[VAT Gap: EU countries lost €137 billion in VAT revenues in 2017]

EU countries lost €137 billion in Value-Added Tax (VAT) revenues in 2017 according to a study released by the European Commission today. The so-called 'VAT Gap' – or the overall difference between the expected VAT revenue and the amount actually collected – has reduced somewhat compared to previous years but remains very high. This substantial VAT Gap again highlights the need for comprehensive reform of the EU VAT rules, as proposed in 2017 by the Commission, and increased cooperation between Member States to clamp down on VAT fraud and to make the rules work for legitimate businesses and traders. The VAT Gap measures the effectiveness of VAT enforcement and compliance measures in each Member State, as it provides an estimate of revenue loss due to fraud and evasion, tax avoidance, bankruptcies, financial insolvencies as well as miscalculations.

Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre **Moscovici** said: "*The favourable economic climate and some short-term policy solutions put in place by the EU helped to lower the VAT Gap in 2017. However, to achieve more meaningful progress we will need to see a thorough reform of the VAT system to make it more fraud-proof. Our proposals to introduce a definitive and business-friendly VAT system remain on the table. Member States cannot afford to stand by while billions are lost to illegal VAT carousel fraud and inconsistencies in the system.*"

Romania recorded the largest national VAT Gap with 36% of VAT revenues going missing in 2017. This was followed by Greece (34%) and Lithuania (25%). The smallest gaps were in Sweden, Luxembourg and Cyprus where only 1% of VAT revenues on average fell by the wayside. In absolute terms, the highest VAT Gap of around €33.5 billion was in Italy.

Individual performances across Member States still vary significantly. The VAT Gap decreased in 25 Member States and increased in three. Malta (-7 percentage points), Poland (-6 percentage points) and Cyprus (-4 percentage points) showed strong performances, with large decrease in their VAT losses. Seven Member States, namely Slovenia, Italy, Luxembourg, Slovakia, Portugal, Czechia and France also revealed robust results, reducing their VAT Gap by more than 2 percentage points. The VAT Gap grew noticeably in Greece (2.6%) and Latvia (1.9%) and marginally in Germany (0.2%).

In nominal terms, the VAT Gap decreased by €8 billion to €137.5 billion in 2017, a similar amount as the 2016 decrease of €7.8 billion. The VAT Gap in 2017 represents 11.2% of total VAT revenues in the EU, compared to 12.2% the year before. This downward trend can now be observed for the fifth consecutive year.

The VAT Gap report published today concentrates on 2017, as this is the most recent period for which comprehensive national accounts data and own resources data are available. This year's study introduces a new element,

however: a forecasting exercise which provides so-called “fast estimates” for the year preceding the publication year, i.e. 2018. These fast estimates indicate that the VAT Gap will likely continue its downward trend and fall below €130 billion and 10% of the VAT Total Tax Liability (VTTL) in 2018.

Background

The VAT Gap study is funded by the EU budget and its findings are relevant for both the EU and Member States as VAT makes an important contribution to both the EU and national budgets. The study applies a “top-down” methodology using national accounts data to produce estimations of the VAT Gaps. The method used was improved and refined over the years and offers now the best combination of estimates in terms of comparability of results and accuracy.

For more information

For more information, see our FAQ.

The full report and a factsheet is available here.

VIDEO: Commissioner Moscovici on the fight against VAT fraud