Global Tax Policy
Alert

Second evaluation of the EU Directive on Administrative Cooperation in Taxation (DAC)

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In brief

What happened?

The European Commission’s second evaluation of the EU Directive on Administrative Cooperation (2018–2023) was published on 19 November 2025. The European Commission concludes that the DAC is an effective, agile framework that boosts tax transparency and cooperation, purporting to increase revenue collections by approximately EUR 6.8 billion annually. The evaluation calls for simplification, more consistent application of the DAC standards across European Union Member States, stronger penalties, better data matching, and a digital overhaul of reporting and exchange systems.

Why is it relevant

The Commission’s report concludes that successive DAC amendments (from DAC1 through DAC6 evaluated for this purpose) have significantly expanded automatic exchange of information and increased the volume and use of data for risk assessment, control and voluntary compliance. While the report cites that the DAC framework is effective and offers a positive cost-benefit ratio, it also notes that the DAC imposes significant administrative burdens, especially on businesses. Reported annual ongoing costs are estimated at roughly EUR 646 million for all stakeholders, of which about EUR 604 million fall on business (with circa EUR 550 million attributable to DAC2). The evaluation highlights challenges in data quality and matching, fragmentation in Member State application (notably for DAC6), and widely divergent penalty regimes that may undermine consistent compliance.

Observation: *The overall projected revenue collections reported from country-by country reporting rules outlined in DAC4 (EUR 5.6 billion per year in tax revenues) seems to significantly outstrip that of DAC1 and DAC2 (automatic exchange of financial account information), despite the latter being much more expensive to administer. Whilst quantifying the cost-benefit of the DACs is an understandably challenging exercise, it is unclear how the numbers in this report were calculated given that the methodology utilised is not transparently outlined by the European Commission.* The evaluation finds that DAC1 and DAC2 exchanges are generally timely, complete and of good quality and are widely used to monitor cross-border activities and corroborate returns. For DAC3 and DAC4, timeliness is satisfactory, but completeness issues persist, particularly with respect to taxpayer identification numbers (TINs) and limited details in ruling summaries. DAC6 presents interpretative complexity and uneven application across Member States, leading to level playing field and legal certainty concerns, and contributing to over and under reporting.

Observation: *The report references the former UNSHELL proposal and earmarks the potential to integrate the principles from the proposal into the DAC framework. It has been previously explored that this may be through the addition of 'UNSHELL' type hallmarks to DAC6. The report also cites the intention to introduce EU Commission guidance to reduce interpretative divergence and compliance friction on EU DACs, particularly with regard to DAC6.*

Actions to consider

Financial institutions, intermediaries, multinational groups, digital platform operators, and crypto-asset service providers remain directly exposed to DAC due diligence, reporting and record-keeping obligations, supervisory scrutiny, and penalties. The Commission's intention to simplify and consolidate the legal framework, recalibrate aspects of DAC6 (including hallmarks), encourage more systematic use of data, bring in a minimum standard on penalties that could see increases in some Member States, and explore an EU-wide taxpayer identification number (EU TIN), could all directly impact businesses that are exposed to the DAC standards.

Observation: *An EU TIN, ideally supported by a centralised bulk-validation tool (akin to the EU VIES system for VAT numbers) and better IT interoperability between tax administrations could materially improve data matching and streamline due diligence for financial institutions and other intermediaries that must report customer TINs. However, it will be important that any such advance is coupled with appropriate transitional measures. Otherwise, businesses will be confronted with the significant burden of re-documenting customers with newly issued EU TINs, which would significantly increase administrative costs.*

Let’s talk

For a deeper discussion of how the EC’s second evaluation might affect your business, please contact:

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