with the objective of raising revenues. In Ireland, the local property tax valuation bands were widened by 20%, to account for increases in property prices since the last revaluation in November 2021. Romania has increased taxes for residential buildings and land and removed some residential property tax exemptions. In Lithuania, municipal councils are entitled to set a higher rate of 1%-5% for abandoned or unsupervised immovable property (except for individuals' non-commercial immovable property). Denmark used property tax measures to promote environmental sustainability, by lowering taxes on nature properties and allotments. A few reform measures on property transaction taxes also targeted equity and fairness. For example, Malta is introducing a higher reduced duty threshold.

⁶⁹ The last increase has been reported in the 2025 Annual Tax Policy Reforms Questionnaire as it was announced in 2024 but was legislated and implemented in 2025.

Box 6: Recent trends in total number of EU national tax reform measures

The number of tax reform measures in the EU has remained relatively stable in the past five years, following a record number of measures to deal with the COVID-19 crisis in 2020. The total number of tax reform measures peaked in 2020, reflecting the exceptional policy response to the COVID-19 shock (see Figure 61). In this context, tax policy contributed to support national recovery strategies: measures were introduced or expanded to provide liquidity to firms, stimulate economic activity, and finance large-scale fiscal support packages. In relation to 2020, EU Member States recorded a total 693 tax reform measures, with five countries (Germany, Greece, Ireland, Italy and Poland) reporting more than 50 tax measures.

Figure 61: Number of national tax reform measures, total and per country, 2020-2025



Source: European Commission based on responses to the 2021 to 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaire. No data reported by France in 2025 on 2024 reforms.

In the five-year period between 2021 and 2025, the number of tax reform measures across the EU has been relatively stable. In the aftermath of the COVID-19 crisis, the number of tax measures declined and remained broadly stable across the years. Only two countries reported more than 50 reform measures in a given year (Italy in 2021 and the Netherlands in 2023). Sweden is the only country which remained consistently above 20 tax reform measures in the 2020-2025 period. The year 2024 saw the highest activity with 484 measures, while 2025 shows a slight moderation to 399. The total number of reform measures from 2020 to 2025 translates to an annual average of 472, or roughly 17 measures per Member State per year.

These figures count the number of individual reform measures reported, not their fiscal or economic significance. A single large structural reform package may be recorded as many separate measures while a country passing one major substantive change may appear less active. Comparisons across countries should therefore be interpreted with care, also taking into account possible different practices in reporting reform measures.

The number of national tax reform measures reported in relation to the year 2025 ranged from 3 to 43. Belgium displays the highest number of measures for 2025, followed by Lithuania, Sweden and Finland (see Figure 62). In turn, Estonia, Malta and Portugal recorded the lowest number of reform measures. In Belgium, 2025 reform measures are heavily concentrated in PIT (22 out of 43), whereas in Lithuania and France they cover all main tax types. Spain's 2026 reform measures are predominantly focused on SSC (8 out of 10). Ireland stands out for its level of CIT reform activity (7 reform measures), Cyprus for VAT-related measures (8 reform measures), and the Netherlands for environmental tax measures (6 reform measures).

(continuation)

Figure 62: Number of reforms implemented, legislated or announced in 2025, by country and tax type

	PIT	SSC	CIT	VAT	Env	Health	Property	Other	Total
BE	22	4	4	5	4		1	3	43
LT	8	3	6	3	1	1	7	1	30
FI	8		3	1	3	3		4	22
SE	7	1	1	4	4	2		3	22
EL	7	8	1	2	1		1	1	21
IE	3		7	4	4	1	1	1	21
SK	3	4	2	6				6	21
CY	3	1	2	8			2	3	19
FR	2	1	1	1	2	2	2	8	19
DE	6	2	4	1	3				16
AT	8			3				4	15
DK	3			1	4		1	6	15
LV			1	2	5	3		3	14
NL	5			1	6			2	14
HU	5	1		3				4	13
IT	4		1		3	2	1	2	13
ES	2	8							10
RO	1	2	1	1	1		1	3	10
PL	1		2	1				5	9
LU	6				1	1			8
SI	2	2	1			2		1	8
CZ			2	3				2	7
HR				4				3	7
BG	1		3					2	6
PT	1		1	3					5
MT	1		1		1		1		4
EE					2			1	3

Source: European Commission based on responses to the 2026 joint OECD-European Commission Annual Tax Policy Reform Questionnaire. Note: no information on tax type for four RO tax reform measures.

3.2 Recent EU tax policy initiatives in direct taxation

3.2.1 Simplification Omnibus on Taxation

The Political Guidelines of the European Commission ⁽⁷⁰⁾ have set the objective of making business easier and faster in Europe by reducing administrative burdens and simplifying implementation, while upholding high standards, with a view to strengthening European competitiveness. The Competitiveness Compass ⁽⁷¹⁾ highlighted the need to simplify the regulatory environment and reduce

70 European Commission, *Political Guidelines for the Next European Commission 2024–2029: Europe's Choice*, July 2024, available at: https://commission.europa.eu/priorities-2024-2029_en

71 European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: A Competitiveness Compass for the EU*, COM(2025) 30 final, 29 January 2025, available at: https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

administrative burdens in order to strengthen competitiveness across all sectors. Subsequently, in its Communication on implementation and simplification ⁽⁷²⁾, the Commission reiterated the need for a bold approach to enhance EU competitiveness and introduced new targets to reduce administrative burdens. Under the new approach, the burden-reduction targets of at least 25% for all companies and at least 35% for small and medium-sized enterprises (SMEs) will be applied to a baseline covering the full range of administrative costs rather than focusing solely on reporting obligations.

In the field of direct taxation, on 11 March 2025, the Council approved Conclusions setting a tax decluttering and simplification agenda with a view to contributing to the EU's competitiveness ⁽⁷³⁾.

Among others, the conclusions call for a review of the existing EU legislative framework in the area of taxation that should be based on four principles: (i) reducing the reporting, administrative and compliance burdens, (ii) eliminating outdated and overlapping tax rules and, where relevant, (iii) increasing the clarity of tax legislation and (iv) streamlining and improving the application of tax rules, procedures and reporting requirements.

In this context, and as outlined in the 2026 Commission work programme ⁽⁷⁴⁾, on 24 June 2026, the Commission proposed an Omnibus on taxation. The proposal aims to streamline, enhance and clarify the EU acquis on direct taxation with a view to enhance the EU competitiveness, without lowering the existing level of protection within the internal market. The proposal introduces amendments to six directives: the Interest and Royalties Directive ⁽⁷⁵⁾, the Tax Merger Directive ⁽⁷⁶⁾, the Parent-Subsidiary Directive ⁽⁷⁷⁾, the Anti-Tax Avoidance Directive ⁽⁷⁸⁾, the Tax Dispute Resolution Mechanisms Directive ⁽⁷⁹⁾, and the FASTER Directive ⁽⁸⁰⁾.

The adoption of common EU rules through these Directives over the past decades represents a significant achievement for the EU. The Directives enable taxpayers engaged in EU cross-border activities to benefit from common rules aimed at preventing double taxation and distortions in the market due to tax avoidance practices.

However, since their adoption, the legal, economic and geopolitical landscapes have significantly evolved. The proposal reflects the need to ensure that the Union direct tax framework remains coherent, proportionate and effective.

In this context, the Omnibus on taxation updates provisions that are no longer fit for purpose and remove duplicative or overly complex provisions to improve the coherence of the EU direct tax framework. Key measures include (i) eliminating duplication between the controlled foreign company rules (CFC) and the global minimum tax (Pillar Two), (ii) removing imported hybrid mismatch which have proven overly complex while delivering no or limited results, (iii) simplifying the CFC framework with a single-model approach, (iv) improving the dispute resolution mechanism by addressing specifically identified problems of interpretation and procedural impediments, and (v) broadening the scope of the Tax Merger Directive to ensure that all cross-border business reorganisations covered by EU corporate law can take place without immediate taxation. These changes will reduce compliance costs and improve legal certainty and make the rules easier to apply across the EU.

72 European Commission (2025d), *Competitiveness Compass*, COM(2025) 30 final.

73 [Council Conclusions setting a tax decluttering and simplification agenda with a view to contributing to the EU's competitiveness](#)

74 [2026 Commission work programme](#)

75 [Council Directive 2003/49/EC](#) of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States.

76 [Council Directive 2009/133/EC](#) of 19 October 2009 on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE or SCE between Member States.

77 [Council Directive 2011/96/EU](#) of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States.

78 [Council Directive \(EU\) 2016/1164](#) of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

79 [Council Directive \(EU\) 2017/1852](#) of 10 October 2017 on tax dispute resolution mechanisms in the European Union.

80 [Council Directive \(EU\) 2025/50](#) of 10 December 2024 on faster and safer relief of excess withholding taxes.

The Omnibus also removes tax obstacles that can discourage business investment and access to financing. Key measures include (i) simplifying the interest limitation rule in the Anti-Tax Avoidance Directive by eliminating implementation options to ensure that all Member States make key simplification mechanisms available across the EU, such as the group escape rule and carry-forward mechanism, (ii) excluding low-risk third party loans from the scope of the interest limitation rule to ensure that genuine financing is not subject to unnecessary restrictions, and (iii) making the de minimis threshold under the interest limitation rule mandatory while providing for a periodic indexation to reduce compliance costs for smaller businesses and allow tax administrations to focus on higher-risk cases. Together, these changes will create a more investment-friendly tax framework, help businesses to access financing, and support growth in the internal market.

Lastly, the Omnibus removes tax barriers to cross-border business activity and introduces common solutions to support innovation and competitiveness across the EU. Key measures include (i) providing an exemption from withholding tax on all cross-border payments of dividends, interests and royalties between companies in the EU (i.e., there will be no more minimum holding requirements), (ii) introducing a protective measure to address cases of double non-taxation involving interest and royalty payments to entities in third countries, (iii) removing upfront paperwork, thus eliminating lengthy and burdensome administrative steps to provide a simplification shock of procedures for businesses in the EU, (iv) extending the Parent and subsidiary Directive to pension institutions to allow them to benefit from a withholding tax exemption on the dividends that they receive from another Member State, and (v) introducing a common minimum standard of generosity to the tax treatment of investment in R&D related tangible assets across the EU, encouraging research and innovation across the internal market and making the Union a more attractive location for research investments. These measures, all together, will strengthen the internal market, support investment and innovation, and improve the competitiveness of the EU businesses while preserving safeguards against tax abuse.

3.2.2 Recast of DAC

The proposal to recast the Directive on administrative cooperation in the field of direct taxation (DAC) ⁽⁸¹⁾ will complement the simplification omnibus. The DAC recast will clarify, streamline and improve the functioning of the EU framework for administrative cooperation in direct taxation. The objective is to reduce the administrative burden on businesses while increasing the efficiency of tax administration without undermining the overarching policy objective of combating tax fraud, evasion and avoidance.

In 2025 the Commission published an evaluation report on the application of the DAC ⁽⁸²⁾. The report covers the period from 2018 to 2023 and all amendments up to DAC6. The report is supported by an accompanying staff working document (SWD) ⁽⁸³⁾, which is based inter alia on the findings of an external study ⁽⁸⁴⁾.

The evaluation identified several areas for improvement ⁽⁸⁵⁾. In particular, the evaluation concluded that frequent amendments to the DAC since 2011 and the absence of a consolidated legal text have made the framework more complex and less user-friendly. The evaluation also highlighted the need to simplify reporting obligations, in particular under DAC6, to eliminate inefficient reporting practices, thereby reducing

81 Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, OJ L 64

82 European Commission (2025e), *Report from the Commission to the European Parliament and the Council on the evaluation of Council Directive 2011/16/EU on administrative cooperation in the field of taxation*, COM (2025) 695 final, 19 November 2025. Available at: https://taxation-customs.ec.europa.eu/document/download/c24ef108-3dce-4169-84e30d024f419efd_en?filename=COM_2025_695_1_EN_ACT_part1_v3.pdf

83 European Commission (2025f), *Commission Staff Working Document accompanying the Report on the evaluation of Council Directive 2011/16/EU on administrative cooperation in the field of taxation*, SWD(2025) [final], Brussels. Available at: https://taxation-customs.ec.europa.eu/document/download/c1235b9c-8c70-4c36-8270-fc908d3d28fa_en?filename=Soon.pdf

84 Ramboll, London School of Economics and Political Science, and Syntesia (2025), *Study supporting the evaluation of Directive 2011/16/EU (DAC)*, external study for the European Commission. Available at: https://taxation-customs.ec.europa.eu/document/download/2206de45-1576-4eab-826a-4cb22aa7f80d_en?filename=Soon_0.pdf

85 European Commission (2025e), COM(2025) 695 final, Section 3

administrative burdens for stakeholders. In addition, the evaluation found that, despite progress made, challenges remain with respect to the identification of taxpayers and the automatic matching of information, which increases the burden on tax administrations to cross check the information received.

These findings are consistent with the conclusions and recommendations of the European Court of Auditors (ECA) in its 2021 Special Report ⁽⁸⁶⁾ on DAC1 – DAC4 and their 2024 Special Report ⁽⁸⁷⁾ on DAC6. The consultation activities carried out by the Commission services ⁽⁸⁸⁾ to inform the preparation of the DAC recast proposal confirmed that there are a number of issues related to DAC6 while also identifying further areas for simplification with respect to the interaction between DAC4 and the Pillar 2 Directive and DAC7.

DAC Recast will introduce measures to simplify, clarify and improve the functioning of the DAC. To address the issues raised during various public and targeted consultations, the proposal for a recast of the DAC will introduce several measures that will simplify, clarify and improve the functioning of the DAC. Firstly, the proposal codifies the DAC and its eight amendments into a single legislative instrument that will improve coherence and legal clarity for all stakeholders. The proposal will also introduce several simplification measures which will streamline certain notification obligations and remove certain reporting requirements.

Key measures include:

- **Removing the reporting obligation of cross-border arrangements for Pillar 2 companies as its added value is very limited in view of the existing other sources of information for tax administrations.** This measure will remove reporting obligations for MNE groups subject to the minimum 15% tax rate, generating compliance cost savings of around EUR 300 million, while preserving tax administrations' access to relevant information through existing reporting channels.
- **Removing reporting requirements for certain cross-border tax arrangements that have been shown to provide limited added value for tax administrations.** This measure will reduce reporting volumes by 35%, generating compliance cost savings of approximately EUR 40 million for EU businesses while preserving existing safeguards to combat tax fraud, evasion and avoidance.
- **Supporting the circular economy by increasing the reporting threshold for online sales of goods while ensuring tax administrations continue to receive tax-relevant information.** This measure will lift reporting obligations on over 10 million sellers, particularly sellers of second-hand goods, delivering compliance cost savings of EUR 678 million for digital platforms while preserving Member States' access to the information needed to effectively apply their national tax rules.
- **Eliminating duplicate notification obligations for MNE groups through a single notification requirement for the purposes of country-by-country reporting and central filing of top-up tax information returns, while preserving tax administrations' access to relevant information.** This measure will simplify a fragmented and duplicative notification process for around 109,000 entities of MNE groups, delivering compliance cost savings of more than EUR 260 million.

These measures will improve the efficiency of the DAC by significantly reducing compliance costs for EU businesses by more than EUR 1 billion annually while ensuring that tax administrations remain fully equipped to safeguard their tax revenues and combat tax fraud, evasion and avoidance.

The proposal will introduce some improvement measures, which will enhance the ability of tax administrations to safeguard their tax revenues and more effectively combat tax fraud, evasion and avoidance. Key measures include:

86 European Court of Auditors, *Special Report 03/2021: Exchanging tax information in the EU: solid foundation, cracks in the implementation*, 2021, available at: https://www.eca.europa.eu/en/publications/SR21_03

87 European Court of Auditors, *Special Report 27/2024: Combatting harmful tax regimes and corporate tax avoidance*, 28 November 2024, available at: <https://www.eca.europa.eu/en/publications/SR-2024-27>

88 European Commission, *EU rules on administrative cooperation in the field of taxation – recast (call for evidence and public consultation)*, available at: [EU rules on administrative cooperation in the field of taxation – recast](#)

- Enhancing the coverage of the existing legislative framework, to ensure that all categories of income and capital are exchanged and taxed appropriately.
- Introducing a new verification tool for taxpayer identification numbers, which will ensure that tax administrations can efficiently and effectively identify all reported taxpayers.

These improvements will strengthen the effectiveness of administrative cooperation while ensuring that public resources are used more efficiently.

3.2.3 The EU's 28th Regime and proposal for EU Inc.

The EU Inc. proposal is a new single set of optional, digital-by-default corporate rules, building the cornerstone and starting point for the EU's 28th regime. The Commission's proposal, adopted on 18 March 2026, aims to address the currently fragmented corporate legal landscape in the EU, which entrepreneurs and innovative companies are facing when they expand across the Single Market. Currently, European innovative companies have to navigate 27 national legal systems and more than 60 company legal forms. This causes high administrative burden, raises operational and legal costs and discourages scaling up in the EU market.

The EU Inc. does not replace national company frameworks, but it is available across the EU to all companies. The main features of EU inc. include: (a) Faster registration (setting up a company within 48 hours, for less than €100 and with no minimum share capital requirements); (b) simpler procedures (company information submitted only once, to the business registers, either directly or via a user-friendly EU-level interface) and (c) fully digital operations (corporate processes will be digital by default, including liquidation). Furthermore, innovative startups will have access to simplified insolvency procedures. The proposal includes a blacklist of prohibited practices to ensure that EU Inc. companies are treated the same way as any other national companies.

Taxation elements play an ancillary role to the proposal and are limited to targeted measures on the timing of taxation of employee stock options and the once-only principle that facilitates the issuance of a TIN/VAT number as part of the registration process. EU Inc. companies will be able to set up EU-wide employee stock option plans (EU-ESO), which are a key tool for startups and scaleups to attract and retain the best talent. The proposal aligns the moment of taxation of the income stemming from the EU-ESO across the EU, to the moment of sale of the underlying shares. Member States remain free to characterise and tax the income stemming from the EU-ESO in line with their national legislation. At present, in some Member States obtaining a TIN or a VAT identification number involves submitting the same information several times to different authorities and can cause considerable delays to commencing operations. The EU Inc. proposal guarantees that the company information in the business registers, verified during mandatory preventive controls, can be automatically used to issue the TIN and the VAT identification number.

The Commission simultaneously set out the way forward and recommended definitions of innovative companies. In addition to the EU Inc. proposal, the Commission adopted a chapeau communication and a Recommendation on definitions of innovative companies, innovative startups and innovative scaleups. The communication outlines the ongoing and future initiatives to complete the 28th Regime in other policy areas.

3.2.4 Recommendation of SIA within the Savings and Investment Union

In March 2025, the Commission adopted a Communication on the Savings and Investment Union (SIU), a key initiative to improve the way the EU financial system channels savings to productive investments. The goal is to provide EU citizens with greater access to capital markets and improved financing options for businesses, ultimately boosting citizens' wealth and enhancing EU economic growth and competitiveness. Within the 'Citizens and Savings' chapter, the Communication discussed subsequent actions related to taxation.

This led to the adoption, on 30 September 2025, of a Recommendation that introduces a blueprint for Savings and Investment Accounts (SIAs), which was accompanied by a Strategy on financial literacy. This comprehensive package focuses on improving financial literacy for all and at all life stages and introduces a blueprint for SIAs – a tool aimed at making it simpler and more accessible for everyone to invest.

The SIA Recommendation calls on Member States to introduce SIAs to increase retail participation in capital markets, thereby providing opportunities to improve their returns on their savings and investments. As Europeans, we rank among the world's top savers, with EU households holding a massive €10 trillion in retail savings accounts. The intention behind SIAs is to foster a stronger investment culture among EU citizens and transform how they engage with capital markets. SIAs can accommodate citizens to achieve higher returns on their savings, compared to keeping them in bank deposits, while maintaining full control over which financial products or economic sectors they choose to invest in.

Greater retail participation will also allow for more depth and liquidity of EU capital markets and increase the supply of long-term capital in the EU. By moving some of their savings into more productive investments, citizens can also facilitate the financing of businesses, driving economic growth and job creation across Europe, in line with the SIU objectives.

The Commission is recommending that Member States introduce SIAs where they do not yet exist and enhance existing frameworks by incorporating best practices from across Europe and worldwide. In some EU countries, SIAs have already been put in place, although the specific features of these initiatives can vary quite significantly.

The Recommendation draws from successful experiences of Member States. Firstly, SIAs should be offered by a wide array of authorised financial services providers, including cross-border ones, in order to boost competition and innovation. The providers should offer a simple, reliable and easily accessible user experience for retail investors, both online and offline, that makes the buying and selling of assets within an SIA seamlessly. Citizens should also be able to diversify their portfolios – SIAs should offer investments in various products such as shares, bonds and investment funds, while excluding highly risky or complex products. SIA providers are encouraged to provide citizens with investment options that allow them to channel their investments into the EU economy to contribute to strategic EU priorities. Retail investors should be allowed to open multiple accounts, including with different providers, and should further not be faced with excessive fees or cumbersome processes when transferring their portfolios.

Experience of Member States and third countries have proven that tax incentives are key in increasing the uptake of the SIAs and achieving broader retail investor participation. The Recommendation encourages Member States to give SIAs advantageous tax treatment, that would be at least equivalent to the most favourable tax treatment already available in that Member State for similar products or accounts. Furthermore, if a Member State wishes to introduce tax incentives to promote the uptake of SIAs, they may consider introducing tax deductions, tax exemptions, tax deferral, uniform tax rates for assets held through a SIA, or a combination of such measures. Tax incentives should be well targeted and simple to understand and apply for retail investors, SIA providers and tax administrations.

In addition, the Recommendation calls for streamlined tax compliance procedures for the retail investors. For many people, the complexity of tax compliance related to investment income can discourage them from investing in capital markets. National tax authorities should therefore rely on SIA providers for tax collection and/or the automatic exchange of information on SIA investments to minimise complexity related to tax compliance for holders of such accounts. To promote cross-border competition between providers, each Member State should enable SIA providers from other Member States to apply the same tax compliance procedures as domestically authorised providers, including where relevant, to collect and settle relevant SIA-related taxes on behalf of their customers.

The Commission will work closely with Member States and stakeholders to implement the Strategy on financial literacy and monitor the take-up of its Recommendation on SIAs. This will contribute to improving the confidence of Europe's citizens in managing their money and savings, and better access to investment opportunities and ultimately, that they will thrive financially.

3.2.5 Evaluation of Anti-tax Avoidance Directive (ATAD)

The Anti-Tax Avoidance Directive (ATAD) lays down minimum standard measures on addressing the most common forms of aggressive tax planning and tax avoidance practices that directly affect the functioning of the internal market. The Directive sets out EU measures in 5 areas that should be included in all Member States' corporate income tax legislative frameworks: the interest limitation rule, exit taxation, the controlled foreign company rule (CFC), the hybrid mismatches rule and the general anti-abuse rule (GAAR).

Article 10 of the Directive states that the Commission shall evaluate the implementation of the ATAD, in particular the impact of Article 4 (the interest limitation rule), and report back to the Council. The report to the Council shall, if appropriate, be accompanied by a legislative proposal. In addition to the legal obligation to assess the impact of the Directive, the effects of the subsequent introduction of EU legislation, and relevant current economic factors, must be considered in assessing how the measures contained in ATAD function.

In accordance with the obligation under Article 10 of the Directive, the Commission prepared an interim report for the European Parliament and Council in August 2020 (COM(2020) 383 final), which provided a preliminary overview of Member States' implementation of the measures, with a focus on measures with a transposition date of 1 January 2020. The report outlined the policy choices made by Member States, where the Directive provided for this, and noted the state of play in infringement cases against Member States for failure to notify national implementing measures. Reverse hybrid mismatches were not considered in the interim report as the effective transposition date for this rule was 1 January 2022. The report was a first step in the evaluation process and concluded that the Commission would produce a comprehensive evaluation report on the measures in ATAD.

The evaluation of ATAD provides evidence on the implementation of the Directive, to what extent its objectives have been achieved, and whether the measures still respond to existing tax avoidance challenges. The evaluation was published on 24 June 2026, and covers the period from 2019, when the Directive's first provisions entered into force, until mid-2025. It is based on an independent study carried out by an external contractor and examines three broad themes: firstly, the implementation of ATAD in the Member States and the policy choices made where the Directive allowed the Member State legislator to choose. Secondly, the functioning of ATAD, in the form of a qualitative and quantitative assessment of the effectiveness of ATAD's measures as a minimum standard in addressing aggressive tax planning. Thirdly, the evaluation considers the futureproofing of the measures, in particular their fitness for purpose and continued relevance when considering the introduction of a Council Directive EU 2022/2523 on a global minimum level of taxation of 14 December 2022. The evaluation provides an evidence-based assessment of ATAD according to the five evaluation criteria of Better Regulation: effectiveness, efficiency, relevance, coherence and EU added value. It identifies the main Problems that emerge from the implementation and application of the ATAD which were then considered in the context of the initiative for a simplification Omnibus on taxation.

3.2.6 Tax incentives to support the Clean Industrial Deal

The Clean Industrial Deal brings together climate action and competitiveness under one overarching growth strategy. In February 2025, the Commission published the Clean Industrial Deal

Communication ⁽⁸⁹⁾ that sets out a joint roadmap for decarbonisation and competitiveness, building on the Competitiveness Compass. It focuses on the clean-tech sector and on energy-intensive industries.

Mobilising resources for private investment is crucial to accelerate the deployment of renewable energy and reduce greenhouse gas emissions. The EU needs to increase its annual investments in energy, in industrial innovation and upscaling, and in the transport system significantly. The Clean Industrial Deal State Aid Framework (CISAF) ⁽⁹⁰⁾, adopted in June 2025, enables necessary and proportionate State aid that crowds in private investment. Moreover, it is important that elements of Member States' corporate tax systems, which impact on private investment decisions, set price signals that support a clean business case and do not undermine other decarbonisation policies.

To support the Clean Industrial Deal, the Commission adopted a Recommendation on tax incentives.

Adopted in July 2025 and aligned with CISAF, the recommendation ⁽⁹¹⁾ sets out two types of tax incentives to stimulate investment in clean technologies and industrial decarbonisation, (1) accelerated depreciation up to immediate expensing, and (2) tax credits. Accelerated depreciation up to immediate expensing can allow companies to more quickly write off upfront costs than under normal depreciation rules and reduce the barrier of initial investment into clean technologies. Tax credits can provide a direct reduction in tax liability for businesses investing in strategic sectors for the clean transition. The scope, type and design of tax incentives advocated are underlain by the principle that the tax incentives should be cost-effective, well targeted, and simple for both firms and tax administrations to apply, while providing timely and predictable support to investment decisions (see also Section 1.2.2).

3.3 Recent EU tax policy initiatives in indirect taxation

3.3.1 Tobacco taxation proposal

The Tobacco Taxation Directive provides the current legal framework for excise duty on tobacco, defining and classifying tobacco products and laying down minimum rates of excise ⁽⁹²⁾. On 16 July 2025, the Commission adopted a proposal for a revision of the Tobacco Taxation Directive, grounded in internal market and revenue considerations while also supporting public health objectives ⁽⁹³⁾.

The proposed revision reflects recent evolutions in the market, particularly the development of new tobacco and tobacco related products. The proposal revises minimum excise rates for traditional tobacco products, in support of the objectives of Europe's Beating Cancer Plan; enlarges the scope of the Directive to new tobacco and tobacco related products and sets the minimum rates for them; and enlarges the scope of the Directive to raw tobacco to better control movements and contribute to the fight against the illicit trade in tobacco.

The proposed revision remains under discussion in the Council at the time of writing. The Commission continues to support efforts to reach agreement on this revision.

89 European Commission (2025g), [The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation](#), COM (2025) 85 final.

90; European Commission (2025h), [Framework for State Aid measures to support the Clean Industrial Deal \(Clean Industrial Deal State Aid Framework\)](#), COM (2025) 7600 final, 25 June 2025

91 European Commission (2025i), Recommendation on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State aid Framework, COM(2025) 4319 final, https://taxation-customs.ec.europa.eu/news/european-commission-makes-recommendations-tax-incentives-accelerate-clean-industrial-transition-2025-07-02_en

92 Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco.

93 European Commission, *Revision of EU legislation on excise duties for manufactured tobacco*, available at: https://taxation-customs.ec.europa.eu/taxation/excise-duties/excise-duties-tobacco/revision-tobacco-taxation-directive-proposal_en

3.3.2 Energy Tax Directive

The revision of the Energy Taxation Directive (ETD) is an important contribution to encourage a green and competitive transition across the EU by comprehensively reviewing the way energy products (including electricity) are taxed. As part of the Fit for 55-package, the Commission adopted a proposal in July 2021 for new rules regarding energy taxation to address possible distortions in the internal market and preserve the ability of Member States to generate sufficient tax revenues. The proposal is the only one of the Fit for 55 package that has not yet been agreed. Negotiations are ongoing in the Council but to date agreement for adoption has not been possible.

The ETD has remained unchanged since its adoption in 2003 while energy markets, technologies and policy priorities in the EU have experienced significant developments. In the absence of an indexation mechanism, the real value of the minimum rates has eroded over time, and the minimum rates no longer have a converging effect on national rates as the vast majority of Member States tax most energy products and, in some cases electricity, considerably above the ETD minima. Highly divergent national rates are applied in combination with a wide range of tax exemptions and reductions to safeguard the competitiveness of EU industries as well as to pursue other national policies. This also increases the fragmentation of the internal market and distorts the level playing field across the affected sectors of the economy. Fiscal treatment of the business sector, in particular energy intensive businesses and the manufacturing sector, varies considerably across Member States. Provisions in the Directive providing the possibility of reduced rates or exemptions for energy-intensive industries have, in effect, proven challenging to implement by Member States.

The revision of the ETD is based on a new hierarchy for minimum rates. Firstly, the proposal includes a new structure for minimum tax rates based on the energy content and environmental performance of fuels and electricity, rather than on volume as it is currently the case. Secondly, the proposal broadens the taxable base by including more products in the scope and by removing some of the current exemptions and reductions. The proposal groups energy products and electricity in general categories per type, which are ranked according to energy content and environmental performance. Thus, the new system would ensure that the most polluting fuels are taxed at the highest rates. Member States must ensure this ranking is replicated domestically. At the same time, several exemptions and rate reductions would be removed, with much less margin for Member States to set rates below the minima for specific sectors. Flexibilities for energy intensive industries would be made administratively simpler to introduce.

The Commission continues to support efforts by Council to reach agreement on this revision. Until such agreement is reached, the Commission continues to remind Member States of flexibilities within the existing Directive which can be used to address competitiveness and cost of energy issues.

3.3.3 VAT in the Digital Age (progress on implementation)

Work is underway on the implementation of the VAT in the Digital Age (ViDA) package. The ViDA package, adopted by the Council on 11th March 2025 ⁽⁹⁴⁾, contains a set of measures to modernise and make the EU's Value-Added Tax (VAT) system work better for businesses and more resilient to fraud by embracing and promoting digitalisation. It encompasses (i) Digital Reporting Requirements encouraging the uptake of e-invoicing and the digitalisation of reporting obligations, significantly combating cross-border fraud, (ii) addressing disparities in the VAT treatment in the platform economy sector, particularly in the short-term accommodation rental and passenger transport sectors and (iii) introducing a number of Single VAT Registration measures which will significantly reduce the instances in which a business is required to register for VAT in another Member State. In view of the important challenges in terms of IT and legal implementation, DG TAXUD published a comprehensive Implementation Strategy on 24 September 2025 ⁽⁹⁵⁾ and Commissioner Hoekstra

94 [Adoption of the VAT in the Digital Age package - Taxation and Customs Union.](#)

95 [Implementation Strategy-ViDA.](#)

hosted an Implementation Dialogue on 28 October 2025 with business representatives ⁽⁹⁶⁾. In line with the ViDA Implementation Strategy, in 2026 the focus is on IT developments, legislative work and related guidance as well as continuous engagement with Member States and businesses/stakeholders via formal and informal fora.

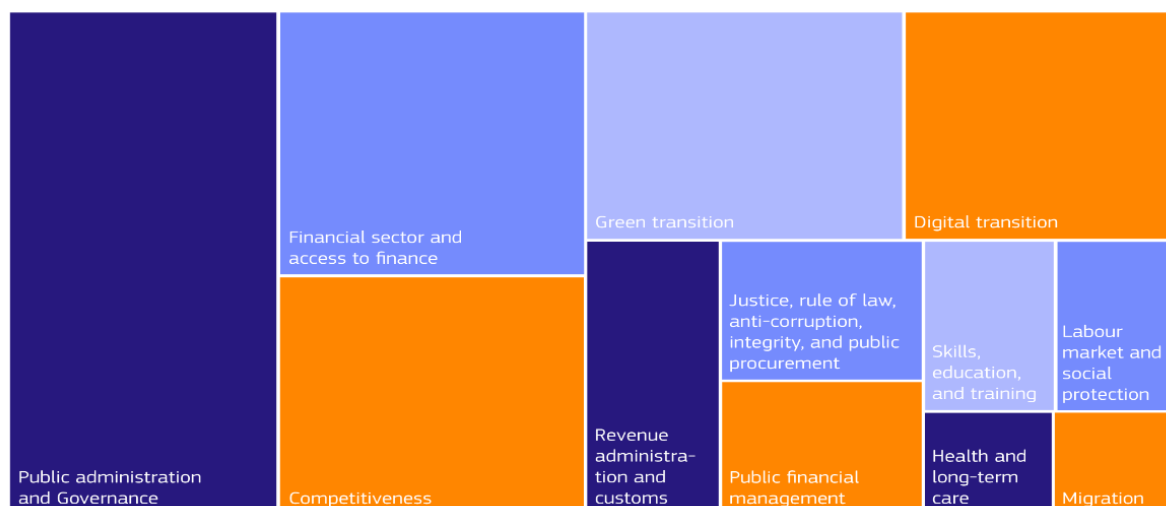
3.4 TSI support for capacity building and tax reforms

3.4.1 Background on the Technical Support Instrument (TSI)

The European Union and Member States continue to work closely together to foster competitiveness while achieving economic stability. The Technical Support Instrument (TSI) is the EU programme delivered by the European Commission that provides tailor-made technical expertise to EU Member States to design and implement reforms. TSI supports Member States to implement (i) national recovery and resilience plans under the Recovery and Resilience Facility; (ii) EU priorities and legislation; and (iii) individual Member State reform goals. The TSI supports Member States to implement resilience-enhancing reforms focussing on those arising from country-specific recommendations under the European Semester (Figure 63). The TSI mobilises the best available technical expertise from the private and public sector, including the European Commission and international organisations. It provides a range of services including strategic and legal advice, studies, training, and expert visits.

Since 2020 TSI support for Member States has been complemented by workshops and study visits funded through the TAIEX instrument ⁽⁹⁷⁾. The willingness of Member States' experts and representatives to share their experiences and to engage in TAIEX peer-to-peer support is greatly appreciated by the European Commission. TAIEX support has proven itself as a catalyser for sharing good practices on reform design and implementation in the EU.

Figure 63: TSI support by policy field 2021–2026.



Note: The size of squares indicates the share of reforms in the respective policy field.

Source: SG REFORM database

TSI support contributes to the objectives of the Competitiveness Compass to achieve the European Commission priority to enhance EU competitiveness and strengthen the Single Market. Creating a better business environment for multinational enterprises (MNEs) by removing barriers to investment,

96 https://taxation-customs.ec.europa.eu/news/commissioner-wopke-hoekstra-hosts-implementation-dialogue-vat-digital-age-vida-2025-10-30_en.

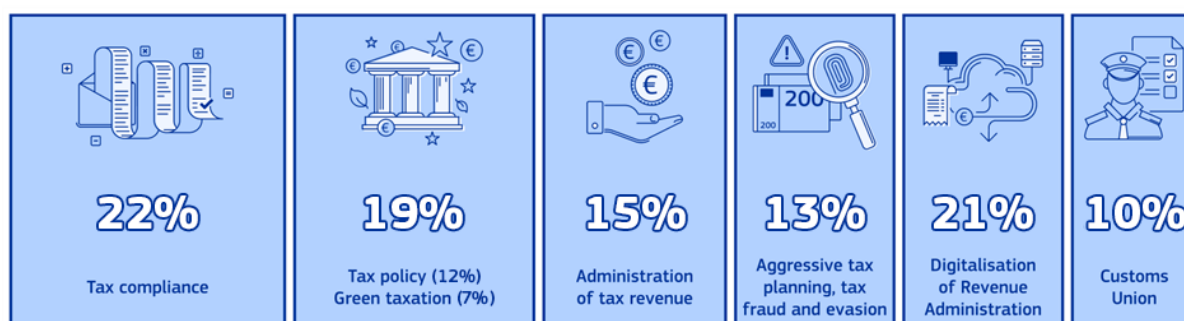
97 https://neighbourhood-enlargement.ec.europa.eu/funding-and-technical-assistance/taiex_en

enhancing EU competitiveness and strengthening the Single Market will ensure continued investment and growth in the EU economy.

Fair and effective taxation is at the heart of a competitive social market economy. TSI support for revenue administration aims to strengthen administrative capacity and refine tax systems to simplify process and reduce administrative burden, improve tax and customs compliance, combat aggressive tax planning, fraud, and evasion, and ensure effective implementation of EU law while supporting policy developments to create a better business environment and expand green and environmental taxation. An ongoing area of focus is digitalisation, which presents challenges and opportunities for tax and customs authorities. Aligned with this work, TSI work reflects the country specific recommendations and national Recovery and Resilience Plans.

In the areas of taxation and revenue administration, all 27 Member States have benefitted from technical support for over 215 measures, with numerous projects still ongoing. Figure 64 below shows the thematic areas of TSI support for revenue administrations, with 22% of support measures focusing on tax compliance, 15% on administration of tax revenue and 22% on digitalisation of revenue administration.

Figure 64: Areas of TSI support to revenue administration 2019-2026.



Source: SG REFORM

3.4.2 Details of support delivered to Member States

Since 2020 EU tax administrations have benefitted from TSI support for the adoption of reforms to support the green and digital transition and achieve EU priorities. The impact of this support can be seen in improved business environments, simplified tax processes and increased tax collection. These are fundamental to continued growth and competitiveness across the Single Market.

TSI work in the area of Revenue Administration has supported EU competitiveness through simplification of the regulatory environment and reduction of tax obstacles to investment. TSI support for the introduction and expansion of Cooperative Tax Compliance Programmes (CTCP) for large taxpayers in Poland, Belgium, Bulgaria and Romania ⁽⁹⁸⁾ has resulted in an improved operating environment for businesses in those Member States. This can be seen in increased participation by multinational enterprises (MNE's) in the CTCP programmes of Belgium and Poland. Moreover, TSI support for broader risk-based approaches and improved audit methodology has supported tax administrations to increase revenue while reducing administrative burden for compliant taxpayers. This includes support for capacity building on advanced data-driven approaches and tools for tax compliance risk assessment and tax audits in Greece.

Digital transformation is recognised as an important tool to reduce administrative burden for revenue administrations, taxpayers and businesses while improving compliance and increasing revenue collection. TSI has provided significant support to tax administrations to modernise their processes, in alignment with EU digital goals and the OECD initiative Tax Administration 3.0. In 2024 TSI supported revenue administrations with their digital transformation; the support provided to 7 Member States includes support to

98 https://taxation-customs.ec.europa.eu/taxation/economic-analysis/annual-report-taxation_en

Ireland to strengthen tax compliance in the platform economy through introduction of eWithholding Taxes ⁽⁹⁹⁾, support to Malta to introduce real time payroll reporting (see Box 7 below) ⁽¹⁰⁰⁾, and to Estonia to redesign its Tax Administration's register of taxpayers ⁽¹⁰¹⁾.

TSI support for simplification of revenue administration extends beyond digitalisation to include strategic review and transformation of revenue administration and improved methodological approaches to taxpayer compliance and debt collection. Support was provided to six Member States (Bulgaria, Greece, Romania, Malta, Czech Republic and Slovakia) in a multi-country project that included a TADAT ⁽¹⁰²⁾ assessment and development of strategic plans for their tax administrations. This support will enable these administrations to collect taxes and deliver taxpayer services more efficiently. A separate multi-country project delivered support to three Member States (Austria, Belgium and Portugal) to refine and implement behavioural analysis methodology to change taxpayer behaviour to improve tax compliance and tax collection without burdensome enforcement activity. More details on this project are in Box 8 below.

The 2025 TSI work with revenue administrations focussed on tax simplification. Tax simplification is key to improving the business environment, enhancing business competitiveness and contributing to economic growth. Under this work, 20 Member States' tax and customs administrations are receiving support, including support for implementation of ViDA requirements in Germany, of the Pillar Two Directive ⁽¹⁰³⁾ in Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Greece, Ireland, Poland, Romania, Slovenia and Sweden; and for implementation of the Carbon Border Adjustment Mechanism (CBAM) ⁽¹⁰⁴⁾ in, Belgium, Spain, Ireland, Italy, Luxembourg, Latvia and Slovakia.

The support for Pillar Two implementation has a particular focus on preparing Member States to collect and exchange the Top Up Tax Information Return (TTIR) ⁽¹⁰⁵⁾, build technical capacity of tax officials to administer the Pillar Two rules and develop a coherent approach to risk assessment to ensure compliance while simplifying the administrative burden on tax administrations and large enterprises in scope. This project has already provided key deliverables to Member States to assist with administration of the TTIR. Comprehensive training on Pillar Two created under this TSI project will be made available on the TAXUD Learning Management System Platform in 2026 ⁽¹⁰⁶⁾.

The effective implementation of the Directive on Administrative Cooperation in the field of taxation (DAC) is a critical pillar in the fight against cross-border tax fraud, evasion and avoidance ⁽¹⁰⁷⁾. TSI has supported 12 Member States to improve the quality and use of data exchanged under DAC. Four of these were multi-country projects involving respectively: Slovakia and Poland; Finland and Hungary; Ireland and Croatia; and Lithuania, Romania and Bulgaria. Three standalone projects were implemented in Belgium, Czechia, and Malta respectively. These improvements will simplify the administration of DAC while reducing tax evasion and avoidance and strengthening Member States' tax systems. In Malta the TSI support for DAC has impacted on the ground with new teams in place to carry out the project recommendations. In Belgium the risk engine developed through the TSI project has improved the targeting and outcomes of audit interventions.

99 https://reform-support.ec.europa.eu/what-we-do/revenue-administration-and-public-financial-management/exploring-e-withholding-taxes-future-proof-tax-compliance-ireland_en

100 https://reforms-investments.ec.europa.eu/technical-support-instrument-0/revenue-administration-and-public-financial-management/strengthening-tax-compliance-through-implementation-real-time-reporting-malta_en

101 https://reform-support.ec.europa.eu/publications-0/redesigning-estonian-tax-administrations-register-taxpayers_en

102 [Enhance strategic tax administration reforms through Tax Administration Diagnostic Assessment Tool in EU countries](#)

103 https://taxation-customs.ec.europa.eu/taxation/business-taxation/minimum-corporate-taxation_en

104 <https://eur-lex.europa.eu/EN/legal-content/summary/carbon-border-adjustment-mechanism.html>

105 The international term is the Global Information Return (GIR).

106 https://reforms-investments.ec.europa.eu/publications-0/manual-mne-groups-global-minimum-tax-pillar-two-compliance-obligations_en

107 https://taxation-customs.ec.europa.eu/taxation/tax-transparency-cooperation/administrative-co-operation-and-mutual-assistance/directive-administrative-cooperation-dac_en

The timely and effective implementation of EU tax legislation is central to developing the Single Market and protecting Member States' tax revenues by preventing tax avoidance and abuse. In 2026 TSI support for the implementation of EU law continues with support for 12 Member States to implement ViDA and nine Member States to implement the FASTER directive. This support will harmonise implementation to reduce complexity for businesses. Additionally in 2026, support is commencing for Green Reform in 18 Member States to build their capacity to assess the macroeconomic and fiscal impacts of climate change, climate policies, and nature-related risks. This will enable more accurate estimates of the fiscal effects of climate-related tax measures, such as changes to tax deductions or the introduction of targeted tax credits, thus improving the efficiency of their tax systems.

Box 7: Strengthening tax compliance through implementation of real-time reporting in Malta

BACKGROUND

In 2023 the Malta Tax and Customs Administration (MTCA) launched a new strategy of modernising and enhancing tax compliance until 2025 and beyond. The estimated VAT compliance gap (as a % of VAT Total Tax Liability) for 2023 in Malta amounted to 24.2% and shadow employment remains a persistent problem ⁽¹⁾. This transformation towards compliance by design will simplify tax administration and improve the business environment in Malta. The MTCA requested TSI support for the design and implementation of a real-time tax reporting system for payroll income tax and VAT. This project focused on capacity building to enable MTCA to implement and operate compliance by design systems for payroll and VAT. The work was aligned with ViDA to prepare MTCA to implement the new rules effectively. This project aligned with the goals of the Digital Decade and OECD Tax Administration 3.0.

SUPPORT MEASURES

The project commenced with a TALEX workshop, allowing knowledge sharing from Hungary, Italy, Ireland and Poland, Member States that already had advanced solutions for real time payroll reporting (Ireland, Hungary) and e-invoicing and real time VAT reporting (Italy, Poland, Hungary). This demonstrated the challenges and the huge benefits to be gained from these technological reforms. The workshop also created a network of experts for MTCA to engage with throughout the project.

The work continued with support from private experts who completed a current state report, a benchmarking report and a feasibility study to identify global good practices and assess the best options for Malta. MTCA leadership decided on the way forward and the consultants then developed an action plan and elaborated technical specifications for the real time payroll reporting solution. The work was all completed in close collaboration with MTCA and SG REFORM officials. As stakeholder engagement is key to successful transformation the consultants provided change management and communications materials and extensive training on change management.

The project concluded with a stakeholder workshop which was well attended by Maltese business representatives and software providers. The work to implement the new processes has commenced and they are expected to go live between 2028-2030.

OUTCOMES AND IMPACT

The project ensured the Maltese tax officials had:

- Improved knowledge of international good practices of real time reporting;
- Enhanced awareness of the benefits of real time reporting to reduce administrative burden while increasing revenue collected;
- Technical specifications to enable implementation of a real time payroll system compatible with their new core tax system.
- A clear action plan for the next steps to ensure progress is achieved.

CONCLUSION

This project prepared the MTCA to introduce real time reporting for businesses in Malta by engaging with internal and external stakeholders to produce an actionable detailed implementation roadmap, including technical requirements, for the real-time tax reporting systems in Malta. This will contribute to addressing the tax gap in Malta as well as enhancing tax compliance by further digitalising the tax data processing experience creating a simpler more effective tax administration for tax officials and taxpayers.

Box 8: Strengthening tax compliance by implementing behavioural insights for revenue administration in Belgium, Austria, and Portugal

Tax evasion and late tax payments are systemic problems across all Member States. This can have significant budgetary consequences. However, as individual tax arrears are frequently small debts spread across a significant number of individuals, the collection of such tax arrears is time and resource intense and is administratively burdensome for revenue administrations. The tax administrations of Austria, Belgium and Portugal sought to use behavioural insights (BI) to increase rates of voluntary tax compliance. New tools and approaches to provide real time compliance data across segments of taxpayers were required to help them to design targeted interventions based on behavioural insights (BI). Some tax administrations have run BI-inspired pilot projects and have begun to build more expertise in this field. While international results have been positive, behavioural approaches for tax compliance are still not widely used (OECD, 2019a).

The objective of this project was to demonstrate the strong positive impact that BI could have on voluntary tax compliance. Furthermore, the project aimed to strengthen the institutional capacity to implement approaches based on the opinions, attitudes, trust levels, and motivations of taxpayers for voluntary compliance. TSI supported the tax administrations of Austria, Belgium and Portugal in a multi-country project for a period of three years to explore and implement these new BI approaches. The support was delivered by external experts in collaboration with SG REFORM and the Joint Research Centre (JRC) of the European Commission.

SUPPORT MEASURES

Member State experts engaged with the European Commission and external experts to exchange ideas on behavioural insights for tax compliance and develop a methodological handbook. This handbook provided a comprehensive explanation of the BASIC model for behavioural interventions and how to use it to develop behavioural interventions to improve tax compliance. Extensive analysis of the situation of BI in each participating Member State followed. In parallel, the capacity building needs in each country were identified and followed by specific training on BI prepared for each country team. The next key activity was the design and implementation of survey on opinions, attitudes, trust levels and motivations for tax compliance – with common and country-specific questions. This survey was the basis for the design of specific BI field studies in each country, which were implemented by the participating tax administration. Furthermore, technical support was provided for elaboration of a concept and technical specifications for a tax compliance dashboard in each country to help tax authorities with segmentation of the taxpayers and to provide monitoring information on the tax compliance level.

OUTCOMES AND IMPACT

The project helped tax administrations of Austria, Belgium and Portugal to:

- Identify relevant BI interventions for each country based on analysis of the current situation, and international best practices.
- Improve the knowledge and capacities of the tax authorities to implement BI interventions for strengthening tax compliance.
- Implement as a pilot BI intervention to test them in practice and improve the approach.
- Increase the awareness among key stakeholders and the public of the BI tools and the benefits of their use.
- Implement a digital dashboard for monitoring the behaviour of different segments of taxpayers and reinforce a customer-oriented approach.
- In the long run, the project should increase voluntary tax compliance for on-time payments and filing tax declaration on personal income tax in Austria, Belgium and Portugal in a very cost-effective way for both tax administrations and taxpayers.

This multi-country project brought three tax administrations together to find innovative approaches to tackle non-compliance. Through peer learning and the development of new tools the capacities of the tax administration were improved to address similar challenges. The close involvement of the European Commission through SG REFORM and JRC, together with external experts created strong synergies and assured the high quality of the project results. More information can be found on the [webpage of the project](#).

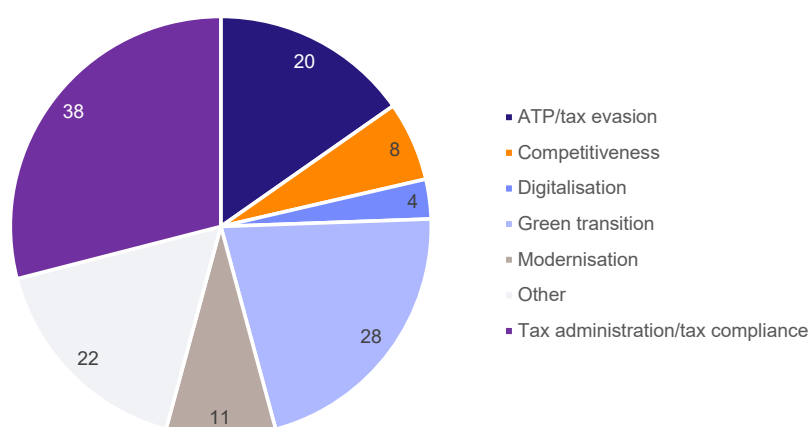
3.5 Taxation reforms in the context of the Recovery and Resilience Facility

With the support of the Recovery and Resilience Facility (RRF), Member States implemented numerous tax reforms in 2025 to make tax systems more equitable and sustainable and address country-specific recommendations under the European Semester. Under their national Recovery and Resilience Plans (RRPs), Member States tackled reform challenges related to the green transition, aggressive tax planning and transparency.

3.5.1 Background

The RRF is the temporary crisis instrument at the heart of NextGenerationEU supporting the implementation of reforms and investments. The RRF has helped Member States to recover from the COVID-19 pandemic and make their economies and societies more resilient and competitive. In line with its temporary nature, the RRF is subject to strict implementation deadlines, ending on 31 August 2026. These deadlines have provided a strong incentive to swiftly implement the reforms and investments in the RRFs. In the area of taxation, the RRF supported 131 reforms and investments in 24 Member States, which are implemented from 2020 until the end of the Facility in 2026. Figure 65 provides an overview.

Figure 65: Categories of RRF tax measures



Source: European Commission, RRF Scoreboard.

3.5.2 Reforms to tackle aggressive tax planning

Aggressive tax planning exploits loopholes in tax systems and by reducing or avoiding tax payments, it creates issues of double non-taxation in the EU. By tackling these complex tax planning structures, the RRF ensures fairer taxation and helps decrease the significant revenue losses for tax administrations created with these harmful tax practices.

In 2025, two Member States introduced measures aimed at tackling aggressive tax planning. The measures on outbound payments jurisdictions on the EU list of non-cooperative jurisdictions, as well as low or no tax jurisdictions aim to prevent businesses exploiting the limits of the law to minimise taxation through outbound payments. These reforms are crucial to improve the fairness of national tax systems and improve tax compliance.



Ireland introduced legislation governing outbound payments to prevent situations of double non-taxation. The legislation applies to all payments and distributions made on or after 1 April 2024. For payments or distributions arising from arrangements that were already in place on or before 19 October 2023, the measure takes effect from 1 January 2025. The legislation provides for defensive measures in the form of withholding taxes applying to outbound payments made by Irish-resident companies.



Cyprus amended its legal framework to tackle aggressive tax planning. The legal changes concerned the treatment of interests, dividends, and royalties in relation to non-cooperative jurisdictions. Cyprus introduced a withholding tax of 17% on the interest received or credited to any company that is not resident in Cyprus but resident, or registered, or incorporated in non-cooperative jurisdictions. The same amendment introduced a withholding tax of 17% on dividends paid to a company in a non-cooperative jurisdiction received from a company resident in Cyprus. In addition, the amended law increased the scope of the application of the withholding tax to associated persons and introduced an anti-abuse provision to reduce the risk of circumvention.

Cyprus introduced a further corporate tax residency test based on the incorporation of each entity. Companies are now also considered residents for tax purposes in Cyprus even if the control and management are exercised outside of Cyprus, when they are incorporated or registered in the country, unless they are already considered tax resident in any other country. This effectively increases the scope of the income tax law and closes tax loopholes.



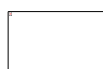
Malta implemented a reform with the objective of preventing losses in public revenue arising from international tax arbitrage. This reform ensures that sufficient staff within the tax administration is assigned and trained to apply transfer pricing rules effectively. As part of the reform, additional officials have been assigned to transfer pricing work, bringing the total number of specialised staff to eight. These officials receive targeted training through dedicated courses, with each officer completing a minimum of 80 hours of training in transfer pricing. In addition, training events for more than 250 tax practitioners and company representatives regarding Advance Pricing Agreements and the scope of transfer pricing legislation were organised as part of this reform.

3.5.3 Reforms to fight tax evasion

The RRF supported Member States in the implementation of reforms tackling the shadow economy and effectively fighting tax evasion. The shadow economy is a major challenge for revenue administrations and creates unfair competition for businesses. By helping Member States to establish digital and other tools, the RRF supports reducing undeclared work and increasing tax transparency within the EU.



Greece implemented a reform aimed at reducing tax evasion by strengthening the income tax reporting system for businesses. The reform introduced primary and secondary legislation enabling the use of the myDATA digital reporting system for income tax returns, covering businesses and self-employed individuals. It also established new requirements for the transmission of data to the tax administrations and enables the use of this data for income tax purposes. The full implementation of the reform is expected to help combat tax evasion and improve tax compliance, including by encouraging the use of electronic payments for tax obligations among the self-employed.



Italy implemented the reform of the tax administration to encourage tax compliance, increase the efficacy of audits and controls, and reduce compliance costs for taxpayers. In 2025,

the reform was completed with the achievement of a final target, which required a 10% reduction in the “propensity to evade” over the reference period. This result was achieved thanks to the measures implemented in previous years under the RRP, including, *inter alia*: the full operationalisation of the dedicated IT infrastructure for making pre-filled VAT returns available; the improvement of the database used for voluntary compliance communications, so-called “compliance letters”; the establishment of a digital infrastructure for the analysis of big data, with the aim of increasing the effectiveness of risk analysis; the recruitment by the Revenue Agency of more than 4,000 staff; the introduction of effective sanctions in case of refusal of electronic payments; the extension of compulsory electronic invoicing to all sectors previously exempted.



In Latvia, a reform was implemented to improve the quality and efficiency of compliance risk management and other activities aimed to combating the shadow economy. As part of the reform, the State Revenue Service published a handbook for compliance risk management focused on addressing undeclared wages. The handbook determines a set of measures and appropriate working methods to limit and reduce undeclared work income, encourage the payment of payroll taxes, and ensure a consistent approach to work organisation and reporting of results. In addition, Latvia introduced a data-driven basket of services tailored to different taxpayer segmentation groups. The new system integrates risk assessments into tax procedures, enabling the targeted collection of additional information from taxpayers classified in lower-risk segments.

3.5.4 Green tax reforms

With the implementation of green tax reforms in the EU, the RRF enhances the decarbonisation of the economy, supports cutting greenhouse gas emissions and helps the EU on its path to climate-neutrality by 2050. The RRF supported the implementation of green tax reforms in three Member States throughout 2025.



In Denmark, the implementation of the reform increases emission taxes on industries, including agriculture and mineralogical processes, thereby achieving cost-efficient reductions of greenhouse gases. The reform entered into force on 1 January 2025, and it is a pivotal element in incentivising the shift from fossil fuels to cleaner energy, thus enabling the green transition of industry, agriculture and mineralogical processes. The reform is part of the wider reform agenda called the green tax reform, which also includes measures to financially support industries with the green transition in combination with subsequent higher taxation on energy use/emissions such as the emission taxes on industries.



In Ireland, an important reform to decarbonise the economy by increasing the carbon tax rate and effectively disincentivising the use of fossil fuels was fully implemented as part of the national RRP. The Carbon Tax is a key policy instrument in Ireland for incorporating the environmental costs of carbon emissions into economic decision making, consistent with the polluter pays principle. In 2025, Ireland achieved the last step in this overarching reform entailing five successive annual increases in the carbon tax rate. It was the fifth consecutive annual increase implemented between 2021 and 2025 of EUR 7.50 per tonne of CO₂ emissions, which increased the price per tonne of carbon dioxide emitted for petrol and diesel to EUR 63.50 in 2025. By raising the carbon tax rate, Ireland is effectively making the use of fossil fuels more expensive and thus, encouraging a shift to the use of cleaner energy. This reform is a crucial step for Ireland in encouraging a transition to a carbon-neutral economy and it will support Ireland in meeting its EU climate targets.



In Italy, an important reform to reduce environmental harmful subsidies was implemented as part of the national RRP. As part of the reform, environmentally harmful subsidies have been reduced

by more than EUR 4.5 billion as of January 2026. The main part of the reduction concerned tax subsidies, including the removal of the preferential excise tax treatment of diesel over petrol, a reformed taxation of company cars to incentivize electric vehicles, and the abolition of reduced VAT rate for waste delivery to landfill.



In the Netherlands, a reform of vehicle taxation was introduced, providing for the gradual phase-out of the purchase tax exemption for fossil-fuelled commercial vans. Under the revised rules, the tax exemption for motor vehicles and motorcycles no longer applies to fossil-fuelled vans, which are registered by entrepreneurs after 31 December 2024. As a result, newly registered fossil-fuelled commercial vans are no longer eligible for the exemption, effectively ending its application over time.

3.5.5 Reforms to modernise tax systems

In addition, the RRF supported Member States in the implementation of tax reforms to improve transparency, digitalise reporting tools and modernise tax systems.



Greece undertook a comprehensive simplification and modernisation of its tax legislation, including the VAT code, stamp duty, property taxes, state debt collection and the national customs code in line with digitalisation and EU best practices. The traditional paper-based stamp duty system was replaced by a digital transaction levy, accompanied by the introduction of electronic systems for tax declarations and payments. As part of this reform, Greece established an integrated taxpayer information system with a dedicated online portal for taxpayer information to enhance transparency, legal certainty and tax compliance. The updated framework reflects the needs of the digital economy and supports digital transactions, enabling contracts and certificates to be submitted electronically to the Greek authorities.

4

Social and Economic Dimensions of Tax Compliance

To understand the social and behavioural factors that enable or limit tax authorities' compliance efforts, it is useful to consider the perspective of the taxpayer. High levels of tax compliance are the product of a variety of institutional, social and economic factors and result from an interplay between tax administrations and taxpayers. The European Commission's Mind the Gap Report (2025a) ⁽¹⁰⁸⁾ provides a comprehensive in-depth analysis of national compliance enforcement frameworks and capacity and underlying determinants. The present chapter complements it by discussing tax compliance from the taxpayers' perspective on the premise that tax compliance efforts are embedded in social structures, and recognition of complementary elements of tax compliance can support efforts to reduce the tax gaps ⁽¹⁰⁹⁾.

The chapter is structured as follows. In the Introduction a popular mandate for the EU to engage in compliance enforcement work is identified in the Flash Eurobarometer data on Citizens' attitudes towards taxation. The section also introduces the foundational rational choice model of tax fraud and compliance. Section 4.2 discusses measurement of tax compliance and emphasises the role of the tax gap as a strategic health-indicator for the tax system. Section 4.3 disentangles how different aspects of the tax system affect taxpayers' compliance behaviour. The importance of the compliance enforcement capacity of tax administrations is emphasised in Section 4.4 with reference to the analysis in the country fiches of the Mind the Gap Report. Section 4.5 discusses tax morals and Section 4.6 analyses the socio-economic characteristics driving replies to the Flash Eurobarometer variables discussed throughout the chapter.

4.1. Tax compliance from the taxpayer perspective - Introduction

4.1.1. A popular mandate for compliance-focused policymaking

The EU's role in combating tax avoidance and evasion is strongly supported by citizens, who view it as the Union's most important taxation priority. Combatting tax avoidance and evasion is the leading taxation priority EU citizens see for the EU. About 54% of respondents indicated that this action should be prioritised (see Figure 66). Other priority actions are cited less frequently, including preventing double taxation between EU countries (26%) and resolving tax disputes among Member States (23%). Measures aimed at supporting the green transition through taxation (19%) and facilitating the digitalisation of tax and customs administrations (16%) are mentioned by a fewer, though still a significant share of respondents. Overall, the findings suggest strong public support for EU action in addressing tax avoidance and evasion relative to other taxation objectives.

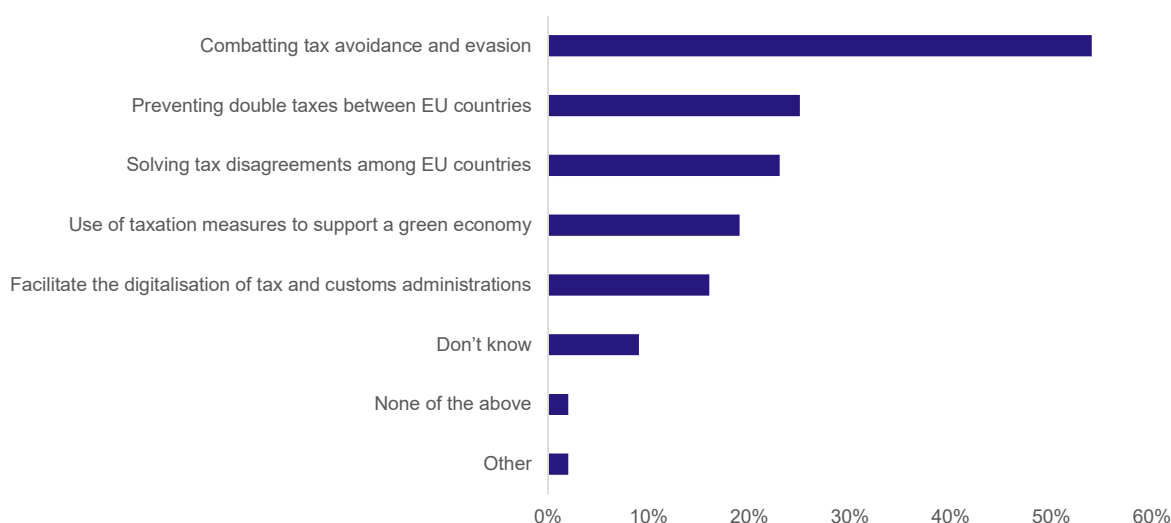
Citizens in nearly all Member States rank action against tax avoidance and evasion as the top taxation priority. Support for this priority is particularly strong in France (65%), Cyprus (64%), Portugal (61%),

¹⁰⁸ [European Commission, \(2025a\), Mind the Gap – Full Report. See also the Mind the Gap website.](#)

¹⁰⁹ Tax non-compliance can be intentional or result from errors. Chapter 4 focuses on the intentional dimension of non-compliance and disregards the elements related to errors.

and Finland (60%). Estonia is the only Member State where combating tax avoidance and evasion is not ranked as the top priority; instead, a larger share of respondents favour preventing double taxation between EU countries (40%) over measures to combat tax avoidance and evasion (36%).

Figure 66: Share of respondents by EU priority actions with regards to taxation, 2025



Source: European Commission. (2025k), "Flash Eurobarometer FL562: Citizens' attitudes towards taxation."

4.1.2. Understanding tax compliance: a thought experiment

The determinants of tax compliance by taxpayers can be examined through a rational choice framework in which evasion is modelled as a decision weighing expected costs and benefits (¹¹⁰).

To understand the determinants of tax compliance a thought experiment with a rational choice model of tax evasion can be helpful. In such a model, a rational individual evaluates expected costs and benefits of tax evasion to determine the level of income underreporting (or other evasion strategies). In the standard framework developed by Allingham and Sandmo (1972), a taxpayer chooses whether to under-report income by comparing the financial gain from evasion with the expected cost of being detected. In this model, the extent of evasion depends on such parameters as the taxpayer's income, the statutory tax rate, the perceived probability of detection, and the penalty applied when evasion is uncovered. A risk-averse individual will engage in evasion only when the expected return is positive, meaning that the perceived risk of audit and penalties is sufficiently low relative to the potential gain. The model predicts that a higher tax burden or higher costs to comply would increase evasion while higher detection probabilities or more severe penalties would reduce evasion.

A wide range of psychological, social and moral motivations for complying with tax obligations have been identified. Going beyond the basic rational choice model, tax morale or intrinsic motivation to comply, beliefs of legitimacy and trust in the government, social norms, peer effects and social stigma avoidance have been empirically shown to influence tax compliance by taxpayers. The original model focuses on financial aspects of compliance and disregards social or intrinsic motivations such as tax morals, civic duty, or trust in government which of course also play an important role for tax compliance (e.g. Luttmer and Singhal, 2014).

The remainder of the chapter will discuss the different aspects of tax compliance taking mostly the perspective of the taxpayer. In the model framework, tax compliance increases with the probability of

¹¹⁰ Tax non-compliance can result from conscious and wilful evasion of taxes or tax fraud but can also be the consequence of errors or economic circumstances like bankruptcy. While it is important to recognise the elements of unwilful non-compliance, the chapter focuses on wilful non-compliance and uses the concept of tax compliance mostly in this narrow sense.

detection of and punishment for evasion and decreases with the returns from evasion. Higher compliance costs are also detrimental for compliance.

High detection probability and strong penalties deter tax fraud. Detection probability is mostly determined by the level of compliance enforcement activities of tax administrations and their overall administrative capacity (see Section 4.4 on tax administration capacity). But institutional characteristics like tax withholding and income reporting at the source are also important factors. The level of punishment is determined by tax and criminal law and the treatment of tax evasion (see Section 4.3 on tax system characteristics). Any penalty needs in principle to outweigh the gains from evasion to provide effective deterrence ⁽¹¹¹⁾.

Possible gains from tax evasion increase with the tax burden. Higher tax liabilities increase the material value of tax evasion. We would thus expect that increasing tax rates and increasing incomes both contribute to the likelihood of individuals evading taxes. Tax exemptions and other tax expenditures reduce the tax burden for the taxpayer and thus might reduce the incentive to evade taxes. Tax expenditures however increase the complexity of the tax code which can increase compliance costs, as further discussed in Section 4.3.

Compliance costs negatively affect tax compliance. Everything else equal, higher compliance costs will imply lower compliance levels. Compliance costs are determined by the complexity of the tax code, the ease or difficulty of filing taxes, supporting documentation requirements and the customer service provided by tax administrations, among other things.

Overall tax compliance results from an interplay of institutional and taxpayer determinants. Institutional factors shape the design of the tax system and the enforcement environment. Taxpayer characteristics influence individual responses to those policies. These dimensions interact, as citizens' willingness to comply depends not only on the probability of being detected and penalized, but on several other psychological, social and moral aspects, including overall compliance levels.

4.2. Measuring tax compliance

While this chapter aims to mostly consider the taxpayer perspective, it is still useful to consider how the individual compliance decisions can be aggregated and how overall tax compliance can be measured. The OECD report "Measures of Tax Compliance" from 2014 aims to support tax administrations with practical guidance and provides some useful insights.

Tax gap indicators are widely used to provide information on the overall health of the tax system.

The tax gap — the difference between the tax theoretically owed and the tax actually collected — is an important concept with various operationalisations used by revenue bodies to assess the overall health of the tax system and frame the case for compliance investment. Tax gap indicators need to be estimated for each tax type separately. The aggregated tax gap indicator can provide a single headline figure that is meaningful to policy makers and the public as a measure of how well the tax system is functioning.

Tax gap indicators are useful strategic monitoring tools and health indicators but may be of limited use to measure day-to-day performance of tax administrations. Tax gaps are generally backward-looking as they rely on realised revenue data. The time lag limits the use of tax gaps for operational decision-making in tax administrations. Tax gap indicators may be influenced by several external factors like economic cycles, legislative changes, and social norms. It is thus difficult and sometimes inappropriate to attribute the changes in the tax gap to the activities of the tax administration.

111 The literature related to tax morales and other non-material motivations for tax compliance emphasises that the observed levels of tax compliance cannot be explained by deterrence levels alone.

When considering compliance outcome indicators for day-to-day performance management, it is useful to distinguish three core concepts: outputs, outcomes and effectiveness. Outputs are the deliverables of revenue body activities (e.g. number of audits conducted). Outcomes are the ultimate objectives of compliance strategy (e.g. revenues collected, voluntary compliance rates). Effectiveness measures the extent to which outputs produce desired outcomes. Three categories of tax compliance outcomes are identified: revenue outcomes, voluntary compliance outcomes, and integrity outcomes.

Revenue outcomes focus on whether the right amount of tax is being collected at the right time.

The most established compliance outcome measure is audit yield, i.e. the additional tax recovered through enforcement activities. However, audit yield alone might give a narrow and potentially misleading picture of performance, since it ignores the broader impact of taxpayer education, process improvements, and deterrence. Audit yield only captures downstream enforcement and may rise precisely when voluntary compliance deteriorates. Revenue bodies are encouraged to develop complementary approaches, including estimates of total revenue effects that incorporate the deterrence and sustained-compliance impacts of interventions, and measures of tax assured, which quantify the share of the revenue base where the authority has sufficient confidence that the correct tax is being paid. The use of such indicators allows to shift the focus of compliance risk management from recovering lost revenue to proactively preventing it from going missing in the first place (OECD, 2014).

Voluntary compliance outcomes measure whether taxpayers are meeting their obligations (registering, filing, reporting, and paying) without further enforcement action. The report recommends tracking compliance rates across all four of these obligation domains, using indicators such as on-time filing rates and registration levels in targeted sectors, as these provide early signals of whether compliance strategies are working before any revenue loss materialises. Beyond simple rates, revenue bodies can assess whether compliance is sustained over time. Tools like advanced analytics allow to identify taxpayers with consistently compliant behaviour rather than those who comply only under direct pressure with potential further insights for compliance risk management.

Integrity outcomes are conducive for long-term voluntary compliance. Integrity outcomes address whether the public trusts that the tax system is administered fairly, impartially, and transparently. Public trust in the tax system underpins long-term voluntary compliance. The report recognises that while this is perhaps the hardest category to measure, it is critical, because a loss of public confidence can erode the social norms that sustain a culture of compliance. Key approaches include taxpayer and business surveys that measure perceived fairness and trust in the revenue body, as well as monitoring complaint and dispute data for trends that might signal systemic concerns about how taxpayers are being treated. Revenue bodies are also encouraged to demonstrate integrity through transparent public reporting, publishing outcome-focused narratives that show parliament, ministers, and the wider public that resources are being used effectively and the tax system is being administered with appropriate accountability.

Administrative and compliance costs are a genuine resource burden to the economy and must be factored into the evaluation of any enforcement or policy intervention. Shaw et al. (2012) emphasise that optimal tax policy requires minimising the total social cost of raising revenue, which includes not only tax distortions but also the administrative costs borne by government and the compliance costs borne by taxpayers. Simpler taxes with fewer rates, boundaries, and reliefs result in lower costs on both sides. Shifting responsibility for calculating tax liability to taxpayers reduces administrative costs but raises compliance costs, and vice versa. This inherent trade-off suggests that simplification policies which aim to reduce compliance costs for economic actors should expect to create additional administrative costs: Third-party reporting and pre-filled tax returns are prominent institutional solutions which reduce both, error rates and the compliance burden for individuals (Shaw et al., 2012).

4.3. Tax system characteristics

It has been discussed earlier that tax system characteristics can influence the costs and benefits of tax evasion for a hypothetical and rational taxpayer. This section will focus specifically on the way the tax burden, compliance costs and fines and punishments might influence compliance (i.e. tax evasion and fraud).

4.3.1. Tax burden

Intuition suggests a positive association between the tax burden and evasion. A higher tax rate raises the monetary gain from each euro of income concealed, making noncompliance more attractive at the margin (Shaw, Slemrod and Whiting, 2012). The standard rational choice model of Allingham and Sandmo (1972), however, does not deliver this prediction unambiguously, because a higher rate can simultaneously raise the gain from evasion and, depending on penalty structure, the size of the expected sanction. The net effect then depends on risk preferences (Allingham and Sandmo, 1972; Slemrod, 2019). Under the real-world penalty structure, where fines are proportional to the tax evaded rather than to undeclared income, the model predicts under plausible assumptions for risk preferences that a higher tax rate reduces evasion (Yitzhaki, 1974; Shaw, Slemrod and Whiting, 2012).

Empirical evidence is mixed but on balance points towards a positive association between income and tax evasion. For US data, it has been shown that unreported income increases with the marginal tax rate (Clotfelter, 1983; Crane and Nourzad, 1987). Another study found the opposite sign, illustrating the difficulty of separating tax-rate effects from income effects when variation comes from the rate schedule itself (Feinstein, 1991). Kleven et al. (2011) exploit kinks in the Danish tax schedule and third-party reported items and find only small marginal-rate effects. They emphasise that the substitution effect can be of either sign depending on the joint structure of penalties, rates and detection probabilities (Kleven et al., 2011; Luttmer and Singhal, 2014). To control for the income effect, Fisman and Wei (2004) exploit product-level variation in Chinese import tariffs to identify a strong positive tariff–evasion elasticity. Alstadsæter et al. (2019) show that tax evasion increases with income. The 0.01 % richest households evade about 25 % of their taxes while evasion is less than 5 % throughout the distribution. The gap between the Yitzhaki prediction of a negative relationship between tax rate and evasion and the empirical findings of mostly positive effects is generally interpreted as evidence that compliance responds to the tax burden through channels outside the basic model, such as perceived fairness, tax morale, or endogenous detection probabilities (Slemrod, 2019; Luttmer and Singhal, 2014) ⁽¹¹²⁾.

Reductions in the tax base, especially when targeted to a subset of taxpayers, tend to increase non-compliance. Tax expenditures narrow the tax base through exemptions, reduced rates, or size-based thresholds. These tend to create new margins of noncompliance, because each carve-out introduces a boundary that taxpayers can exploit. Where an exemption applies below a turnover threshold, firms may tend to bunch just beneath the cut-off, and part of this response reflects underreporting of sales rather than genuine reductions in activity (Liu et al., 2021; Best et al., 2015). Where reduced or zero rates apply to selected goods, some taxpayers may reclassify standard-rated items into the preferential category. Fisman and Wei (2004) find that a one-percentage-point rise in the Chinese import tariff is associated with roughly 3% more evasion, most of it through product mislabelling. For VAT, the evidence suggests that a broad and uniform base with few preferential treatments minimize non-compliance (Slemrod, 2019). However, observed behaviour often cannot be cleanly decomposed into evasion and genuine responses of real economic activity, so the size of noncompliance remains debated even when the relation with is noncompliance is not (Harju, Matikka and Rauhanen, 2019).

¹¹² A more important driver of tax evasion than the level of income might be the source of income. While wage income has third party reporting and very low levels of evasion, capital incomes are harder to tax and related tax liabilities easier to evade. As the share of capital income increases with the income level, the positive association between higher income levels and evasion could be driven by the composition effect rather than the tax burden.

4.3.2. Compliance costs

Compliance costs negatively affect compliance levels. Tax compliance costs are the private resource costs borne by taxpayers (individuals, firms and third parties) to meet statutory tax obligations. Compliance costs are additional to the tax liability itself and different from the administrative costs borne by the tax administration (Shaw, Slemrod and Whiting, 2012; Evans, 2003). They include monetary outlays on advisers, software and accounting systems; the opportunity cost of time spent on tax matters; and, in some literatures, psychological costs (Vishnuhadevi, 2021). In a transaction-cost perspective, compliance costs are shaped by requirements of the tax system that cause search-, information-, documentation- and verification costs (Tran-Nam et al., 2000; Evans, 2008). With everything else equal, higher compliance costs reduce compliance behaviour. This section discusses components of compliance costs which are influenced by tax complexity, legal clarity, the stability of tax law, characteristics of the tax base, the number of taxes and scale effects.

Tax complexity increases compliance costs. Compliance costs are higher for taxes with many rates, thresholds, reliefs and differentiations, as each distinction requires additional calculation, classification and record-keeping. Differentiated rates within a single tax (like multiple VAT rates for example), mechanically multiply the items that must be tracked and verified (Shaw, Slemrod and Whiting, 2012; Vishnuhadevi, 2021). The number of taxes with which an entity must comply increases complexity and is a significant driver of compliance costs (Evans, Lignier and Tran-Nam, 2016) ⁽¹¹³⁾. This can also be observed in companies with cross-border activity. Firms operating across borders face a higher number of taxes and are confronted with compliance costs that are 67 % higher than those of purely domestic firms (Thomadakis et al., 2025).

Legal changes tend to increase compliance costs as it requires learning and adaptation. Learning a new tax obligation is far more expensive the first time than on subsequent occasions (Sandford, 1995). Frequent incremental reforms tend to raise cumulative compliance costs more than less frequent, larger reforms. Larger reforms however carry transitional risks (Shaw, Slemrod and Whiting, 2012). From a transaction-cost perspective each change resets the taxpayer's stock of tax-specific knowledge and creates additional search and information costs (Tran-Nam et al., 2000). Complexity arising from a lack of clarity in tax law raises interpretation costs and increases reliance on professional advisers, which then leads to higher external compliance costs in cross-country evidence (McKerchar, 2007; Evans, Lignier and Tran-Nam, 2016). (Empirical evidence on the use of external advisers is provided below. See Figure 67).

Compliance costs vary across sources of tax revenue. Taxbases that are more difficult to identify, value or verify tend to generate higher compliance costs, since taxpayers must provide more documentation. Taxbases anchored in observable, registered or third-party reported items minimise the taxpayer's documentation requirements. On the other extreme are taxbases that rely on self-valuations, cross-border transactions or transfer pricing. These impose substantial transaction costs, because arm's-length references must be constructed and defended (Shaw, Slemrod and Whiting, 2012). It is noteworthy that wage incomes are to a larger extent third-party reported across the EU, while only a fraction of capital incomes is third-party reported ⁽¹¹⁴⁾.

Smaller firms, especially micro-enterprises and SMEs, tend to face relatively higher compliance costs. Compliance costs have a large fixed cost element resulting in cost degression: substantial fixed costs for new processes, new software and potentially external advice are spread over a larger base in larger firms (European Commission, 2022; Schoonjans et al., 2011; Chittenden, Kauser and Poutziouris, 2005). For the UK, evidence indicates almost 25 times higher compliance costs per employee for firms with less than four employees compared to firms with 5,000 or more employees (Shaw, Slemrod and Whiting, 2012). Surveys of

113 Some tax authorities consider a high number of taxes to apply, themselves a compliance risk, as indicated by national compliance risk models (Evans, Lignier and Tran-Nam, 2016).

114 Lower levels of third-party reporting on the one hand increase compliance costs for capital income receivers (taxpayers) but also facilitate tax evasion. Self-employed income is labour income not reported through third parties. Analysis of the Flash Eurobarometer FL562: Citizens' attitudes towards taxation reveals consistently strong influence of respondents reporting self-employed income (see Section 4.6 below)

SMEs confirm that tax compliance costs are significant, regressive in size and not declining over time (Evans, Lignier and Tran-Nam, 2016; Vishnuhadevi, 2021, Schoonjans et al. (2011).

Individual taxpayers do not experience a similar level of compliance cost degression as firms. The relationship between income and compliance costs is slightly different for private taxpayers. Lower income levels have a higher share of third party reported (and often remitted) income which reduces compliance costs. Compliance costs as a share of income might thus indeed increase up to a point after which cost degression dominates. For higher incomes one should assume decreasing relative compliance costs: for very high incomes, the compliance costs can be expected to be relatively smaller than for high incomes.

The allocation of responsibilities for computing tax liabilities and collecting them are tax level determinants of compliance costs. If the remitter, rather than the tax authority, is required to compute tax liabilities, compliance costs are higher and administrative costs lower (Shaw, Slemrod and Whiting, 2012) ⁽¹¹⁵⁾. The choice of who remits also matters. By concentrating remittance in a small number of large entities, economies of scale in record-keeping and accounting systems can be realised, for example withholding wage taxes by employers, or the invoice-credit VAT collected by firms (. In the UK, around 90% of tax revenue is remitted by business (Shaw, Slemrod and Whiting, 2012, Table 12.1). Information-reporting and withholding obligations shift compliance costs from a large number of individuals to firms. This reduces total transaction costs but imposes a high relative compliance burden on small firms, as discussed earlier (Sandford et al., 1989).

Investment in information technology by both, taxpayers and tax administrations can reduce compliance costs. Digitalisation is particularly helpful to reduce compliance costs for VAT and payroll taxes, but the empirical evidence is mixed. Some studies find that software and paid preparers reduce costs (Guyton et al., 2005), while others document that increased digital obligations like e-invoicing and real-time reporting can impose additional fixed costs which weight relatively heavier on smaller taxpayers (Vishnuhadevi, 2021).

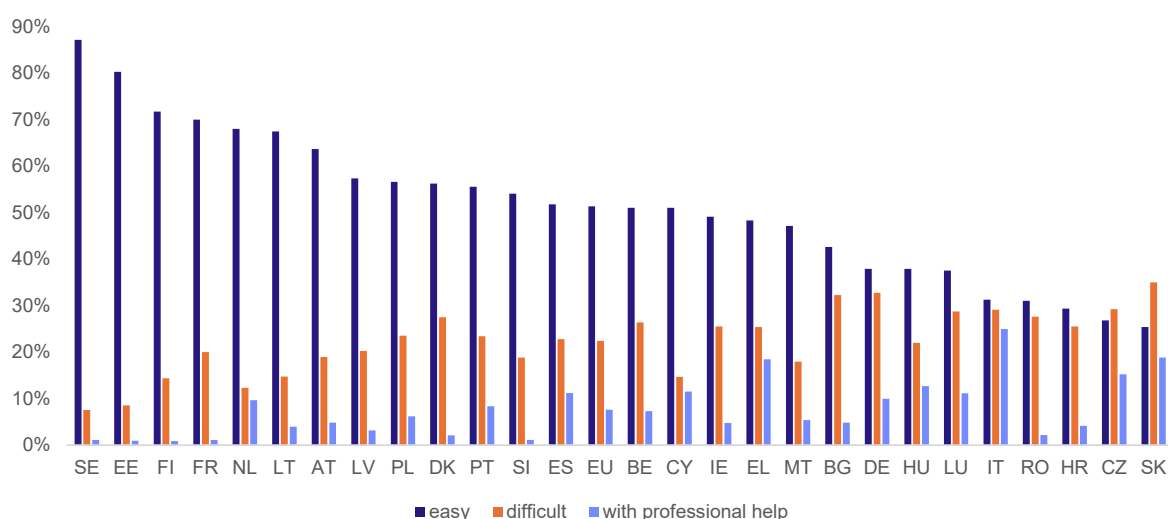
Empirical Evidence

Survey replies provide an indicative picture of citizens' perception of certain aspects of tax complexity. The recent Eurobarometer survey on tax matters asks: 'How easy or difficult is it for you to complete your tax return'. Three variables are extracted from this question, the share of respondents who find reporting very easy or fairly easy, the share of respondents who find reporting fairly difficult or very difficult and the share of respondents who have delegated filing to a professional. These variables are depicted in Figure 67 below.

In 15 Member States, more than 50% respondents consider completing tax returns as easy. On average across the EU, 52% of respondents report that filing their tax return is easy, with the highest shares observed in Sweden (87%), Estonia (80%), and Finland (72%). By contrast, the lowest shares are recorded in Croatia (29%), the Czech Republic (27%), and Slovakia (25%) (see Figure 67). On average 22% of respondents report that completing a tax return is difficult. Slovakia has the highest share of replies indicating difficulty with filing taxes at 35%, followed by Germany (33%), Bulgaria (32%) and Czechia (29%). Czechia and Slovakia are the only countries where the share of respondents reporting difficulty exceeds the share of respondents indicating easy filing.

¹¹⁵ A remitter is the party that is legally required to transfer (remit) a tax payment to the tax authority on behalf of the person who bears the statutory liability. The remitter and the statutory taxpayer are often not the same entity

Figure 67: Shares of respondents who consider completing tax return in their country as “easy”, “difficult”, or do it “with professional help”, 2025



Source: European Commission. (2025k), “Flash Eurobarometer FL562: Citizens’ attitudes towards taxation.”

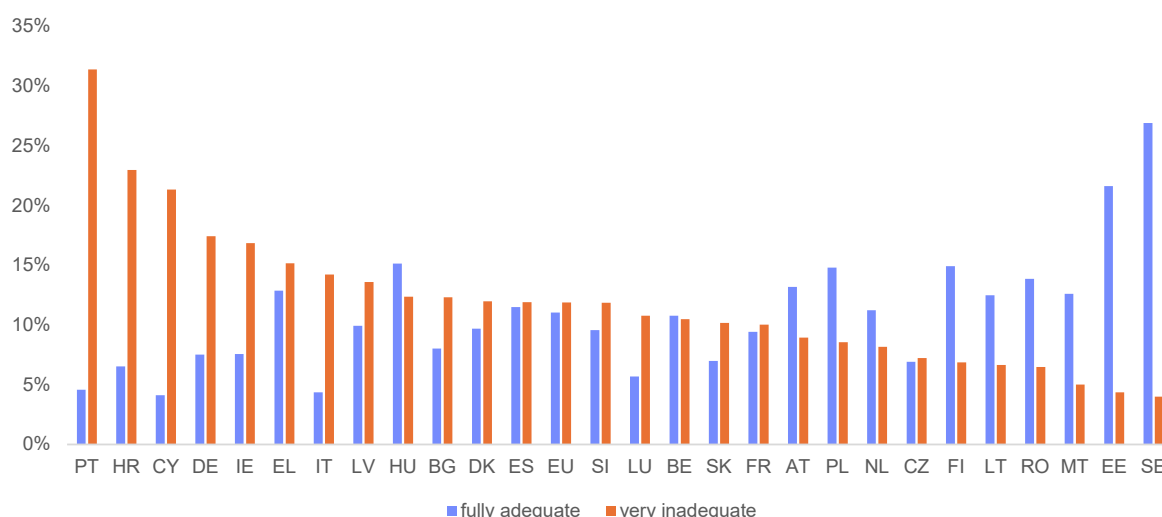
On average 8% of respondents in the EU indicate using professional help for filing their taxes.

Reliance on professional assistance to complete tax returns is most prevalent in Italy, where 25% of respondents report using professional help. High levels of professional tax advice are also reported for Slovakia (19%), Greece (18%) and Czechia (15%). Some countries show relatively high levels of professional tax advice, albeit a large share of respondents find filing taxes easy. The Netherlands (68% easy, 10% professional), Spain (52% easy, 11% professional) and Cyprus (51% filing easy, 12% professional) are outstanding in that regard.

The perception of filing support for taxpayers in the EU is mixed and shows large country variation.

A total of 46% of respondents find support for taxpayers mostly adequate or fully adequate compared to 40% of citizens finding support somewhat inadequate or very inadequate. Since survey data often has a mid-value bias, it is more informative to only look at the extreme replies of fully adequate and very inadequate. Overall, these replies are given by 12% and 11%, respectively. Figure 68 depicts shares of respondents by country for both variables. Support is perceived as very inadequate by more than 20% of respondents in Portugal and Croatia and by more than 15% of respondents in Cyprus, Germany and Ireland. On the other side, more than 20% of respondents in Sweden and Estonia find support fully adequate and around 15% of respondents think so in Hungary, Finland and Poland. A positive view of support is relatively strongly correlated (Pearson: 0.65) with the perception that filing taxes is easy.

Figure 68: Adequacy of support provided by tax authorities



Note: Data sorted by declining share of very inadequate replies.

Source: European Commission. (2025k), "Flash Eurobarometer FL562: Citizens' attitudes towards taxation."

4.3.2 Fines and punishment

In most Member States penalties are proportional to evaded taxes and consider aggravating factors. Member States generally apply enforcement frameworks in which tax evasion and fraud are treated with increasing severity as financial amounts rise. Intent and other aggravating factors, such as organised or repeated conduct, are also considered (Seer and Wilms, 2016). Across the EU, the seriousness of tax evasion and fraud is typically graded using thresholds that distinguish minor non-compliance, a criminal offence, and a particularly serious crime. On the lower end, authorities usually impose only administrative surcharges and interest, often treating errors as negligent rather than intentional, while higher amounts combined with clear intent permit or require criminal prosecution (Seer and Wilms, 2015, Reger et al., 2023). Once evaded sums reach the hundreds of thousands of euros, or where fraud is organized, repeated, or involves sophisticated schemes such as cross-border VAT carousel fraud, many Member States classify the offence as especially serious. The consequence is then often multi-year imprisonment, higher fine multipliers and confiscation of crime-based income (European Tax Blog, 2023; EPPO, 2025a).

Tax authorities rely on administrative surcharges, interest charges and third-party obligations to guarantee compliance. Administrative surcharges are applied to infringements like non-, late-, or incorrect filing of tax returns, late or underpayment of taxes, non-cooperation by violating book and recordkeeping duties, transfer pricing documentation provisions and other compliance duties. They are meant to compensate incurred damages. Interest charges complement this framework by absorbing the liquidity advantage of delayed payment and encouraging timely compliance, through fixed or variable rate regimes (Seer and Wilms, 2016). In addition, enforcement extends beyond taxpayers themselves to third parties, such as employers and financial intermediaries, who play a role in withholding taxes (also see the discussion on remittance regimes and responsibilities above).

At the EU level, the European Public Prosecutor's Office (EPPO) has a mandate to investigate and prosecute VAT fraud exceeding EUR 10 million. This mandate reflects the recognition of large-scale cross-border fiscal fraud as a particularly serious category of offence (EPPO, 2025b). Recent EPPO cases illustrate the severity of available sanctions: in the Investigation Admiral case (Portugal, 2025), 23 defendants were convicted, with the main perpetrators receiving custodial sentences of 7–8.5 years and the confiscation of over EUR 80 million in criminal proceeds (EPPO, 2025a). These enforcement actions signal an increasingly coordinated pan-European approach to serious tax fraud, required by the international nature of fraud schemes. Tax evasion continues to fall primarily under national jurisdiction (EPRS, 2017a).

4.4. Tax administration capacity

The enforcement capacity of the tax administration determines the expected cost of tax evasion.

Higher levels of enforcement capacity, either makes it more likely that non-compliance is detected or restricts opportunities to misreport taxes in the first place (Slemrod, 2019). It is determined by factors such as audit probabilities, information reporting and remittance rules. Empirical research supports a key role for institutional design in reducing non-compliance. For example, in the case of third-party reporting and remittance, evidence indicates that misreporting amounts to around 1% of income that is subject to substantial third-party reporting and/or withholding, compared with approximately 55% for income subject to little or no information reporting ⁽¹¹⁶⁾.

Higher tax administration capacity increases tax revenues and decreases the tax gap. Recent IMF studies provide evidence from a wide cross-section of countries showing that higher tax administration quality increases tax revenues, particularly in emerging and developing economies. An Operational Strength Index derived from ISORA surveys is linked to substantial revenue increases in 121 countries from 2014–2022, with more pronounced effects in countries with low levels of informality and robust institutions (Atsebi et al., 2025). A related study finds that higher TADAT scores ⁽¹¹⁷⁾ from D+ (1.85) to C+ (2.32) are associated with a 0.6 percentage point increase in VAT revenues expressed as a share of GDP, highlighting compliance gains from better administration performance (Baer, Barra et al., 2025). These findings are complemented by a third study that estimates that comprehensive tax reforms, including administrative strengthening and digitalization, can yield revenue increases of up to 5 percent of GDP, especially in developing context and even in settings with significant capacity constraints (Baer, Bellon et al., 2025). These empirical findings are likely driven by high marginal returns to tax administration improvements in developing contexts. The effects will likely be somewhat lower in the EU context where tax administration capacity is generally quite developed.

The European Commission supports Member State efforts to improve compliance enforcement capacity and reduce tax gaps. The simplification agenda is expected to reduce compliance costs for taxpayers, thus contributing to cheaper and more tax compliance (see Section 3.1 on Member State tax reforms and Section 3.2 on the simplification omnibus). The Technical Support Instrument fosters capacity building in tax administrations (see Section 3.5). The Mind the Gap report provides a detailed analysis of Member States and reveals critical insights into tax compliance challenges and policy choices, which impact fiscal sustainability and competitiveness ⁽¹¹⁸⁾.

4.5. Tax morale, trust in government and other attitudinal determinants

4.5.1. Tax morale and compliance

A growing body of research recognises that tax compliance is shaped not only by financial but also by non-financial determinants, often broadly defined as tax morale. The theoretical assumption that tax compliance is driven entirely by enforcement could not explain observed compliance levels. The basic models of rational choice have thus been amended (Alm, 2019). For instance, Luttmer and Singhal (2014) define tax morale as “as an umbrella term capturing nonpecuniary motivations for tax compliance as well as factors that fall outside the standard expected utility framework” (Luttmer et al., 2014), in publications by the OECD it is defined as “the motivation of a country’s citizens to paying taxes, in addition to legal obligations” (Daude et al., 2012).

116 Internal Revenue Service. (2023), Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 and 2021.

117 [Tax Administration Diagnostic Assessment Tool \(TADAT\)](#).

118 [European Commission. \(2025a\), Mind the Gap – Full Report](#). See also the [Mind the Gap website](#).

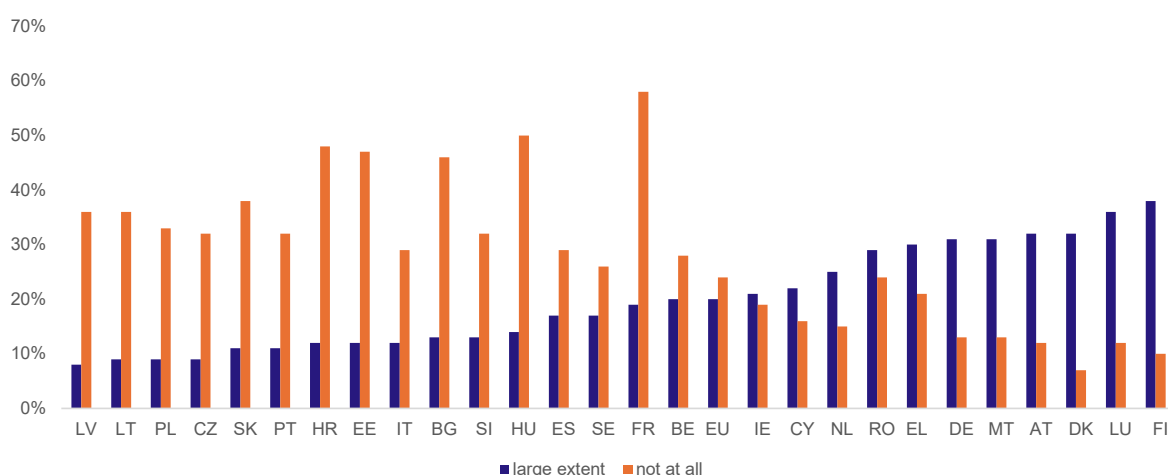
Research provides evidence of a significant correlation between tax morale and tax compliance.

While there are data challenges, some research finds evidence suggesting that tax compliance increases with the “intrinsic motivation to pay taxes arising from the moral obligation to pay taxes as a contribution to society”, i.e., tax morale (Cummings et al., 2009). The elements that in turn drive this tax morale are varied, but its impact on compliance is observed also when considering other dimensions, such as institutional features, trust, and social norms. Cullen et al. (2018) provide evidence from the United States that political alignment with the governing administration is positively associated with higher levels of tax compliance. More recently, Baer, Barra et al. (2025) extend the Allingham and Sandmo (1972) framework by incorporating the concept of social acceptability of the tax system, and find that stronger rule of law, used as a proxy for social acceptability, is associated with a lower VAT compliance gap across a few selected countries.

Taxpayer trust in institutions, such as the tax authority, is positively correlated with the tax compliance. The slippery slope framework conceptualizes compliance as the outcome of the interaction between trust in authorities and the power of authorities (Kirchler et al., 2008). Therefore, a climate of trust and perceived legitimacy fosters voluntary compliance, while a climate of resistance requires stronger enforcement. Empirical evidence supports this understanding showing that individuals’ perceptions of institutions significantly affect compliance behaviour, with cross-country differences in tax compliance emerging in an experimental setting only when taxes are paid to national authorities rather than in neutral public-good settings (D’Attoma, 2020). Procedural justice, legitimacy, identity, and personal norms all influence tax compliance through trust in tax administration (Bomman, 2015). Further evidence points to trust in government being positively associated with tax compliance directly, and indirectly through perceptions of tax justice, highlighting the mediating role of fairness in the compliance decision (Güzel et al., 2019).

Overall fairness perceptions of the tax system vary considerably across Member States. According to data from a recent Eurobarometer on taxation, we find that only 20% of respondents across the EU believe that “taxes are paid to a large extent in proportion to income and wealth”. This perception is most common in Finland (38%) and least common in Latvia (8%). In contrast, 24% of EU respondents consider that “taxes are not paid in proportion to income and wealth at all”. This view is most widespread in France (58%), and least common in Denmark (7%). The data is depicted in Figure 69.

Figure 69: Share of respondents who consider that taxes are paid in proportion to their income and wealth “to a large extent” or “not at all”, 2025



Source: Source: European Commission. (2025k), “Flash Eurobarometer FL562: Citizens’ attitudes towards taxation.”

Empirical research finds mixed evidence of the effect of field interventions appealing to moral and social norms on tax compliance. Some research finds a positive and significant effect of tax morale on tax compliance. For example, Bott et al. (2020) find, in an experiment in Norway, that adding a moral appeal to standard letters sent to taxpayers almost doubles the amount of foreign income reported compared with a basic notification letter. Similarly, Hallsworth et al. (2017), based on an experiment in the United Kingdom,

show that incorporating social norms and public-goods messages into reminder letters can strengthen compliance. However, some empirical research has also found instances where these types of appeals did not result in higher tax compliance. Castro and Scartascini (2015) do not find average effects on property tax compliance from messages aimed at influencing beliefs about other taxpayers' behaviour and about the use of resources by the government, consistent with other empirical findings ⁽¹¹⁹⁾. Furthermore, Chirico et al. (2019) study the impact of tax morale on property tax delinquency in Philadelphia and find that moral appeals through letters have no more effect on payment than a simple reminder, whose increase in compliance appears to be limited in time.

According to empirical research, tax morale impacts the size of the shadow economy. The way in which tax morale can influence the size of the shadow economy has attracted attention from researchers. The size of the shadow economy can serve as an indirect and imperfect measure of the extent of tax evasion. Alm and Torgler (2006) investigated the simple correlation between tax morale and the size of the shadow economy, focusing on Europe and the United States. They found a strong negative correlation and estimated that tax morale can explain more than 20% of the total variance of the size of the shadow economy. Furthermore, Torgler and Schneider (2009) examine the impact of tax morale on the shadow economy and find that the first has a significant role in determining the size of the latter, concluding that a higher level of tax morale should lead to a smaller shadow economy. The reasoning goes that when taxpayers believe that their tax burden is not well spent and that there are institutional flaws, their incentives to take part in the informal economy increases.

4.5.2. Determinants of tax morale

Tax morale is influenced by a large set of drivers such as trust, fairness, social norms, personal morality, among others. While tax morale can be understood as a taxpayer's motivation to pay their taxes, a relevant consideration should be made on the elements which can increase and decrease this motivation. More broadly, research can be categorized across four main areas of determinants of tax morale, namely, individual characteristics, economic situation, institutional factors, and context specific differences (Daude et al., 2012).

Empirical research suggests that individual characteristics such as age, gender and religious beliefs may impact tax morale. The theoretical expectation is that even when individuals are exposed to the social norm that paying taxes is appropriate and evading them is not, the extent to which they internalize this belief varies depending on their own characteristics. For example, research building on survey data and examining European countries finds statistically significant evidence that tax morale increases with age and religiosity ⁽¹²⁰⁾, while other research such as Alm and Torgler (2006) finds tax morale to be higher among women and married people. At the same time, the effect of education attainment on tax morale varies considerable across studies (Lago-Peñas et al., 2010).

Research has also examined the role of labour status and economic condition of taxpayers in tax morale, finding mixed effects. The theoretical reasoning behind this is the assumption that individuals that are guided by self-interest tend to form opinions which are influenced by their own economic conditions. Consequently, the financial position and employment status of individuals could influence their perception of the importance of contributing through taxes. In the case of employment status, Hug and Sporri (2011) looking at Eastern European countries find that individuals who are self-employed exhibit lower tax morale than full-time workers, while retired individuals tend to have a significantly higher level of tax morale ⁽¹²¹⁾. Furthermore, research focusing on European countries finds that individuals belonging to upper social classes report lower

119 See also Dwenger et al. (2016) and Fellner et al. (2013).

120 See for example Torgler (2006), Alm and Torgler (2006) and Martínez-Vázquez and Torgler (2009).

121 See also Alm and Torgler (2006)

tax morale (Torgler, 2006). However, empirical research has failed to find a statistically significant direct relationship between personal income and tax morale.

Institutional and governance aspects have an important role in shaping taxpayer's trust. As noted by the OECD, trust in public institutions can have a wide range of effects, such as reducing transaction costs, easing compliance, fostering voluntary adherence to norms, and helping to legitimise democratic institutions. Using an econometric analysis that controls for the assessment of other drivers as well as socio-economic and political characteristics, the OECD finds that individuals who report positive perceptions of particular governance aspects are more likely to express high or moderately high trust in public institutions (OECD, 2024). Drivers related to the reliability of public institutions are among the most strongly associated with trust in the national civil service, including satisfaction with administrative services, confidence that personal data is used for legitimate purposes only, and the perceived preparedness of institutions to protect lives in the event of emergencies (OECD, 2019b).

Empirical evidence finds that institutional factors have a statistically significant positive effect on tax morale. Using data from the World Values Survey, Torgler (2007) finds that trust in government, as well as trust in courts and the legal system, remains a statistically significant and robust predictor of tax morale, alongside institutional features such as direct democracy. Jimenez and Iyer (2016) show that personal norms significantly influence trust in government and that trust, in turn, is closely related to perceptions of tax fairness and compliance intentions. Further research finds that higher perceived tax evasion by other taxpayers is associated with lower levels of tax morale, highlighting the importance of strong tax administrations in shaping tax morale (Frey and Torgler, 2007). Additional factors such as satisfaction with democratic institutions, increased trust in the justice and legislative system, and political stability are all found to have a positive effect on tax morale (Torgler 2011).

Context-specific variables such as cultural and regional differences, and language fragmentation may also impact tax morale. Country specific elements have the potential to strongly influence tax morale, particularly through social and cultural norms. Torgler and Schneider (2007) investigate the impact of cultural elements within Belgium, Switzerland and Spain, and find that while in Switzerland direct democracy has a strong positive impact on tax morale, in Spain more autonomy does not increase tax morale. The same research also finds differences in tax morale within different language speaking population in Belgium, highlighting the possibly complex relationship between tax morale and cultural elements. Furthermore, elements such as direct democracy are found to have a positive effect on tax morale through increased trust, which can be explained by the fact that these instruments can increase the sense of responsibility of taxpayers towards their communities (Feld and Kirchgässner. 2000).

Research measurements of tax morale have traditionally relied on survey data, while some have also made use of field experiments. The bulk of academic literature discussing and measuring tax morale have leaned on the *World Values Survey*, the *European Values Survey*, or the *Latinobarómetro*, among others to estimate the willingness of taxpayers to comply with their tax obligations. These surveys also contain important information that helps to better understand the relationship between tax morale and some of its drivers, such as trust in institutions. Nevertheless, limitations remain as to the coverage and availability of data produced by these surveys. Specifically, country coverage is limited for certain regions, some questions have been found to change over time limiting comparability and there is a lack of data on perceived enforcement capabilities by tax administration (Daude et al. 2012).

Across the countries covered in the European Values Survey, there is broad public opposition to tax evasion. Between 2017 and 2021 respondents were asked to rate whether cheating on taxes can be justified on a scale from 1 ("never justified") to 10 ("always justified"). This question is often used by researchers to measure tax morale in papers focusing on Europe. In all countries, more than 60% of respondents selected 1 or 2, meaning that cheating is considered to be never or almost never justified. This share ranges from about

62% in Lithuania to nearly 90% in Poland, with an EU average of around 78% (see Figure 70) These results point to generally high and increasing levels of tax morale since the survey began in 1981.

Figure 70: Shares of respondents who think that cheating on tax can never be justified (2017-2021)



Note: The EU average is based on 22 countries. The following Member States are not included: Belgium, Ireland, Greece, Malta, Luxembourg.
Source: EVS/WVS. (2024), "Joint EVS/WVS 2017-2022 Dataset (Joint EVS/WVS)," World Values Survey Association, <https://doi.org/10.14281/18241.26>.

4.6 Determinants of Eurobarometer Survey Responses

Understanding the socio-economic characteristics underlying specific views and perceptions allows for better policy targeting. Regression analysis is used to understand what characteristics drive response patterns of the variables depicted in this chapter so far. Six variables are analysed: *Mandate_evasion* captures if a respondent has indicated that tax evasion should be EU priority. *Fair_yes* and *fair_no* indicate that respondents tend to see taxation as fair (i.e. proportional to income and wealth) or not. *Filing_easy* captures all those respondents who find filing tax returns easy while *filing_professional* indicates that the respondent uses professional support to file their taxes. *Support_adequate* finally indicates that the respondent is satisfied with available support for filing taxes. Binary dependent variables capturing mostly strong replies (very satisfied etc.) are used to minimise the influence of mid-value bias (One of several biases that can be found in survey data, e.g. recall bias, social desirability bias etc.). The logit regression used provides an understanding about which characteristics increase the probability that a given respondent replies according to the outcome variable. The characteristics analysed are gender, age, income level (expressed as income decile), main source of income and urbanisation level. Country specific differences are picked up by country dummies which are however not reported. Table 4 below provides marginal effects of the estimates ⁽¹²²⁾.

Source of income is the strongest predictor for (not) selecting "Combatting tax avoidance and evasion" as an EU tax priority. Self-employment reduces the probability of seeing evasion enforcement as an EU priority by 10.6 percentage points (pp) ⁽¹²³⁾. Income from capital has an even larger effect, reducing the probability by 16.1 pp. The income gradient spans approximately 16 pp from Decile 1 (-10.1 pp) to Decile 10 (+5.9 pp), relative to the median Decile 5. Interestingly, and to some extent counterintuitive, lower income respondents seem to put less weight on evasion enforcement as an EU priority than higher income respondents.

122 Marginal effects cannot be directly obtained but are calculated from the original log-odd estimates. The average marginal effects (AMEs) translate the log-odds coefficients into probability-scale changes, expressing the average change in the predicted probability of the outcome associated with a one-unit change in the predictor (Wooldridge, 2010). The direction and significance of effects are preserved. The AMEs allow direct quantification of effect sizes in percentage-point terms.

123 Only statistically significant results are discussed.

Pension income and living in a large city rather than a rural area raises the probability increases the probability by 3.2 pp and 3.7 pp, respectively. Each additional year of age increases the probability by 0.8 pp, though this effect diminishes at older ages.

Women tend to be less optimistic about the fairness of the tax system. The question under consideration asks if taxes are proportional to income and wealth. 20% of respondents reply that taxes are 'to a large extent proportional' (¹²⁴). This is interpreted as a positive view on tax fairness and defines the dependent variable under consideration. The low baseline prevalence of positive fairness views results in relatively small predictors. Specifically, being female reduces the probability of perceiving the tax system as proportional by 3.1 pp. Pension income reduces it by 3.7 pp. Self-employment increases it by 2.3 pp. Income deciles remain largely insignificant. There are thus very few statistically significant determinants of tax fairness or proportionality.

Richer individuals and those with capital income are less likely to perceive taxes not at all proportional. While this variable captures the opposite of the variable discussed above, the statistical findings are not mirrored, other than for gender where being female increases the probability of perceiving complete disproportionality by 1.7 pp. But being higher income, self-employment (-3.2 pp) and having income from capital (-5.1 pp) reduces the probability of perceiving complete disproportionality. Each additional year of age increases the probability by 1.4 pp, making age the largest marginal effect in this model.

Richer individuals tend to find filing easy while the self-employed and recipients of social benefits are less likely to find tax filing easy in their country. The income gradient is the strongest predictor: the gap between Decile 1 (-8.5 pp) and Decile 10 (+9.0 pp) spans 17.5 pp in predicted filing ease. Social benefit income has the largest single effect, reducing the probability of finding filing easy by 11.0 pp. Self-employment reduces it by 6.0 pp, pension income by 2.7 pp. Capital income increases the probability of finding filing easy by 6.1 pp. Living in a large city rather than a rural area increases the probability by 5.5 pp. Being female reduces it by 1.8 pp. The income effect might seem surprising as it was discussed earlier that lower incomes have more third-party reported income and thus should face lower compliance costs and presumably find filing easier. The regression however controls for sources of income so that the effect is driven by income levels alone and can probably be explained by the correlation between income and education levels.

The self-employed and older individuals are more likely to use professional support for filing taxes. Self-employment increases the probability of using a professional filer by 3.6 pp. Against a baseline of 9% at EU level, this represents a relative increase of approximately 40%. Being female increases the probability by 0.9 pp. Living in a large city reduces it by 1.1 pp. No income decile is significant. The small absolute magnitudes reflect the low baseline probability of this outcome. Each additional year of age increases the probability by 0.6 pp.

Women and poorer individuals have a lower probability of considering filing support adequate. Being female is the largest single effect, reducing the probability of perceiving support as adequate by 4.9 pp. Income Decile 1 reduces it by 9.5 pp and Decile 2 by 6. pp. Decile 10 increases it by 4.0 pp. Capital income increases the probability by 6.8 pp. Self-employment increases it by 3.0 pp. Living in a large city increases it by 3.1 pp. Age has no significant relationship with filing support.

The findings indicate that many attitudes to taxation might be more influenced by how income is earned rather than how much. Across all six models, income source (i.e. self-employment, pensions, social benefits, capital income) is a stronger predictor than income level. Income deciles produce a significant gradient in filing ease and evasion prioritisation, but income source variables are significant in more models and produce larger effects. Only self-employment is significant in all six estimations. As these findings are based on survey

124 46% of respondents see proportionality 'To some extent' and 21% view taxes 'Not at all' proportional.

data, any policy conclusion should be seen as suggestive (¹²⁵). With this caveat in mind, the findings suggest implications for how tax administrations segment their taxpayer populations. It seems that compliance strategies, filing support, and communication campaigns that target taxpayers by income bracket might be less effective than those that target them by income source. A self-employed taxpayer in Decile 4 and one in Decile 8 face similar filing difficulties and hold similar views on enforcement — but both differ sharply from an employee at either income level. The remittance architecture of the tax system shapes attitudes more than the rate structure (Slemrod, 2019; Shaw, Slemrod and Whiting, 2012).

While filing taxes is more challenging for the self-employed, they are more likely to perceive the system as fair providing adequate support. Self-employed respondents are 6.0 pp less likely to find filing easy, and 3.6 pp more likely to use a professional filer. Yet they are 2.3 pp more likely to perceive the system as fair, 3.2 pp less likely to perceive it as unfair, and 3.0 pp more likely to find support adequate. These empirical findings seem to align with the more general hypothesis that procedural engagement fosters perceptions of institutional legitimacy, even when the compliance burden is high (Feld and Frey, 2002; Tyler, 2006). These findings suggest that policy could aim to reduce compliance costs for the self-employed through simplified reporting, better digital tools, or expanded pre-filing, in line with national and EU-wide simplification efforts.

Table 4: Regression outcomes of binary dependent variables

	Evasion priority	Fair: largely proportional	Fair: not at all proportional	Filing easy	Filing professional	Support adequate
female	-0.004 (0.006)	-0.031*** (0.005)	0.017*** (0.006)	-0.018*** (0.006)	0.009*** (0.003)	-0.049*** (0.006)
age	0.008*** (0.001)	-0.003*** (0.001)	0.014*** (0.001)	0.007*** (0.001)	0.006*** (0.001)	-0.002 (0.001)
age_sqr	-0.000*** (0.000)	0.000** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	0.000*** (0.000)
Decile 1 (vs 5)	-0.101*** (0.018)	0.018 (0.015)	0.004 (0.017)	-0.085*** (0.017)	-0.004 (0.010)	-0.095*** (0.018)
Decile 2 (vs 5)	-0.060*** (0.017)	-0.008 (0.013)	0.025 (0.016)	-0.063*** (0.016)	-0.012 (0.009)	-0.066*** (0.017)
Decile 3 (vs 5)	-0.007 (0.016)	-0.010 (0.013)	0.031** (0.015)	-0.026* (0.016)	-0.005 (0.009)	-0.064*** (0.016)
Decile 4 (vs 5)	-0.037** (0.015)	-0.025** (0.012)	0.026* (0.014)	-0.026* (0.015)	-0.008 (0.008)	-0.035** (0.015)
Decile 6 (vs 5)	-0.009 (0.014)	-0.012 (0.012)	-0.013 (0.013)	0.003 (0.014)	-0.001 (0.008)	-0.012 (0.014)
Decile 7 (vs 5)	0.016 (0.014)	-0.010 (0.011)	0.001 (0.013)	0.033** (0.014)	-0.009 (0.007)	0.006 (0.014)
Decile 8 (vs 5)	0.033** (0.014)	-0.010 (0.011)	-0.009 (0.012)	0.046*** (0.013)	-0.002 (0.007)	0.010 (0.014)
Decile 9 (vs 5)	0.042*** (0.014)	-0.011 (0.011)	-0.026** (0.012)	0.070*** (0.013)	-0.000 (0.007)	0.013 (0.014)
Decile 10 (vs 5)	0.059*** (0.014)	0.007 (0.011)	-0.024** (0.012)	0.090*** (0.013)	-0.007 (0.007)	0.040*** (0.014)
Self-employed income	-0.106*** (0.015)	0.023** (0.011)	-0.032** (0.014)	-0.060*** (0.015)	0.036*** (0.006)	0.030** (0.015)
Pension income	0.032***	-0.037***	0.008	-0.027***	-0.005	0.008

¹²⁵ While regression results are robust to different specifications, survey data alone does not lend itself for deriving strong and consequential policy considerations.

	(0.011)	(0.009)	(0.009)	(0.010)	(0.006)	(0.011)
Social benefit income	-0.011	0.006	-0.023	-0.110***	0.005	-0.015
	(0.018)	(0.013)	(0.017)	(0.017)	(0.009)	(0.018)
Capital income	-0.161***	-0.028	-0.051*	0.061**	-0.014	0.068**
	(0.033)	(0.024)	(0.029)	(0.031)	(0.017)	(0.030)
Small or medium-sized town	0.017**	-0.012*	0.005	0.019**	-0.005	0.015*
	(0.008)	(0.007)	(0.007)	(0.008)	(0.004)	(0.008)
Large town/city	0.037***	-0.011	-0.005	0.055***	-0.011**	0.031***
	(0.009)	(0.007)	(0.008)	(0.008)	(0.005)	(0.009)
Observations	22901	22901	22901	22901	22901	22901

Notes: Average marginal effects from logit models. Coefficients represent the average change in the predicted probability of the outcome (in probability units) associated with a one-unit change in the predictor. Robust standard errors in parentheses. Reference categories: income Decile 5 (median), rural area (urbanisation), male (gender). Country fixed effects (26 country dummies) included in all models but not reported. N = 22,901. * p < 0.10, ** p < 0.05, *** p < 0.01.

Source: Own calculations based on European Commission. (2025k), "Flash Eurobarometer FL562: Citizens' attitudes towards taxation."

In conclusion, understanding the determinants of tax compliance allows for a more targeted choice of policy instruments to improve compliance outcomes. Among the available policy options, nudges are defined as interventions that steer behaviour in a predictable way without restricting choice or substantially altering economic incentives. Evidence from Antinyan and Asatryan (2025) on the use of nudges in tax compliance, shows that simple reminder messages raise tax compliance by 2.7 pp from a baseline rate of around 25%, while tax morale nudges add a further 1.4 pp and deterrence-oriented nudges yield the largest effect, increasing compliance by an additional 3.2 pp. This indicates indeed a primary role for deterrence and tax compliance capacity as drivers of tax compliance. However, taken together, these findings suggest that policy interventions targeting both financial and non-financial incentives complement each other and can enhance tax compliance.

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Glossary

Accelerated depreciation is the depreciation used for accounting or for income tax purposes that enables greater depreciation expenses in the first years of the life of a fixed asset.

Aggressive tax planning consists of taxpayers reducing their tax liability through arrangements that may be legal but are in contradiction with the intent of the law.

Base Erosion and Profit Shifting (BEPS) are tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. The concept of BEPS was developed and advanced by the OECD as part of its workstream to combat tax avoidance and promote international tax fairness. The OECD's coordinated approach helps countries close gaps in tax rules and prevent profit shifting to low-tax jurisdictions.

Bogus self-employment is commonly understood as involving persons/workers registered as self-employed whose conditions of employment are de facto dependent employment. National legislation and/or court decisions determine this status. This employment status is used to circumvent tax and/or social insurance liabilities, or employers' responsibilities.

Carbon Border Adjustment Mechanism (CBAM) is a climate measure to support climate mitigation by preventing carbon leakage (i.e. industries transferring polluting production to other countries with less stringent climate policies). It equalises the price of carbon between domestic products and imports, for a selected number of products.

Clean Industrial Deal outlines concrete actions to turn decarbonisation into a driver of growth for European industries. This includes lowering energy prices, creating quality jobs and the right conditions for companies to thrive.

Direct taxes are defined as current taxes on income, wealth and capital (including taxes such as inheritance, property or gift taxes). In the subcategory of income taxes, you can further distinguish between personal income tax (PIT), corporate income tax (CIT), and tax on capital gains.

Effective marginal tax rate (EMTR) shows what part of a change in earnings is taxed away by the combined operation of taxes, social security contributions (SSCs), and any withdrawal of earnings-related social transfers.

Environmental taxes include taxes on energy, transport, pollution and resources (excluding VAT, which is levied on all products).

Energy taxes include taxes on energy products and electricity used for transport (e.g. petrol and diesel) and stationary purposes (e.g. fuel oils, natural gas, coal and electricity).

European Semester is the European Union's framework for the coordination and surveillance of EU Member States' economic and social policies. As part of the process, the European Commission proposes every year country-specific recommendations (CSRs) that aim to address the key challenges in EU Member States. The CSRs are then endorsed by the European Council and adopted by the Economic and Financial Affairs Council (ECOFIN). Member States should incorporate this policy guidance into their annual budgets, national legislation and policy plans.

Excise duties are indirect taxes on the sale or use of specific products, such as alcohol, tobacco and energy.

Indirect taxes are taxes levied on a material or legal event of an accidental or temporary nature and on a (legal or natural) person that can often be an intermediate and not the person responsible for the event (hence the indirect character of the tax), e.g. VAT, import levies, excise duties, other taxes on production.

Policy (tax) gap reflects revenue foregone due to deliberate policy choices, including tax expenditures such as exemptions, reduced tax rates or thresholds that narrow the tax base.

Pollution taxes include taxes on measured or estimated emissions to air (except taxes on CO₂ emissions) and water, on the management of solid waste and on noise.

Recovery and Resilience Facility (RRF) is a temporary instrument that enables the European Commission to raise funds by borrowing on the capital markets (issuing bonds on behalf of the EU) and make them available to its Member States. Member States use the funds provided by the RRF to implement reforms and investment to make their economies and societies more sustainable, resilient and prepared for the green and digital transitions.

Resource taxes include any tax linked to the extraction or use of a natural resource (e.g. taxes on licence fees paid for hunting and fishing rights) (¹²⁶).

Savings and Investment Union is an initiative by the European Commission aimed at enhancing financial opportunities for EU citizens. It seeks to improve the way the EU financial system channels savings into productive investments, thereby fostering economic growth and competitiveness.

Second earner defines a person living in a household where the spouse/partner's earnings represent the household's main income. If the second earner is working, it is assumed to earn less than the primary earner.

Social contributions (sometimes also called social security contributions) are compulsory payments made by employers and employees into social insurance schemes that cover pensions, healthcare as well as other welfare provisions.

Tax allowance is the amount of money that can be deducted from taxpayer's income or a company's profit before tax owned is calculated.

Tax avoidance is the arrangement of a taxpayer's affairs in a way that is intended to reduce his/her tax liability and that (although the arrangement may be strictly legal) is usually in contradiction with the intent of the law.

Tax credit is a sum of money that taxpayers can deduct from the taxes they owe.

Tax exemption is the reduction or removal of a tax liability to make a compulsory payment that would otherwise be imposed by a ruling power upon persons, property, income, or transactions.

Tax expenditures are reductions in tax liabilities that result from special exemptions, deductions, credits, or preferential tax rates in the tax code. They are designed to achieve specific policy objectives, by encouraging certain behaviours (e.g., home ownership, education, or charitable giving) or supporting particular economic sectors.

Tax evasion generally involves illegal arrangements whereby liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than they are legally obliged to pay by hiding income or information from the tax authorities.

Tax fraud is a form of deliberate evasion of tax that is generally punishable under criminal law. It includes situations in which deliberately false statements are submitted or fake documents are produced.

Tax gap refers to the difference between the amount of taxes that should theoretically be collected and the amount actually collected. Understanding and measuring this gap allows policymakers to identify revenue losses and develop targeted measures to improve the functioning of the overall tax system

Tax incentives are measures employed by the government to encourage activities in certain domains of the economy, by offering deductions, exclusions or exemptions from tax liability. Tax incentives are selective in

¹²⁶ This definition is based on (European Commission, 2013).

nature in the sense that they give preferential treatment to economic activities which are in line with the objectives of the government.

Tax relief refers to any program or policy designed by the government to help individuals and businesses lower their tax burdens or settle their tax-related debt.

Tax wedge on labour is the difference between wage costs to the employer of a worker and the amount of net income that the worker receives, expressed as a proportion of the overall wage costs. The difference arises as a result of taxes, including PIT and compulsory SC.

Technical support instrument is the EU programme that provides tailor-made technical expertise to EU Member States to design and implement reforms. The support is demand driven and does not require co-financing from Member States. It is an important pillar of the EU's initiative to help Member States mitigate the economic and social consequences of the outbreak of the COVID-19 crisis.

Transfer pricing concerns the prices charged between associated enterprises established in different countries for their inter-company transactions, i.e. transfer of goods and services. Since the prices are set by non-independent associates within a multi-national enterprise, it may be that the prices do not reflect an independent market price.

Transport taxes include taxes on the ownership and use of motor vehicles, and taxes on other transport equipment such as planes and on related transport services, e.g. duties on charter or scheduled flights.

VAT gap is the difference between VAT revenue actually collected by the tax administration and the theoretical net VAT liability for the economy as a whole, under the country's current VAT system. The theoretical VAT liability is estimated by identifying the expenditure categories that give rise to irrecoverable VAT and then applying the appropriate VAT rate to these to estimate the expenditure in each category.

Withholding tax is a tax on income imposed at source. A third party is charged with deducting the tax from certain kinds of payment and remitting that amount to the tax administration. Withholding taxes are widely used for dividends, interest, royalties and similar tax payments.

