Council of the European Union

Brussels, 12 December 2025
(OR. en)

16801/25
ADD 18

FISC 371
ECOFIN 1739

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	11 December 2025
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2025) 421 annex
Subject:	COMMISSION STAFF WORKING DOCUMENT Mind the Gap Report Challenges and opportunities for tax compliance and tax expenditure in the EU - Luxembourg

Delegations will find attached document SWD(2025) 421 annex.

Encl.: SWD(2025) 421 annex

EUROPEAN
COMMISSION

Brussels, 11.12.2025
SWD(2025) 421 final

PART 19/29

COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU

Luxemburg

EN EN

Country fiche: Luxembourg

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Luxembourg reports annually on tax expenditures (TEs) and prepares multi-annual financial programmes.** This provides greater transparency and predictability on public finances and their evolution. Luxembourg also reports an annual list of TEs and their estimated nominal values. In 2025, TEs in Luxembourg amount to 2% of GDP (EUR 1 714 million). Moreover, based on simulations, Luxembourg's tax expenditures raise disposable income for households and, to an extent, reduce inequality.

- **Luxembourg undertakes several activities aimed at effective VAT collection and tax recovery.** Luxembourg has a relatively low level of tax arrears (13 percentage points below EU average). This is influenced by the provision of online information on VAT registration and online registration options, verification of applicant's identities, and preliminary checks. Furthermore, different IT subsystems of the tax administration are linked, allowing for better oversight. Luxembourg also has sound mechanisms for VAT dispute resolution in place.

Areas for Improvement

- **Luxembourg's progress with digitalising its tax administration has been slow.** E-filing rates for corporate income (CIT) and personal income tax (PIT) returns are low compared to EU averages, for CIT e-filing rates have even slightly decreased in recent years. Pre-filled personal income tax (PIT) returns are not available for all households and not available for VAT or CIT. The Luxembourgish Court of Auditors has also raised concerns in this domain, pointing to the fact that the tax administration relies heavily on paper-based processes, also handled by fax.

- **Luxembourg has limited activity in the field of tax gap estimation.** For the VAT compliance gap, estimates in the 2025 edition of the VAT gap in Europe study fall outside plausible ranges. Moreover, to the knowledge of the Commission, the country is not active in the estimations of tax gaps in the field of direct taxation. Proxy indicators for tax gaps (e.g. difference between Effective Tax Rates (ETR) and Statutory Tax Rates (STR)) for corporations, or reports from the Court of Auditors for personal income taxation, indicate that there is scope for Luxembourg to engage in tax gaps estimations in the future.

- **Certain TEs in Luxembourg contribute to economic inefficiencies.** These TEs include the deductibility of interest charges on bank loans for personal real estate, cross-border tax credits, and housing tax credits for registration and transcription fees. Such subsidies for home ownership can contribute to inflating pre-tax housing prices, which benefits wealthy owners and investors at the expense of less well off. Furthermore, the absence of effective recurrent taxation on buildable land and property also provides incentives for land and property hoarding, given the lengthy period of sustained strong price growth until the recent downturn, deepening the imbalance between supply and demand on the housing market, and amplifying upward price pressure.

1. Snapshot of Tax System: Tax Revenues and their Sources

In Luxembourg, tax revenues as a percentage of the country's GDP are slightly above the EU average. In 2023, total tax revenues amounted to 41.4% of GDP compared to the EU-27 average of 39.0% ([1]). The largest source of tax revenues was labour taxes (48.9% of tax revenues vs. EU average of 51.2%), followed by capital taxes (28.6% of tax revenues vs. EU average of 21.9%) and consumption taxes (22.5% of tax revenues vs. EU average of 26.9%). The prominence of capital taxes in the tax mix reflects the importance of the financial sector in Luxembourg's economy. Among the different tax types, VAT revenue amounted to 15.7% of total tax revenues (EU average of 18.3%) and 6.5% of GDP (EU average of 7.1%). Revenues from recurrent taxes on immovable property is negligible in Luxembourg (0.1% of GDP, compared to 0.9% in the EU-27).

Overall, Luxembourg's tax system scores on average in terms of fairness. The 2024 Gini coefficient stands at 30.1% of equivalised disposable income, slightly higher than the EU average (29.3%) ([2]). The capacity of the tax and benefit system to reduce income inequality, as measured by the difference in Gini coefficients before and after taxes and benefits, is relatively low (5.9 percentage points, compared to the EU average of 7.7 percentage points) ([3]). Labour taxation is progressive in Luxembourg: the difference in the tax wedge between high-income earners (167% of average wage) and low-income earners (67% of average wage) is the fourth largest in the EU, with 14.1 percentage points in 2024, 6.3 percentage points above the EU average ([4]). Luxembourg had in 2024 an at-risk-of-poverty or social exclusion rate of 20.0%, slightly below the EU average of 21.0% ([5]).

2. Monitoring of Compliance Gaps

2.1. Overview

Luxembourg does not have a programme in place to estimate the size of its tax gap, but it is contributing to EU initiatives in this area. However, the country participates in the Tax Administration EU Summit (TADEUS) project group on tax gap estimation initiated in 2021 and supported by the FISCALIS programme. Within this project group, Luxembourg's Ministry of Finance is

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 40.1% of GDP), followed by an increase of total tax revenues to 41.4% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.
[2] Eurostat – Gini coefficient of equivalised disposable income by age (ilc_di12).
[3] Eurostat and European Commission calculations based on EU-SILC survey data.
[4] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.
[5] Eurostat – Persons at risk of poverty or social exclusion by age and sex (ilc_peps01n).

active in the subgroups dedicated to PIT and CIT gaps (direct taxation), working on the development of a common approach to estimate these gaps.

2.2. Monitoring VAT Compliance Gap

In the latest edition of the VAT gap in Europe study, the estimates of Luxembourg's VAT compliance gap ([6]) fall outside plausible ranges ([7]). They show negative or near-zero values for several consecutive years, which is not feasible in practice as it implies that collected VAT exceeds theoretical liability. This particularly low VAT compliance gap was estimated following a major upward revision of Luxembourg's VAT revenue data of up to 8.5% of revenues for recent years, which was not accompanied by a revision of the corresponding VAT liabilities from national accounts. Moreover, Luxembourg's particular economic structure, in which household consumption accounts for less than 40% of total VAT liability and where cross-border purchases by non-residents generate a large share of VAT revenues but are not reflected in domestic consumption, further complicates the estimation of the VAT compliance gap. Further research and discussions with the national authorities will be necessary in the future to reconcile VAT revenue and national accounts data in Luxembourg.

In 2023, VAT losses due to Missing Trader Intra Community (MTIC) fraud ([8]) were estimated at around EUR 200 million in Luxembourg ([9]). They displayed an overall increasing trend. While experiencing some fluctuations over time, the VAT losses due to MTIC fraud increased between 2010 and 2023 by around EUR 60 million.

2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

The European Commission is not aware of any CIT and PIT compliance gap estimation activities in Luxembourg at the time of writing of this document. Information on Luxembourg's CIT and PIT gap is scarce, and no figure is publicly available. Luxembourg's ministries and tax authorities do not publish any figure nor report on the country's direct tax gap.

The size of the shadow economy in Luxembourg is amongst the lowest in the EU-27. In 2022, the shadow economy in Luxembourg represented 8.3% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ([10]). The size of the shadow economy was stable in recent

---

[6] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.
[7] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[8] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.
[9] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.
[10] European Parliament (2022), *Taxation of the informal economy in the EU*.
https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.

years (8.2% of GDP in 2012) with a ratio 9.3 percentage points below the EU-27 unweighted average. Among the main drivers of the shadow economy for Luxembourg are indirect taxes and tax morale. These developments undermine collection of both direct and indirect taxes. Other studies on the informal economy estimate its size at 10.2% in 2020 ([11]).

2.4. Other Compliance Gaps

Luxembourg does not publish any information on possible other compliance tax gaps. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Luxembourg reports annually on tax expenditures (TEs), as part of its budgetary cycle. According to the authorities, tax expenditures related to direct and indirect taxes are expected to result in foregone tax revenues of 2.0% of GDP in 2025, or EUR 1 714 million ([12]).

In terms of direct taxes, tax credits and deduction rules have the largest effects on tax revenues (0.59% and 0.56% of GDP in 2025, respectively). These result from tax credits for employees, pensioners, and the self-employed, the introduction of new cross-border tax credits and tax scales, and an increase in the deductibility of interest charges related to bank loans to finance the purchase of a personal home. On the indirect tax side, the greatest impacts on tax revenues come from the super-reduced VAT rate of 3% (0.25% of GDP in 2025), followed by tax expenditures for registration and transcription fees (housing tax credits) (0.19% of GDP in 2025) ([13]). The European Commission has expressed concerns regarding subsidies for home ownership, which have inflated pre-tax housing prices, mainly benefiting wealthy owners and investors ([14]). The European Commission also noted that tax structures favouring land and property hoarding have contributed to the persistent supply-demand imbalance in the housing market. Upon proposal from the Commission, in its 2025 Country Specific Recommendations, the Council has urged Luxembourg to adopt a comprehensive land-use policy and a property tax reform, and to take further action to effectively tackle aggressive tax planning ([15]).

Estimates from academic papers may provide some insights on differences between statutory and effective tax rates. According to the OECD, Luxembourg’s effective average corporate tax rate

---

[11] See https://www.theglobaleconomy.com/Luxembourg/informal_economy_mimic/

[12] Ministry of Finance (Luxembourg), 2025. Budget 2025 – Volume 2 : Projet de loi de programmation financière pluriannuelle pour la période 2025-2028. Accessible at: https://igf.gouvernement.lu/dam-assets/fr/dossiers/budget-de-l-etat/projet-de-loi/projet-de-budget-2025-volume-2.pdf.

[13] Ibidem.

[14] European Commission, 2024. Council Recommendation on the economic, social, employment, structural and budgetary policies of Luxembourg, COM(2024) 616 final. Accessible at: https://commission.europa.eu/publications/2024-european-semester-country-specific-recommendations-commission-recommendations_en.

[15] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Luxembourg.

(EATR) stood at 23.2% in 2023 – close to the country's statutory tax rate of 24.9%. However, it is important to note that the OECD's EATR is a forward-looking, model-based estimate (as opposed to empirically assessed), calculated using purely domestic investment scenarios. As such, it does not capture profit shifting and aggressive tax planning practices, nor does it measure the effective tax actually paid by companies (e.g. based on financial statements or tax returns). Therefore, EATR figures may differ substantially from empirical effective tax rates reported by firms. To address these limitations, academic papers have attempted at estimating the effective tax rate paid by companies in Luxembourg. Using country-by-country reporting (CbCR) data (2020-2022) from profit-making firms, Laffite and Montagner ([16]) (2025) estimate Luxembourg's corporate effective tax rate to be around 6% - much lower than its statutory figure. Corroborating these results, a study by the Luxembourgish Parliament (2025) points to a wide gap between the statutory and the effective corporate tax rate in Luxembourg (27-29% and 1%-8%, respectively) and links this gap to the competitive advantage presented by Luxembourg's tax system ([17]). In late 2023, Luxembourg transposed EU Directive 2022/2523 (also known as the Pillar Two minimum taxation rules) into domestic law, thereby taking an important step towards limiting aggressive tax planning.

In general, the transparency and monitoring related to tax expenditures in Luxembourg can be considered good. The 2025 budget (volume 2) ([18]) of Luxembourg provides a list of TEs and their estimated nominal values, classified per direct and indirect taxes, and per type of expenditure (e.g., allowance, deduction, exemption, relief, credit, bonus, reduced VAT rates). The establishment of multi-year financial programmes allows for greater transparency and predictability regarding the evolution of public finances.

Tax expenditures related to PIT effectively increase household disposable income while reducing income inequality. According to a Commission discussion paper relying on the tax-benefit microsimulation model EUROMOD, simulated tax expenditures in PIT in Luxembourg lead to roughly a 4.5% increase in the average disposable household income. The simulated tax expenditures in PIT in Luxembourg also reduce income inequality to some extent, as they are estimated to reduce the Gini coefficient by roughly 2% ([19]).

3.2. VAT Policy Gap

Inconsistencies in the data also affect Luxembourg's VAT policy gap ([20]) estimates ([21]). As mentioned in section 2.2, Luxembourg's VAT revenue data for recent years underwent a major upward

[16] Effective-Tax-Blacklists-Rethinking-Criteria-For-the-21st-Century.pdf
[17] Chambre des Députés du Grand-Duché de Luxembourg, 2025. La compétitivité fiscale du Luxembourg (https://www.chd.lu/fr/note-scientifique-competitivite-fiscale-Luxembourg).
[18] Ministry of Finance (Luxembourg), 2025. Budget 2025 – Volume 2 : Projet de loi de programmation financière pluriannuelle pour la période 2025-2028. Accessible at: https://igf.gouvernement.lu/dam-assets/fr/dossiers/budget-de-l-etat/projet-de-loi/projet-de-budget-2025-volume-2.pdf.
[19] Turrini et al., 2024. Tax Expenditures in the EU: Recent trends & new policy challenges, Discussion Paper 212 (https://op.europa.eu/en/publication-detail/-/publication/0cb8b8e9-9738-11ef-a130-01aa75ed71a1/language-en).
[20] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

revision in 2025. Further research and discussions with the national authorities will be necessary in the future to reconcile VAT revenue and national accounts data in Luxembourg.

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Although Luxembourg performs well overall regarding VAT collection, there are some areas for improvement to increase compliance. The challenges Luxembourg has in relation to digitalisation and paperless work mainly relate to direct tax. However, the tax administration would gain from integrating the currently separate departments for VAT, excise and direct taxes, at least at the level of the procedures and the tools they use. This would give Luxembourg the possibility to integrate towards the best functioning, i.e. most digitalised, non-paper based functioning department.

As regards VAT registration, Luxembourg enables online registration and informs taxpayers about their VAT registration obligations, including the online procedure. ([22]) Although the tax administration carries out preliminary checks and keeps a record of applicants for whom VAT registration has not been granted, this information is stored in decentralised registers at local tax offices, which undermines its usefulness. Furthermore, Luxembourg does not have processes in place to detect taxpayers who fail to register.

Luxembourg is relatively fast in changing the status of VAT identification numbers used for both domestic and intra-EU transactions to 'invalid' in the national VAT numbers register, where there are significant indicators of VAT fraud, e.g. following Eurofisc risk signals. They report to do this in a time span of 15 – 30 days, which places Luxembourg amongst the faster Member States to do so.

On tax filing and assessment, Luxembourg could improve the general online navigation experience and inclusion of available VAT information. Notably, Luxembourg does not allow VAT taxpayers to access, visualise and modify their VAT-relevant data via a secure online connection. The administration initiates various actions to enforce timely submission of VAT declarations, including reminders, assessments of estimated tax liability, automatically generated late filing penalties, and directly contacting taxpayers. However, more effort could be dedicated to analysing individual circumstances and taxpayers' filing history.

Concerning compliance risk management, Luxembourg has a system of automatic information exchange between tax administrations and other national bodies in charge of registration. Since 2020, it has developed an automated, on-demand access to the annual accounts data of entities required to file them and identified for VAT purposes.

---

[21] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[22] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

With respect to audit and enforcement, Luxembourg could improve the audit activity on (Mini) One Stop Shop ((M)OSS)-registered businesses. Since 2020, Luxembourg has made progress in using sector-specific audit manuals, which are checked against internal documented processes with a view to improving the quality of audits. However, it could base its VAT audit practices on an annual national tax audit plan. Importantly, Luxembourg could establish an adequate internal audit process for the accounting system, to ensure alignment with tax laws and accounting standards.

Regarding payment and collection, Luxembourg makes electronic payment of VAT obligations compulsory and does not allow cash payments. While Luxembourg does not have data on the rate of on-time payment of refunds, it implements several practices to ensure swift payment of legitimate VAT refunds, such as a specific procedure for low-risk VAT refund requests.

On enforcement and debt collection, Luxembourg's penalty system for taxpayers who fail to file VAT returns on time is automated, although the penalty system for late payments is administered manually on a case-by-case basis. Luxembourg allows 90 days between the statutory due date and the first notification of the taxpayer to recover the arrears. Since 2020, a new IT system has been used by the tax administration to manage VAT arrears. It consolidates information on a taxpayer from various databases into a single report providing a comprehensive overview of VAT arrears.

4.2. Tax Recovery

For an efficient tax recovery, Luxembourg uses several measures. It issues automatic reminders for late submission of tax returns, as well as assessments of estimated tax liability and late filing penalty. Penalties are automatically generated by a system for late filers, and taxpayers may also be contacted directly by the tax administration. Luxembourg has three different tax authorities respectively responsible for the recovery of income tax, VAT and excise duties, each of which applies its own specific rules/procedures. The efficiency of the tax recovery would be certainly improved if one single authority would apply the same rules and practices for recovery for all types of taxes. Luxembourg uses an IT system to prioritise tax recovery based on the size and age of arrears, and to determine the types of taxes due ([23]). It also allows collecting tax arrears via an instalment plan. Digital tools are also used facilitate administrative cooperation between different government entities, enabling the exchange of data to enhance tax recovery efforts ([24]). However, there is no specific legislation on cooperation between the administrator of insolvency proceedings and tax (recovery) authorities.

Debts may be considered non-collectible if the taxpayer is insolvent or lacks recoverable assets, when the authorities initiate bankruptcy proceedings. They may also decide to continue tax investigations in case of suspected fraud ([25]). Luxemburg has a writing off practice applicable when all

[23] European Commission, 2022. Ninth report from the Commission on VAT registration, collection and control. procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, COM(2022) 137 final. Accessible at: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1650964545926&uri=CELEX%3A52022DC0137.

[24] PwC Luxembourg, 2024. A first step towards a modern and digital tax administration. Accessible at: https://www.pwc.lu/en/newsletter/2024/modern-digital-tax-administration.html.

[25] Guichet.lu, 2024. Créances dans le cadre d'une faillite. Accessible at: https://guichet.public.lu/fr/entreprises/sauvegarde-faillite/faillite/creancier/declaration-creance.html.

possible recovery measures under national law have been taken, but without success and no further recovery measures are possible.

Luxembourg does not disclose details on the monitoring of recovery costs and the use of cost-benefit analyses. Establishing clear performance indicators and regular monitoring could provide insights into the effectiveness of tax recovery efforts.

Tax arrears in Luxembourg are below the EU average and have remained in recent years. The closing stock of tax arrears at year-end in Luxembourg was stable over 2018-2023, with 17.4% of total net revenue in 2023, 13.3 percentage points below the EU average ([26]). This value suggests that Luxembourg's recovery efforts are suitable in collecting the taxes owed.

4.3. Use of Directive on Administrative Cooperation (DAC) ([27]) Instruments and Data ([28])

Luxembourg makes use of DAC1 and DAC2 data for assessing taxation on individuals. DAC1 ([29]) (categories of income) ([30]) and DAC2 ([31]) (financial accounts) data is currently used for notification to generate disclosures, domestic risk assessment analysis ([32]), general audits and audits limited to specific categories of income or capital. Data is mainly used in the field of personal income tax, leading to increasing tax revenues. Luxembourg uses the information from DAC1 and DAC2 also for tax recovery purposes, which is particularly relevant to reduce the tax gap.

DAC data matching rates concerning individuals ([33]), are above the EU average. For the year 2024, the average matching rate measuring success in identifying taxpayers with DAC data is 94% for DAC1 ([34]), and 88% for DAC2, the EU-average being at 84% and 87% respectively.

---

[26] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org
[27] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.
[28] Source: Yearly Assessment 2025; EU AIAC statistics 2024 – Subject to confidentiality clause on DAC art. 23a
[29] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC.
[30] Income from employment, Director's fees, Pensions, Immovable properties.
[31] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[32] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.
[33] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024
[34] Average rate for Income from employment, Director's fees, Pensions, Immovable properties

Luxembourg uses DAC3 ([35]) (rulings), DAC4 ([36]) (country-by-country report) and DAC6 ([37]) data occasionally for risk-analysis purposes in the field of corporate income taxation. The taxation administration in charge of direct taxes is currently developing a tool which should allow to match and process the data automatically. It could then be used for risk assessment, which may lead to further investigations on the taxpayers concerned including assessing high-level risk of tax-harmfulness of arrangements reported, notification to generate disclosure, general audit, or audit limited to specific categories of transactions (e.g. transfer pricing).

Luxembourg makes use of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and, therefore, contribute to reducing the tax gap. Looking at the past three years, Luxembourg was involved in 4 cases initiated by other Member States.

In conclusion, Luxembourg uses the data related to individuals in coherence with the objectives of the DAC. Concerning the information related to DAC3, DAC4 and DAC6, which is usually linked with company taxation, progress could be made by implementing a complete and robust system of identification of taxpayers and a risk assessment process, to increase the impact of these exchanges of information on the tax revenue. Moreover, to measure the efficiency of the tools implemented it would be very useful to put in place a system to monitor the outcome of the use of data in terms of increase in tax assessed.

5. Digitalisation and Compliance

5.1. Digital Transformation, Skills, and Culture

While Luxembourg has developed a strategy for digital transformation, it has not identified the future skills required by the administration for a successful digital transformation, nor developed a strategy to build a digital culture within the administration ([38]). These three pillars would be mutually reinforcing, and the lack of attention paid to ensuring digital skills in the future, or to building a digital culture, makes it unlikely for Luxembourg to design and apply processes that would allow taxpayers to meet their tax responsibilities in a seamless way. The lack of digitalisation has also been pointed out by the Luxembourgish Court of Auditors in a recent report ([39]). It found the tax administration ("Administration des contributions directes", ACD) relies heavily on paper-based processes, with assessments still mailed by post and complaints handled by fax or letter — sharply

[35] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation
[36] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation
[37] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements
[38] OECD Inventory of Tax Technology Initiatives 2024. Accessible at: https://data-explorer.oecd.org. Note: data is self-reported by tax administrations and therefore not 100% objective or comparable.
[39] 24.01.29 - Recettes - Rapport Cour des comptes.PDF

limiting efficiency. It should, however, be noted that these findings refer to the period 2010-2020, and that Luxembourg has since then implemented a number of reforms aimed at modernisation and digitalisation of the tax administration.

Luxembourg's direct tax administration launched a contact centre in autumn 2024, allowing for faster responses and optimised tracking of taxpayer requests, the full deployment of which is set to be completed by mid-2025. It is also continuing to improve an electronic assistant with the aim of encouraging more taxpayers to file their tax declarations online. Moreover, a simple pre-completed tax declaration for individuals was launched in spring 2025, aimed at households with a simple "salary and pension" income type ([40]).

Luxembourg requires individuals and businesses to use an approved digital identity to access secure digital services. An approved digital identity helps increase the accuracy of taxpayer identification, thereby reducing the potential of identity fraud, duplication of records and administrative errors.

An estimated 21-40% of the individual taxpayer population uses an approved digital identity to access secure digital services offered by the administration, while the share of businesses is estimated at 81-100%. This digital identity solution is built upon an existing domestic identity system, and digital identity solution for individuals can connect with foreign identity systems. The digital identity for individuals and businesses can be created on request. However, a meeting is needed to finalise the process of receiving a digital identity, and individuals without ID-documents or birth certificates cannot receive a digital identity for tax purposes. The administration applies different authentication methods based on the level of security required for certain types of interactions. While the administration offers online service for filing tax returns, it does not offer online service for making tax payments. No online services are offered for asking for tax payment arrangements, asking confidential enquiries in a secure environment, filing tax related objections, or dealing with correspondence ([41]).

5.2. Front-end Digitalisation

5.2.1 Pre-filling

As regards pre-filling for PIT returns, Luxembourg lags behind the majority of Member States. It has made some progress, as a simple pre-completed tax declaration for individuals was launched in spring 2025, aimed at households with a simple "salary and pension" income type. However, pre-filled PIT returns remain unavailable for individuals with more elaborate income sources ([42]). A fully rolled-

[40] Gouvernement.lu, 2025. *Transformation de l'Administration des contributions directes: "Mieux servir le citoyen avec des procédures plus simples"*. Accessible at: https://gouvernement.lu/fr/actualites/agenda.gouvernement2024+fr+actualites+toutes_actualites+communiques+2025+01-janvier+16-roth-transformation-contributions.html.

[41] OECD Inventory of Tax Technology Initiatives 2024. Accessible at: https://data-explorer.oecd.org. Note: data is self-reported by tax administrations and therefore not 100% objective or comparable.

[42] Gouvernement.lu, 2025. Transformation de l'Administration des contributions directes: "Mieux servir le citoyen avec des procédures plus simples". Accessible at: https://gouvernement.lu/fr/actualites/agenda.gouvernement2024+fr+actualites+toutes_actualites+communiques+2025+01-janvier+16-roth-transformation-contributions.html.

out pre-filling system for PIT would contribute to reducing the burden of tax compliance and provide greater tax certainty for individual taxpayers and the tax administration. According to a recent Eurobarometer survey, 38% of citizens in Luxembourg find it very easy or fairly easy to complete their tax return, placing them 20th among EU Member States ([43]). It could however be expected that the recent implementation of pre-filling facilities for certain income types will have a positive effect on the ease of filing tax returns.

Pre-filling of VAT returns in Luxembourg is still subject to development. Luxembourg was one of the Member States that did not offer pre-filled VAT returns, imposing an increased burden of VAT compliance for taxpayers ([44]). With the adoption of "VAT in the Digital age" (ViDA) in March 2025, which will impose digital reporting requirements and e-invoicing across the EU ([45]), conditions for introducing pre-filled VAT returns are likely to improve.

Luxembourg does not offer pre-filling for CIT returns, although this was not common among Member States in 2022 ([46]).

5.2.2 E-filing

Luxembourg has an e-filing rate for CIT returns below the EU average. In 2023, Luxembourg reported an e-filing rate of 84.7% for CIT, the second lowest in the EU, given an EU average of 97.1%. It has seen a downward trend since 2019, when it stood at 89.5% ([47]). While all corporate entities that fall under the mandatory online filing regime must submit their returns electronically, a comparatively broad group of entities (e.g., partnerships, non-resident entities, agricultural associations, cooperative companies) are legally exempt from mandatory electronic filing, likely leading to the lower reported e-filing rate. This indicates that there is considerable room for improvement.

The e-filing rate for PIT returns is the lowest in the EU (21% in 2023), significantly below the EU average of 87.1% ([48]). It has increased by 11.9 percentage points since 2018. While it is significantly lower than for the rest of the EU, this indicator should be seen within the context of the design of Luxembourg's PIT system: as the system relies heavily on withholding at source, the majority of resident taxpayers are not required to file an annual tax return at all. Only individuals with more complex tax situations (e.g., multiple income types, cross-border elements, specific deductions) or those with a taxable income above EUR 100 000, are required to file a return. Still, encouraging those individuals required to do so, to file their tax returns electronically, would save taxpayers both time and money, as well as reduce the likelihood of errors through integrated error-check mechanisms.

---

[43] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

[44] OECD Inventory of Tax Technology Initiatives 2024. Accessible at: https://data-explorer.oecd.org. Note: data is self-reported by tax administrations and therefore not 100% objective or comparable.

[45] European Commission, Taxation and Customs Union. VAT in the Digital Age (ViDA). Accessible at: https://taxation-customs.ec.europa.eu/taxation/vat/vat-digital-age-vida_en.

[46] OECD Inventory of Tax Technology Initiatives 2024. Accessible at: https://data-explorer.oecd.org. Note: data is self-reported by tax administrations and therefore not 100% objective or comparable.

[47] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

[48] Ibidem.

Luxembourg had an e-filing rate for VAT returns (99.8%) above the EU average (99.2%) in 2023, up by 4.7 percentage points since 2018 ([49]). Besides improving accuracy and efficiency, continuing to improve the e-filing rate for VAT returns will enable Luxembourg to better observe trends and facilitate the detection of VAT fraud.

The comparatively low e-filing rates for CIT and PIT in Luxembourg indicate that the country's digitalisation efforts could be improved. They suggest a relatively high compliance burden on taxpayers compared to the EU average. They also limit the capacity of the tax administration to detect tax fraud and evasion, and translate into higher administrative costs, thereby preventing an efficient use of resources.

5.2.3 Provision of other Online Services

Like most Member States, the tax administration in Luxembourg provides a variety of online tools and services. These include tax calculators and the option to request extensions of deadlines. Taxpayers can also upload data files onto the tax administration's system and use a mobile application. However, Luxembourg is one of only three Member States that do not provide a personalised taxpayer portal that would provide an overall view across major taxes ([50]). Online facilities can foster tax-compliant behaviour and allow resources to be allocated more effectively. According to a recent Eurobarometer survey, 41% of citizens in Luxembourg believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 19th among EU Member States ([51]).

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

Luxembourg makes only limited use of AI in its tax administration. In 2022, it was one of only 5 countries in the EU that did not have AI tools in place in their tax administration, nor were in the process of implementing them ([52]). However, an AI tool is currently used by the Registration Duties, Estates and VAT Authority (AED) to process and review the files of taxpayers subject to the subscription tax ([53]). The limited use of AI may be a lost opportunity, as AI can greatly benefit the functioning of the tax administration. It can be used for risk assessment, as well as detection of tax fraud and evasion. As mentioned in section 5.1, while Luxembourg is working on a virtual assistant

---

[49] Ibidem.

[50] International Survey on Revenue Administration (ISORA). Service channels: Online services - Part 1, Online services - Part 2. Accessible at: https://data.rafit.org/regular.aspx?key=74180919.

[51] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

[52] International Survey on Revenue Administration (ISORA). Innovative technologies 1: Implementation and usage – Blockchain, artificial intelligence, and cloud computing. Accessible at: https://data.rafit.org/regular.aspx?key=74180897.

[53] Information provided by the Ministry of Finance.

helping taxpayers with information about their online tax declarations ([54]), this assistant is not AI-based nor self-learning ([55]).

5.4. Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Luxembourg has a formal compliance risk management strategy in place, which allows for identifying, assessing and prioritising key compliance risks. Areas covered by the strategy include return filing, payment processing, collection enforcement and verifications/audits. However, it does not account for taxpayer service. Furthermore, risks are not made public on a regular basis, and neither are the results in addressing them ([56]). Publishing these risks could help deter non-compliant taxpayer behaviour.

5.4.2 Audit Types

Luxembourg's tax administration performs desk audits, single issue audits, limited scope audits, comprehensive audits, and investigations of tax avoidance and evasion. Before formal audit procedures, the tax administration performs cross-matching of third-party data to identify inconsistencies. However, the administration could engage in more pre-audit activities, such as using data analytics to identify anomalies or outliers to prompt taxpayer disclosure, risk reviews, or requests for further information, all of which are conducted in most Member States ([57]). It could also measure the effectiveness of these interventions, to gather insights that could lead to better tailoring and adaptation.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

In Luxembourg, the percentage of full-time equivalents (FTEs) assigned to audit, investigation and other verification functions was high, at 60.37% in 2018 and 57.34% in 2023 ([58]). Although this figure is not a perfect indicator of the strategy of the tax administration, it may be an indication that Luxembourg places emphasis on confronting non-compliant taxpayers, as opposed to placing a focus on fostering voluntary tax compliance by allocating more FTEs to taxpayer services.

Concerns about under-collection emerged from the 2024 report by the Luxembourgish Court of Auditors also relating to staffing challenges. It revealed that the tax authority (ACD) faced

---

[54] Gouvernement.lu, 2025. Transformation de l'Administration des contributions directes: "Mieux servir le citoyen avec des procédures plus simples". Accessible at: https://gouvernement.lu/fr/actualites/agenda.gouvernement2024+fr+actualites+toutes_actualites+communiques+2025+01-janvier+16-roth-transformation-contributions.html.

[55] Guichet.lu, 2025. Remplir une déclaration d'impôt avec l'assistant électronique. Accessible at: https://guichet.public.lu/fr/citoyens/support/aide/tutoriels/citoyens/declaration-impot-assistant.html.

[56] International Survey on Revenue Administration (ISORA). Compliance risk management: Strategy. Accessible at: https://data.rafit.org/regular.aspx?key=74180916.

[57] International Survey on Revenue Administration (ISORA). Compliance risk management: post-filing enforcement actions, and Interventions after return filing, and measurement of intervention effectiveness. Accessible at: https://data.rafit.org/regular.aspx?key=74180916.

[58] Own elaboration based on ISORA Database

understaffing challenges, and that it struggled to hire and keep skilled tax auditors amid intense competition from the private sector([59]). However, it should be noted that this report focused on the period 2010–2019, and that Luxembourg has since then taken structural measures to ensure that the ACD and AED can attract and retain specialised staff despite this competitive environment ([60]).

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

In Luxembourg, the additional revenues raised from audits and other verification activities amounted to 0.61% of total net revenue in 2018, falling to 0.34% in 2023. This was below the EU average in both years (2.77% and 1.6%, respectively) ([61]). Luxembourg followed the trend in the EU, where this figure decreased over time. Given the high percentage of FTEs assigned to audit and therefore the high audit intensity, the additional audit revenues observed appear relatively low. This may suggest good general compliance in the taxpayer population, as the greater risk of being audited may motivate them to comply with obligations, or simply relatively high total revenues.

5.5. Tax Complexity

Luxembourg ranks 4th[th] out of the 27 Member States in the Tax Complexity Index ('TCI') ([62]), where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Luxembourg 3rd among the Member States with regards to Tax Framework Complexity, and 5th with regards to Tax Code Complexity. This suggests that overall, both tax processes carried out by the tax authorities and the structure of the tax regulations are rather efficient. According to the authors, Luxembourg scores particularly high in areas such as the regulation of transfer pricing or enactment processes.

---

[59] 24.01.29 - Recettes - Rapport Cour des comptes.PDF

[60] Information from the Ministry of Finance.

[61] Own elaboration based on ISORA Database

[62] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.