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From Digital Tax Symbolism to Meaningful Reform: Europe's Substantial VAT Gap as a Source of Untapped Fiscal Capacity

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Brussels, 12 March 2026 - A new study by the European Centre for International Political Economy (ECIPE) argues that **Europe's tax debate is focusing on the wrong instruments**. Over the past decade, policymakers have layered digital taxes, new corporate tax rules, and global tax initiatives onto an already complex system – yet these measures have generated little revenue and done little to improve perceptions of tax fairness.

At the same time, the study outlines that **Europe is leaving close to one trillion euros in potential VAT revenue untapped each year due to exemptions, reduced rates, and policy choices that narrow the tax base**. While political attention remains fixed on taxing multinational firms and digital platforms, the largest unrealised fiscal capacity in Europe already lies within existing VAT systems.

Instead of adding new digital taxes and increasingly confusing corporate tax rules, governments could **unlock substantial revenue potential by improving VAT compliance and broadening the VAT base** – strengthening public finances while reducing legal complexity and economic distortions.

VAT already forms the backbone of European public finances and generates far more stable and substantial revenues than corporate taxation or digital services taxes. Yet political debates remain heavily focused on taxing corporate profits and large technology firms – despite the fact that **these taxes generate relatively**

modest revenues while increasing complexity, compliance costs, and economic distortions.

"Europe does not suffer from a lack of tax instruments – it suffers from too many", the authors argue. Over the past decade, policymakers have introduced multiple layers of corporate, digital, and global tax rules in an attempt to address perceived fairness gaps. However, these measures have added complexity without significantly improving fiscal capacity.

Europe's political debate continues to also focus heavily on corporate taxation. Yet **corporate taxes are among the most distortive forms of taxation** because they directly affect investment, productivity, and business expansion. At the same time, major inefficiencies in consumption taxation remain largely unaddressed.

Governments serious about competitiveness should therefore reconsider their priorities. Rather than adding new layers of digital or turnover-based taxes, policymakers should focus on strengthening broad, neutral, and administratively efficient tax bases.

In practical terms, this implies:

- Stop adding new digital taxes and other sector-specific levies

- Avoid global corporate tax initiatives that further increase complexity

- Focus tax reform on strengthening broad-based consumption taxes such as VAT

More broadly, the study argues that Europe's tax reform debate should prioritise structural simplification. This includes simplifying existing tax systems, eliminating overlapping layers of corporate and digital taxation, strengthening compliance in consumption taxes, and improving transparency about who ultimately bears the economic burden of taxation.

Dr Matthias Bauer, Director at ECIPE: ***"If Europe wants stronger economic development and competitiveness, it needs simpler and more predictable tax systems. Reducing complexity and strengthening broad-based taxes would lower administrative burdens, improve legal certainty, and make Europe a much more attractive place to invest."***

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