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VAT GAP IN THE EU

COUNTRY REPORT 2024

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I. Introduction

This document presents a country-specific excerpt from the 2024 VAT Gap in the EU report. The full report provides a detailed methodology and country-specific information on VAT compliance for all 27 EU Member States.

Value Added Tax (VAT) is a broad-based tax levied on goods and services consumed in the EU, serving as a core revenue source for EU Member States. In 2023, VAT revenues accounted for 7.2% of EU GDP and 15.7% of total government revenue, making it essential for financing public goods and services.

VAT collection efficiency relies on taxpayer compliance and concessions granted through exemptions, reduced rates, and other measures. The VAT compliance gap represents the difference between potential revenue and actual revenue. This difference encompasses a wide range of sources of forgone receipts, from the legal exploitation of loopholes in tax systems to evasion or organised large-scale tax fraud. Non-compliance can also be unintentional, resulting from administrative errors, omissions, non-fraudulent bankruptcies, and other factors. Policy decisions that narrow the tax base or reduce VAT liability also contribute to forgone revenue – captured by the VAT policy gap.

Since 2009, the European Commission has monitored VAT collection efficiency, and the 2024 report builds on previous findings and methodological improvements.

II. Economic context

The COVID-19 pandemic significantly impacted VAT revenue in 2020, with household consumption plummeting. However, by 2021 and 2022, the economy recovered, leading to a rebound in VAT revenue. In 2022, VAT revenue increased by 10.1%, representing an 18.6% rise compared to pre-pandemic levels. Despite this growth, caution is necessary when interpreting the figures due to the steep economic declines in 2020 and the strong rebound in 2021.

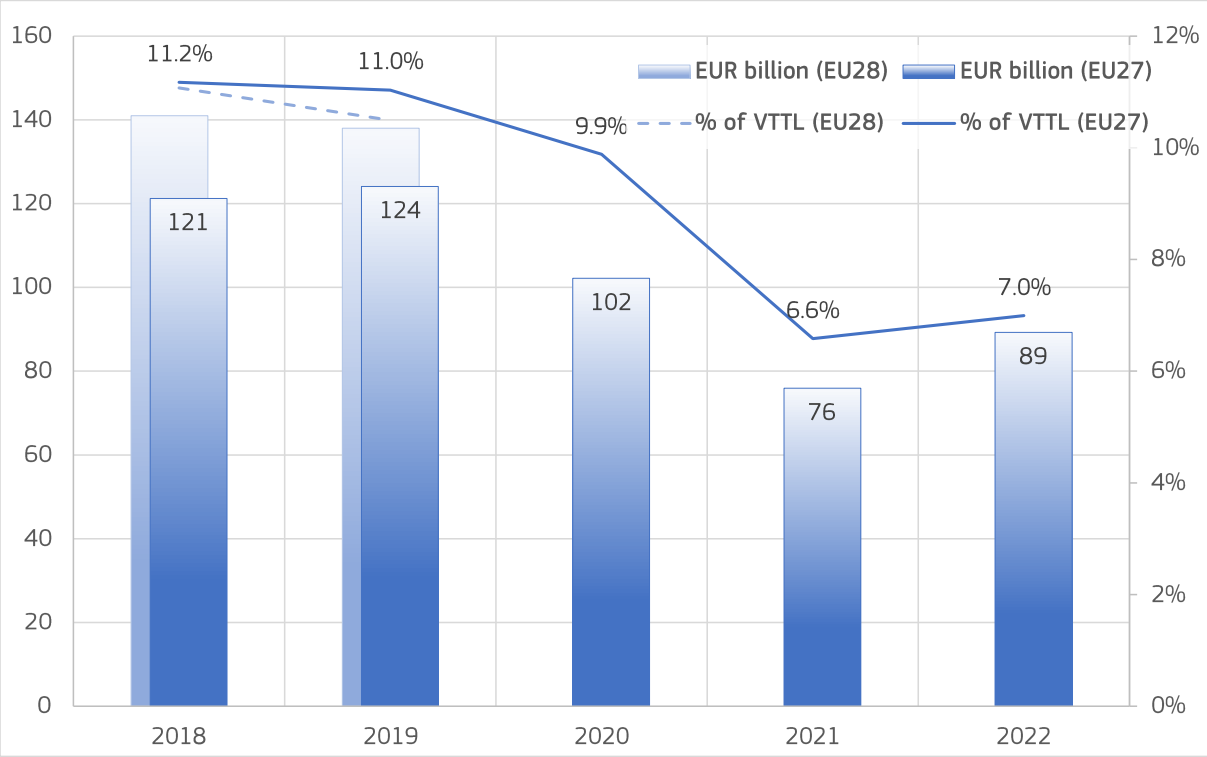
In 2022, the global economy grew moderately by 3.1%, with all EU Member States, except Estonia, experiencing GDP growth. However, inflation posed significant economic challenges, with the EU27 inflation rate reaching a record 9.2%. Governments introduced relief measures, such as price caps and VAT cuts, to ease the burden on households and businesses. These interventions supported VAT compliance but also led to reduced VAT revenue.

The estimated Value Added Tax Total Tax Liability (VTTL) increased by 10.9% on average across EU27 Member States in 2022, driven primarily by a substantial increase in the tax base. The effective tax rate increased by 0.4 percentage points, although it dropped in seven Member States. The overall VAT compliance gap increased by 0.5 percentage points.

III. The VAT compliance gap and its drivers

In 2022, the VAT compliance gap amounted to EUR 89 billion, or 7% of the VTTL. A significant decline of almost EUR 50 billion between 2019 and 2021 was followed by a moderate increase of EUR 13 billion in 2022, partially offsetting the previous improvements in compliance. Estimates for 2020 and 2021 are subject to higher uncertainty due to benchmark revisions and the turbulent conditions of the COVID-19 pandemic.

Figure 1: VAT compliance gap in the EU



Source: VAT gap in the EU – 2024 report, download underlying data.

The VAT gap study shows considerable differences between Member States as regards the size of the VAT compliance gaps and their development over time. For most EU Member States (18 out of 27), the estimates of the VAT compliance gap ranged from 0 to 10% of the VTTL. The smallest VAT compliance gaps were estimated for Cyprus (-0.7%), Portugal (1.3%) and Ireland (1.7%). On the opposite side of the ranking are Romania (30.6%), Malta (25.9%), Slovakia (14.6%), and Lithuania (14.6%). The largest decreases in the size of the VAT compliance gap were observed in Cyprus (-6.8 pp), Latvia (-5.2 pp), and Romania (-4.2 pp.). The largest increase in the size of the VAT compliance gap were estimated for Slovakia (+6.8 pp), Denmark (+4.1 pp), Belgium (+4.0 pp) and Bulgaria (+3.9 pp).

Table 1: VAT compliance gap in Member States

	2018	2019	2020	2021	2022
Belgium	12.2%	13.1%	13.5%	7.0%	11.0%
Bulgaria	8.9%	9.4%	6.0%	3.7%	7.7%
Czechia	13.4%	13.5%	11.8%	6.7%	4.2%
Denmark	8.8%	8.3%	4.3%	4.5%	8.6%
Germany	9.0%	8.5%	6.1%	4.4%	4.3%
Estonia	5.6%	5.5%	4.9%	1.5%	4.4%
Ireland	6.7%	6.3%	9.0%	-1.1%	1.6%
Greece	25.4%	24.0%	21.5%	17.5%	13.7%
Spain	6.5%	7.9%	6.1%	4.1%	4.6%
France	7.8%	8.2%	8.0%	6.0%	6.0%
Croatia	7.4%	1.2%	10.1%	10.9%	12.0%
Italy	21.6%	20.8%	20.7%	10.9%	10.6%
Cyprus	12.5%	12.1%	16.2%	6.2%	-0.7%
Latvia	13.3%	10.6%	12.4%	10.2%	5.1%
Lithuania	24.0%	20.9%	20.3%	15.7%	14.6%
Luxembourg	8.1%	5.2%	8.5%	7.4%	3.7%
Hungary	10.2%	11.1%	8.1%	4.7%	2.3%
Malta	23.4%	27.5%	26.8%	25.5%	25.9%
Netherlands	10.8%	11.1%	8.9%	5.3%	7.9%
Austria	8.2%	6.7%	5.8%	2.6%	3.0%
Poland	14.2%	13.9%	11.6%	5.6%	8.4%
Portugal	9.5%	8.6%	7.2%	4.1%	1.3%
Romania	32.8%	34.7%	36.4%	34.8%	30.6%
Slovenia	4.5%	5.6%	5.3%	3.6%	9.2%
Slovakia	16.3%	16.4%	15.6%	13.8%	14.6%
Finland	3.8%	4.7%	3.2%	3.0%	5.2%
Sweden	2.5%	3.1%	3.3%	5.4%	5.5%
EU27	**11.2%**	**11.0%**	**9.9%**	**6.6%**	**7.0%**
United Kingdom	10.5%	7.3%	-	-	-
EU28	**11.1%**	**10.5%**			

Source: VAT gap in the EU – 2024 report

The VAT compliance gap in 18 out of 27 Member States ranged from 0 to 10%. The COVID-19 pandemic had a notable impact on VAT compliance, particularly in the short term. Factors such as increased digitalisation, the share of SMEs, and varying VAT rates contribute to different compliance outcomes. Several EU Member States have successfully reduced their VAT compliance gap through targeted policy instruments, including electronic reporting obligations and reverse charge mechanisms.

IV. VAT policy gap and its components

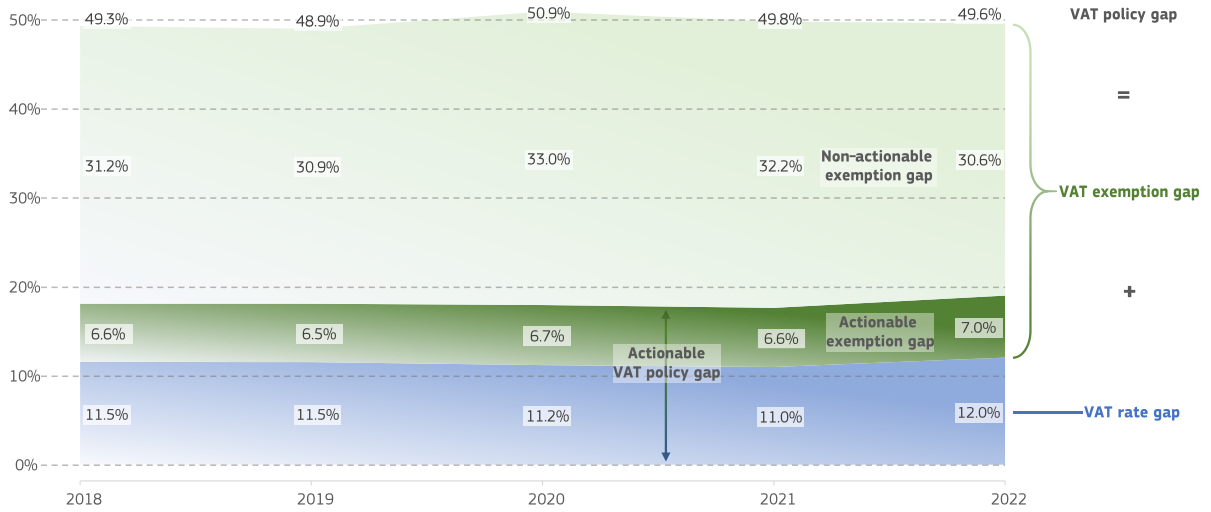
Our annual study of the VAT gap in the EU covers not only estimates of the VAT compliance gap, but also analyses the VAT policy gap, offering several indictors for the analysis of the VAT policy gap. The VAT policy gap estimates the VAT revenue losses resulting from policy decisions to apply reduced VAT rates, exemptions, and zero rates, rather than a single standard VAT rate. It reflects the difference between the potential VAT revenue under a uniform VAT rate ('notional ideal VAT revenue'), and the VAT total tax liability under the current policy framework (the VTTL), assuming full compliance in both scenarios.

In 2022, the VAT policy gap in 2022 accounted for almost 50% of the notional ideal VAT revenue, approximately EUR 1 250 billion in absolute terms. The highest VAT policy gaps were estimated in Spain (57%), Italy (55%) and Greece (54%), while the lowest policy gaps were found in Malta (23%) and Bulgaria (32%).

The VAT policy gap can be broken down into two sub-components: the VAT rate gap and the VAT exemption gap.

- The VAT rate gap results from reduced, super-reduced, or zero VAT rates on goods and services, mainly to agricultural products, foodstuffs, beverages, accommodation and restaurant services. In 2022, the VAT rate gap at EU level amounted to approximately 12% of the notional ideal VAT revenue – in absolute terms estimated at EUR 305 billion.
- The VAT exemption gap, estimated for 2022 in the EU at 37.5% of the notional ideal VAT revenue (EUR 950 billion) is largely composed of exemptions on the provision of public services and imputed rents (20.1% and 7.6% of the notional ideal VAT revenue, respectively). The public services gap can be further decomposed into education (5%), healthcare (6.5%) and other public services (8.6%). Financial services exemptions from VAT account for 2.8% of the notional ideal VAT revenue.

Figure 2: VAT policy gap in the EU



Source: VAT gap in the EU – 2024 report, download underlying data.

The VAT gap study provides estimates of the part of the VAT policy gap that can be addressed by tax policy. The actionable VAT policy gap refers to the portion of the VAT gap that could be addressed through policy decisions, such as lifting VAT rates or exemptions. This includes the entire VAT rate gap and a portion of the VAT exemption gap, but excludes non-actionable areas like imputed rents or public services. The actionable VAT policy gap therefore represents the foregone VAT revenues due to reduced rates and exemptions that could potentially be lifted. For 2022, this actionable VAT policy gap was estimated at approximately EUR 480 billion,

around 19% of the notional ideal VAT revenue. At Member State level, Spain, Greece (each at 27% of notional ideal VAT revenue), Poland and Italy (each 25%) had the highest actionable VAT policy gaps, while Denmark (3.1%) and Malta (0.7%) had the lowest.

Changes in the actionable VAT policy gap reflect Member State policy measures to mitigate the COVID-19 impacts. Over time, the actionable VAT policy gap increased by 1.4 percentage points in 2022 compared to 2021 and remained approximately 1 percentage point above the pre-COVID-19 period (before 2020). This increase was primarily caused by the growing use of services, such as hospitality, that had still been constrained in 2021 due to the COVID-19 pandemic and related restrictions. In contrast, the non-actionable VAT policy gap dropped by 1.6 pp in 2022, mainly due to reduced expenditure on public services, in particular healthcare. Changes in product-related effective rates, namely anti-inflation relief measures, contributed to increases in the VAT policy gap in a number of Member States.

V. VAT compliance and policy gaps – results for Belgium

This section presents the VAT gap estimates and discusses the economic and policy developments that might have affected value and dynamics for Belgium. The chapter also contains highlights enumerating and discussing the main developments in the VAT gaps as well as calculation-related issues. It also presents road signalling which indicates the confidence around the VAT compliance gap estimates.

- Estimates based on relatively up-to-date information with no or very limited unexplained volatility which could signal inaccuracies.

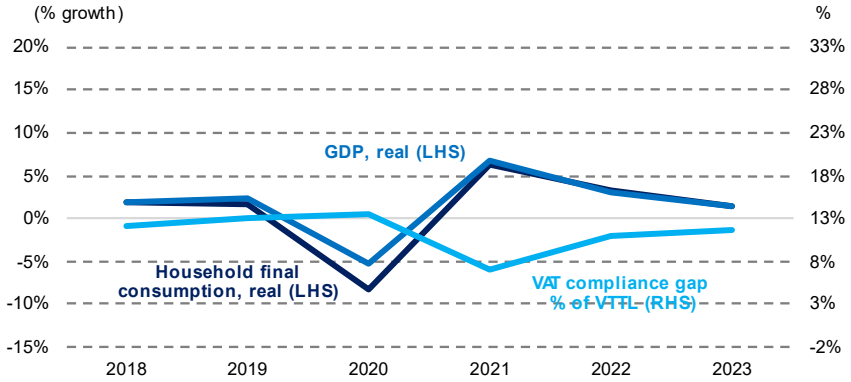
- Estimates based on somewhat outdated information or relatively large unexplained volatility of estimates.

- Estimates based on some very outdated information or very large unexplained volatility of estimates.

Belgium

VAT revenue in Belgium grew by 5.3% in 2022, with growth in key macroeconomic indicators such as GDP, household final consumption and investment also increasing robustly in 2021 and 2022. Meanwhile, **the VAT compliance gap fell sharply in 2021 before rising again in 2022** (Figure 3). Despite this increase, the VAT compliance gap remained below the recent historic average corresponding with real GDP and household final consumption rebounding following the pandemic.

Figure 3: BE: Real GDP, household final consumption, and the VAT compliance gap (% growth / %, 2018-2023)



Source: VAT gap in the EU – 2024 report, based on Eurostat.

Before the pandemic, the Belgian economy grew by roughly 2% annually between 2018 and 2019. However, in 2020 the pandemic had a large impact on the economy, leading to a 5.3% decline due to strict lockdowns and disruptions to economic activity. Recovery began in 2021, with real GDP growing by **6.8% in 2021 and 3.0% in 2022**, driven by **strong domestic demand and financial support** from EU recovery funds. The robust growth in GDP from 2021 correlated with strong growth in the VAT base. Belgium bounced back strongly following the pandemic, with GDP levels 1.2% above pre-pandemic levels by the end of 2021. In nominal terms, GDP grew by 9.1% in 2022, mainly due to increased inflation. Although growth was strong in 2022, the pace varied. Rapid growth in the first half of the year was driven by the ongoing recovery, followed by slower growth in the second half of the year due to rising inflation triggered by Russia's war of aggression against Ukraine.

Belgium experienced a marked increase in inflation in 2022, with rates reaching levels unseen for a long time, largely due to the impact of **Russia's war of aggression against Ukraine** on energy prices. To mitigate the impact of rising energy costs, the Belgian government implemented measures such as fuel subsidies, price caps and financial aid packages, as well as a reduction in the VAT rate on energy from 21 to 6% in March 2022. Despite these efforts, inflation rose to a record high of 10.3% in 2022, slightly above the EU27 average of 9.2%. Before then, inflation had been low in 2018–2020, with inflation at only 0.4% in 2020 due to reduced demand. However, inflationary pressures began to rise in 2021 as the economy reopened.

In 2022, rising inflation caused consumers' real disposable incomes to decline by 1.9%, leading them to dip into savings they had built up during the pandemic. Despite this, **real household final consumption increased by 3.2%**, driven by the lifting of restrictions, which supported growth in the VAT base. Taking the elevated rate of inflation into account, **this resulted in nominal growth of 13.3%**.

In 2022, consumers and businesses regained confidence and resumed postponed investments, triggering an increase in VAT receipts. Government and household investments, the latter including non-profit institutions serving households, increased robustly in 2022 by 9.1% and 5.1% respectively, contributing to higher VAT liabilities. Additionally, investment by financial institutions increased by 12.7% in 2022.

Household final consumption patterns can influence VAT compliance through the volume and types of transactions. In 2022, Belgium's nominal household final consumption mirrored trends seen across the EU27, with growth varying across categories of products and services. Notably, there was substantial growth in the services sector in 2022, with an increase in spending on **restaurants and hotels (42.9% growth) and on recreational and cultural goods and services (14.1% growth).** Since services are more challenging to tax effectively compared to traditional goods, it can lead to a **higher risk of non-compliance**. By the end of 2022, household final consumption of services had surpassed pre-pandemic levels by 9.9% in nominal terms.

In 2022, the services sector exhibited **faster growth compared to the industrial sector,** with real GVA increasing by 4.1% from 2021, and reaching levels 6.2% above those recorded pre-pandemic. Within the services sector, hospitality was one of the hardest hit by the pandemic. However, it rebounded strongly, with arrivals increasing by 153.5% in 2022. Despite such strong growth, levels remained below those recorded pre-pandemic. The **services sector has a higher risk of non-compliance** due to its diversity and the intangibility of services. Meanwhile, growth in **the industrial sector slowed to 0.7%** due to the ongoing energy crisis.

In Belgium, **e-commerce growth declined between 2019 and 2022**, with online sales falling from 32.6% to 27.7% of business turnover, and the share of businesses engaging in e-sales decreasing marginally from 30.5% to 30.2%. Moreover, online retail sales decreased from 15.1% to 10.2% over the same period. The decline in e-sales has the potential to increase non-compliance risks.

In 2022, **bankruptcy declarations in Belgium surged by 41.7%** as government support for businesses from the pandemic was phased out, leading to firms that had been sustained during the crisis filing for insolvency. Meanwhile, bankruptcy declarations remained much lower between 2020 and 2021, with declarations declining due to government support. The closure of firms contributes to VAT non-compliance, complicating recovery processes and thereby reducing VAT collection.

Table 2: BE: Macroeconomic factors that affect VAT revenue and compliance (% / percentage points change, 2021–2022)

Variable	Annual growth in the variable in 2022 (y/y % change)	PP difference in annual growth of the variable (2022 vs 2021)	The sign of the expected impact of the indicator on VAT compliance
Nominal household final consumption, food & non-alcoholic beverages	3.9%	2.4	Positive
Nominal household final consumption, restaurants & hotels	42.9%	17.5	Negative
Nominal household final consumption, custom services aggregate	30.1%	13.0	Negative
GDP services, real	4.1%	-3.2	Negative
GDP, real	3.0%	-3.8	Positive
Total tourism arrivals	153.5%	128.0	Negative
Bankruptcy declarations	41.7%	51.4	Negative
E-commerce, % of sectors	-	-1.2	Positive

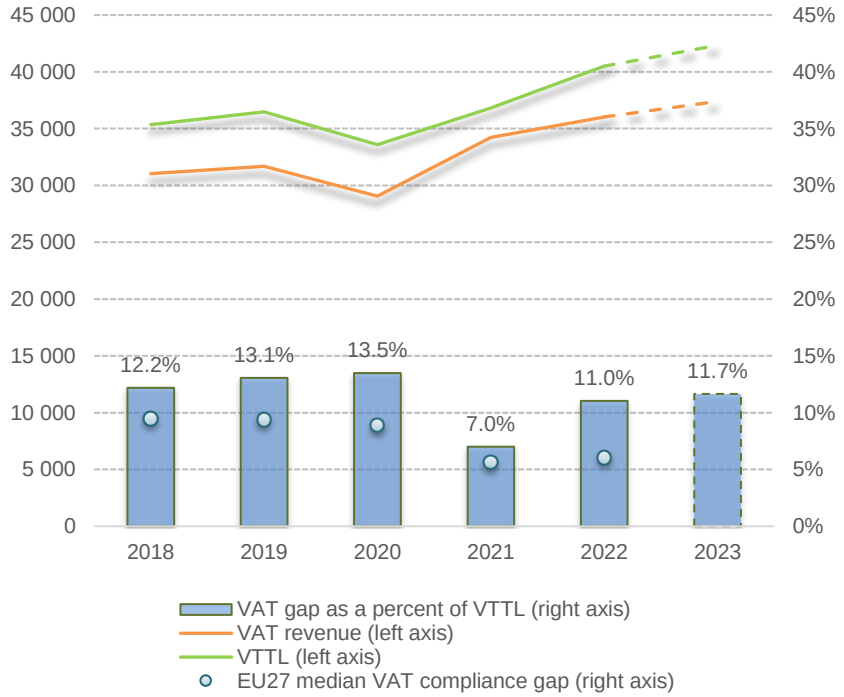
Note: e-commerce figures are based on a percentage, so only percentage point figures are provided. The custom services aggregate comprises recreational and cultural services, package holidays, eating out, accommodation services, personal goods and services, and other services not elsewhere classified.

Source: Eurostat and Tourism Economics and Oxford Economics.

Table 3: BE: VAT compliance gaps, VAT receipts, composition of VTTL (EUR million, 2018–2023)

	2018	2019	2020	2021	2022	*2023*
VTTL	**35 364**	**36 468**	**33 590**	**36 809**	**40 501**	*42 334*
o/w liability on household final consumption	19 731	20 208	18 268	19 979	22 158	
o/w liability on gov. and NPISH final consumption	1 472	1 532	1 572	1 704	1 864	
o/w liability on intermediate consumption	7 815	8 215	7 664	8 464	9 203	
o/w liability on GFCF	5 653	5 769	5 541	6 103	6 573	
o/w net adjustments	693	744	545	559	702	
VAT revenue	**31 053**	**31 702**	**29 058**	**34 234**	**36 031**	*37 402*
VAT compliance gap	**4 311**	**4 766**	**4 532**	**2 575**	**4 469**	
VAT compliance gap (% of VTTL)	**12.2%**	**13.1%**	**13.5%**	**7.0%**	**11.0%**	*11.7%*
VAT compliance gap change since 2018					**-1.2 pp**	

Figure 4: BE: VAT compliance gap, VAT revenue, and VTTL[1]



Source: VAT gap in the EU – 2024 report, download underlying data.

Highlights

- In 2022, the estimated VAT compliance gap increased by 4 percentage points year-over-year. However, the dip observed in 2021 may have been partially caused by the inability to fully account for late VAT payments in 2020 and 2021.
- The VAT compliance gap is expected to have remained broadly stable in 2023.

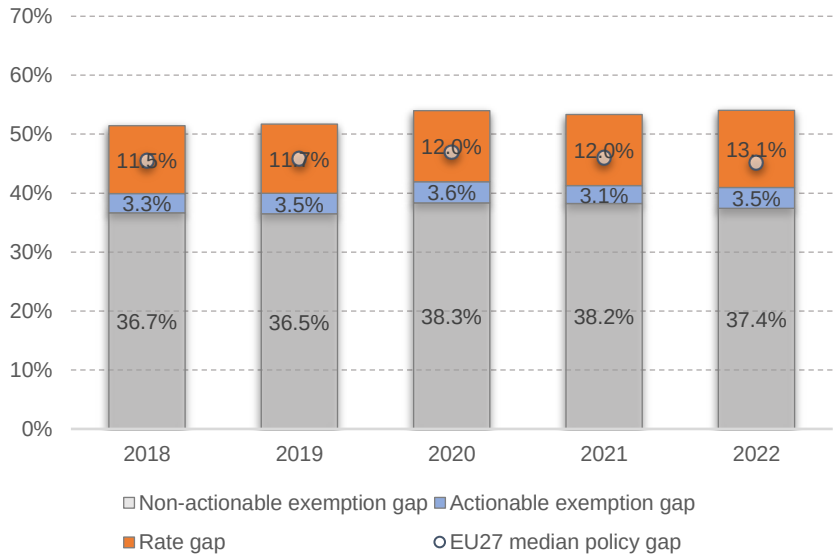
Assessed reliability of estimates:

[1] *The accuracy of the estimates for 2023 is lower as these estimates are based on a simplified methodology and more aggregate data.*

Table 4: BE: VAT policy gap and its components (EUR million, 2018–2022)

	2018	2019	2020	2021	2022
VAT policy gap	**37 411**	**39 023**	**39 410**	**42 026**	**47 633**
Exemption gap	**29 068**	**30 198**	**30 623**	**32 530**	**36 081**
o/w imputed rents	5 308	5 436	5 563	5 761	5 912
o/w public services	18 516	19 338	19 259	20 850	22 960
o/w financial services	*2 870*	*2 762*	*3 173*	*3 515*	*4 114*
Rate gap	**8 342**	**8 825**	**8 787**	**9 496**	**11 552**
o/w agricultural products, foodstuffs, beverages	4 273	4 416	4 600	4 723	4 942
o/w pharmaceuticals	797	845	881	921	987
o/w transport services	691	733	609	658	741
o/w accommodation and restaurant services	853	868	786	1 194	1 375
o/w utilities	121	124	126	132	1 474
o/w other	1 607	1 838	1 785	1 867	2 032
Actionable policy gap	**10 717**	**11 488**	**11 415**	**11 901**	**14 647**
C-efficiency (%)	**48.3%**	**47.7%**	**45.3%**	**49.5%**	**46.3%**
Statutory standard VAT rate			**21%**		
Actionable standard VAT rate	**15.1%**	**15.0%**	**14.7%**	**14.7%**	**14.5%**

Figure 5: BE: VAT policy gap, rate gap, and exemption gap



Note: the rate, actionable, and non-actionable exemption gaps sum up to the VAT policy gap.

Source: VAT gap in the EU – 2024 report, download underlying data.

Highlights

- In 2022, Belgium introduced temporary rate cuts on electricity (effective from March), natural gas, and heat via heating networks (for residential contracts, effective from April).
- The policy gap in 2022 increased slightly, from 53.3% to 54.0%, driven by the impact of the introduced rate cuts on the rate gap.

VI. Data availability and reliability

The accuracy of the VAT gap estimates in this study relies on the quality and availability of data from Eurostat and Member States' administrations. The COVID-19 pandemic has introduced additional challenges, including:

- Inaccurate inclusion of deferred payments in the tax base
- Difficulties in compiling national accounts' statistics, which may lead to inaccuracies
- Temporary changes in tax rates introduced by many Member States

The variability in data availability, timeliness, and granularity across countries contributes to differences in the accuracy of the estimates. While the study team can assess the availability, timeliness, and granularity of the data, the quality of the aggregate information received is more difficult to control. This is because the underlying calculation processes and data are not accessible to the study team, and there are often no alternative sources or series for cross-validation.

As a result, the study team relies on identifying patterns in the data that are inconsistent with economic theory or expectations. For a detailed overview of the data availability, reliability, scope, and methodology of the study, please consult the full report.

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