

PERSPECTIVES IN CAPITAL TAXATION IN THE CURRENT ECONOMIC CONTEXT AT EUROPEAN LEVEL

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Abstract:

The main purpose of the paper is the analysis of capital taxation in the European Union in 2018-2022, the methodology used being descriptive, by appealing to various bibliographic sources, mainly from foreign literature, and empirical, by processing and analyzing the data taken from international databases (Eurostat). We consider the analysis of corporate and individual taxation at the level of EU member states during the mentioned period, as well as the proposal of some measures in order to increase the economic efficiency and revenues of the EU member state.

Keywords: corporate income taxation, personal income taxation, global minimum tax, tax administration

JEL Classification: F23, H24, H25

1. Introduction

Capital taxation is a widely debated topic in the literature, with the main themes ranging from the complex nature of capital to different assessments of inequality, the theoretical validity of optimal tax outcomes and how to address restrictions imposed by capital mobility (Mirrlees et al., 2011, Piketty 2014, Straub și Werning 2020, Jacobsen et al. 2020).

Countries differ substantially in the way and the level at which they tax capital income. These differences originate in historical developments in economic, legal and social structures, different political traditions, country size, the desirable size of the public sector, and the acceptability and feasibility of various taxes. In this paper, we analyze the evolution of capital taxation revenues in the European Union during the period 2018-2022, in Romania and the European Union, the main objectives being the analysis of household taxation revenues in EU states in 2018-2022, respectively the analysis of corporate taxation revenues in EU states in the period 2018-2022 and the role of the tax administration in increasing these revenues to the budget of the respective states. The methodology used is of a descriptive and empirical type, by referring to bibliographic references from the international specialized literature, as well as statistical data of different bodies/fiscal entities (Eurostat, OECD).

2. Analysis of capital tax revenues in EU countries in the period 2018-2022

Capital taxes include taxes on capital income from corporations, households and the self-employed, as well as taxes on capital shares/stocks (e.g., periodic/ recurring property taxes, inheritance taxes) or their transactions. Analyzing the breakdown by economic function, income from capital taxes increased by 12,5%, amid rising corporate profits. Consumption

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tax revenues grew by 6,9%, supported by rising private consumption spending and rampant inflation. Finally, labor tax revenues grew by 6,8%, supported by continued employment growth.

In 2022, revenues from labor taxes (including social security contributions) constituted 50,6% of total tax revenues, revenues from consumption taxes reached 27,3% of the tax mix, and the remaining 22,1% was obtained from capital taxes. Developments in recent years suggest a small shift from labor and consumption taxes to capital taxes.

We note that in the paper we use the revenues obtained from capital taxation (households and companies) in the period 2018-2022, expressed as a share in GDP, data taken from the Eurostat database.

During 2018-2022, capital tax revenues (% GDP) had an oscillating trajectory, in some developed countries they decreased, in others they increased. They increased significantly in the Czech Republic (+3,1 pp), Romania (+1,7 pp), Austria (+ 1,4 pp) or the Netherlands (+ 1,5 pp). A significant decrease was recorded in Luxembourg and Malta (-1,7 pp), Belgium (-0,7 pp), Latvia (-0,5 pp). Compared to 2020, the first year of the pandemic, capital tax revenues decreased substantially in some states - Denmark (-2,0 pp), then resumed their upward trend. They increased in Romania (+ 2,1 pp), Bulgaria (+2,9 pp), the Czech Republic (+1,7 pp), the Netherlands or Austria.

Table 1

Taxation of capital revenues in the period 2018- 2022 in EU, % GDP

	2018	2019	2020	2021	2022
EU-27	8.2	8.1	8.0	8.6	8.9
EA-19	8.5	8.3	8.2	8.8	9.2
Belgium	11.3	10.5	9.9	10.5	10.6
Bulgaria	4.7	5.0	5.0	5.6	7.8
Czechia	5.4	5.2	4.4	5.5	6.2
Denmark	7.4	10.1	9.3	10.5	7.3
Germany	7.1	7.0	6.8	7.7	7.8
Estonia	2.8	2.6	2.6	3.2	2.7
Ireland	5.9	5.7	5.4	6.1	6.7
Greece	8.4	7.9	7.6	7.9	8.0
Spain	8.4	7.8	7.9	9.0	8.9
France	10.4	10.6	10.7	10.5	11.2
Croatia ¹	5.3	5.3	5.2	4.8	5.8
Italy	9.5	9.4	9.6	9.8	10.8
Cyprus	8.4	8.2	8.1	8.7	9.5
Latvia	3.0	2.4	2.4	2.6	2.6
Lithuania	3.4	3.5	3.7	4.1	4.3
Luxembourg	12.8	12.4	11.1	11.6	11.1
Hungary	6.0	5.9	5.9	5.6	6.6
Malta	8.2	8.2	6.9	7.5	6.6
Netherlands	7.6	7.9	7.5	8.3	9.1
Austria	7.5	7.6	6.9	8.0	8.8
Poland	8.5	8.6	8.9	9.0	8.8
Portugal	7.2	7.0	6.7	6.5	7.4
Romania	3.7	3.8	3.3	4.0	5.4
Slovenia	4.9	5.1	5.1	5.4	5.3
Slovakia	4.6	4.3	4.3	4.8	5.2
Finland	7.2	7.2	7.3	8.5	8.5
Sweden	6.0	6.0	5.8	6.8	6.6

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

2.1. Analysis of household tax revenues in EU countries in the period 2018-2022

Household tax revenues, as a share of GDP, fluctuated between 2018 and 2022. They decreased slightly in Denmark, Latvia, Greece (-0,2 pp), increased slowly in other countries, Czech Republic +0,4pp, Finland +0,5 pp. Compared to 2020, they decreased sharply in Denmark (-1,7pp), but generally remained relatively constant (anemic increases).

Table 2

Household tax revenues in EU countries in the period 2018-2022, % GDP

	2018	2019	2020	2021	2022
EU-27	0.9	0.9	0.9	1.0	1.0
EA-19	0.9	0.9	0.9	1.0	1.0
Belgium	0.5	0.4	0.3	0.4	0.4
Bulgaria	0.4	0.4	0.4	0.4	0.4
Czechia	0.1	0.1	0.1	0.2	0.5
Denmark	1.0	3.1	2.5	2.9	0.8
Germany	0.6	0.7	0.7	0.7	0.7
Estonia	0.1	0.2	0.3	1.0	0.5
Ireland	0.6	0.6	0.6	0.7	0.6
Greece	1.4	1.2	1.3	1.3	1.2
Spain	1.0	1.0	1.0	1.0	1.1
France	1.5	1.5	1.5	1.6	1.8
Croatia ¹	0.7	0.7	0.7	0.6	0.7
Italy	1.1	1.3	1.3	1.5	1.2
Cyprus	0.6	0.5	0.4	0.5	0.6
Latvia	0.4	0.7	0.1	0.2	0.2
Lithuania	0.8	0.9	0.8	0.9	0.8
Luxembourg	1.7	1.5	1.4	2.0	1.8
Hungary	0.5	0.6	0.6	0.5	0.7
Malta	0.2	0.1	0.1	0.1	0.1
Netherlands	-0.5	-0.3	-0.2	-0.3	-0.2
Austria	0.8	0.8	0.7	1.0	1.0
Poland	0.3	0.3	0.3	0.3	0.2
Portugal	0.6	0.6	0.6	0.6	0.6
Romania	0.7	0.8	0.6	0.9	1.1
Slovenia	0.5	0.6	0.4	0.5	0.4
Slovakia	0.1	0.1	0.1	0.1	0.1
Finland	1.4	1.3	1.6	2.0	1.9
Sweden	1.3	1.3	1.2	1.7	1.4

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

The share of revenues from household income taxation reveals a synchronization between the level of the tax rate and the level of budget revenues; thus in countries where the tax rate is high (Denmark, Austria, Finland), the related tax revenues are high. In most EU countries, an upward trend is recorded.

In 2022, at the level of the countries in the region, compared to 2021, a lower level of these tax revenues was recorded, only Romania has a relatively constant value (2,4% of GDP in 2021 vs 2,5% of GDP in 2022; a factor that contributed to this increase of 0,1 pp was the extension of the facility granted to employees in the agricultural and food industry sectors); Hungary is the only country in the region to register a higher level compared to 2021, namely

an increase of 1,2 pp (from 4,1% of GDP in 2021 to 5,3% of GDP in 2022); at the opposite pole, Poland stands out, with a 0,9 pp decrease compared to the previous year. Hungary and Poland also have values above the regional average (3,8% of GDP). In Romania, the level of collection is the lowest in the EU, two of the causes being the categories of taxpayers exempted from this tax, as well as the reduced tax rate.

Regarding the statutory personal income tax rates, in 2022 they varied, depending on the region. While Romania, Bulgaria, Hungary continue to apply flat-rate tax regimes (single rate), other countries, such as the Czech Republic, Austria, Germany, Slovenia, Croatia and Slovakia, use progressive tax regimes. In Austria, in 2021, the personal income tax rate for the first tax bracket was also reduced from 25% to 20%, Latvia reduced the maximum tax rate from 31,4% to 31% in 2021, and Spain increased the income tax by 2 pp for those with an annual income of more than 300.000 euros (331.485 dollars). In 2022, the statutory rate for Slovenia is reduced (from 50% to 45%); in Luxembourg, a solidarity surcharge of up to 9% applies; Austria reduced the personal income tax rate for the second tax bracket from 35% to 30%.

2.2. Analysis of corporate tax revenues in EU countries in the period 2018-2022

In the period 2018-2022, corporate tax revenues (% GDP) increased in most countries, except Malta (-1,2pp), Luxembourg (-1,9pp). Increases were in Ireland and the Netherlands (+1,3pp), Croatia, Italy (+1,0pp). Compared to 2020, these revenues increased in all countries - Ireland and Austria +1,3pp, Greece, Czech Republic (+1,1pp), Romania (+1,2pp).

In recent years, member countries have implemented numerous changes, both in terms of the profit tax rate and its tax base. Nine of the member countries have reduced their statutory corporate tax rates, the most significant being adopted in Hungary (-9,4pp), Belgium (-9 pp) and France (-6 pp) and more restricted in countries such as Croatia, Greece, Italy, Luxembourg, Slovakia and Sweden. The only countries that increased their statutory corporate tax rates were Latvia (+5 pp), Portugal (+2 pp) and Slovenia (+2 pp).

In 2022, France stands out, where the statutory rate decreased by 2,6 pp, from 28,4% in 2021, to 25,8% in 2022, and Greece, where the rate decreased by 2 pp, from 24% in 2021, to 22% the following year. The Netherlands, on the other hand, has raised its statutory corporate tax rate by 0,8 percentage points to 25,8% in 2022. Spain has approved a new minimum corporate tax rate of 15% for 2022, applied to large companies with annual revenues of more than 20 million euros (22 million dollars), while banks and energy firms must pay a minimum of 18%. Large multinational companies based in Spain will also face higher taxes, as in 2021 the government reduced tax exemptions from 100% to 95% for dividends and capital gains from foreign subsidiaries.

Table 3

Taxation of companies' income in the period 2018-2022 in the EU, % GDP

	2018	2019	2020	2021	2022
EU-27	2.8	2.8	2.5	3.0	3.4
EA-19	2.8	2.8	2.5	3.0	3.4
Belgium	4.3	3.7	3.3	3.8	4.0
Bulgaria	2.3	2.4	2.2	2.9	3.0
Czechia	3.5	3.3	3.1	3.8	4.2
Denmark	2.7	3.1	2.9	3.9	3.1
Germany	2.8	2.6	2.2	3.1	3.2
Estonia	2.0	1.8	1.6	1.5	1.7
Ireland	3.2	3.1	3.2	3.6	4.5

Greece	2.2	1.9	1.4	2.0	2.5
Spain	2.5	2.1	2.0	2.6	2.7
France	2.9	3.0	2.9	3.0	3.4
Croatia ¹	2.2	2.3	2.3	2.2	3.2
Italy	2.4	2.5	2.5	2.4	3.4
Cyprus	5.8	5.6	5.7	6.2	6.6
Latvia	1.1	0.2	0.7	0.9	1.0
Lithuania	1.5	1.6	1.7	2.1	2.3
Luxembourg	6.3	6.0	4.8	4.5	4.4
Hungary	3.1	3.1	3.0	2.9	3.0
Malta	5.5	5.6	4.6	5.1	4.3
Netherlands	3.5	3.7	3.1	3.9	4.8
Austria	2.8	2.8	2.2	2.8	3.5
Poland	2.1	2.2	2.3	2.6	2.8
Portugal	3.3	3.1	2.8	2.4	3.3
Romania	2.1	2.1	1.9	2.2	3.1
Slovenia	1.9	2.0	2.0	2.5	2.3
Slovakia	3.5	3.3	3.2	3.9	3.8
Finland	2.5	2.5	2.1	2.7	3.0
Sweden	3.0	3.1	3.0	3.5	3.6

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

Tax reforms adopted by some Member States in recent years include a combination of base-broadening and base-shrinking measures:

- Broadening the tax base through anti-avoidance/anti-evasion measures and by reducing tax exemptions and deductions, such as limiting the deductibility of losses (Latvia, the Netherlands, Sweden) or the use of expensive cars (Poland), reducing the exemption for dividend income (Spain and Belgium) or capital gains (Spain);
- New exemptions and deductions, such as the tax exemption for reinvested profits (Latvia, Portugal), increased deductibility of municipal taxes (Italy), more generous tax brackets in progressive schemes (Netherlands), extending a tax exemption previously limited to special economic zones to the whole country (Poland);
- Investment incentives such as more generous capital allowances/allowances, accelerated depreciation and incentives for research and development. In addition, some Member States have introduced preferential tax regimes for income from intellectual property and the deduction of national interest.
- At the EU 27 level, we note the trend of reducing these rates over the analyzed period and their heterogeneity among member countries.

The EU is concerned with limiting tax competition and combating tax evasion techniques. The objective is to establish a common framework for corporate taxation or, at least, to prevent the application of tax evasion techniques in member countries. An important instrument for this purpose is *the Anti-Tax Avoidance Directive* (ATAD, Directive 2016/1164 EC), mandatory for member countries as of 1 January 2019. Measures applied/initiated in recent years: restrictions on interest deduction; offshore standardization (controlled foreign company - CFC) is one of the important concerns of ATAD; introduction of a global minimum tax.

EU countries (and at regional level), which apply traditional corporate taxation, allow the carry-forward of losses acquired in previous years and the possibility of offsetting them against the positive tax base of subsequent years. This option can only be used for a certain period of time, usually between 5 and 7 years, and in some places, only between 3 and 4 years.

It should be added that countries in the region still tend to impose withholding taxes on interest, dividend and royalty payments (at the rate of 15% or 19-20%). Lithuania, Estonia and Hungary continue to not impose withholding taxes on capital gains. Starting from 2019, group taxation started to be applied in Hungary as well, previously only existing in Austria and Poland. Also, in most countries the tax system encourages research and development activities, Slovakia and Poland have recently taken measures in this regard, while in Romania, various tax incentives specific to these activities have been implemented previously.

In terms of **international taxation**, efforts to protect corporate tax bases against corporate tax evasion continued with the adoption of significant reforms in line with the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. Tax challenges arising from the increasing digitalisation of the economy are another major concern for many countries that have announced or implemented provisional measures to tax certain digital services revenues.

The European Union published in December 2022 *the Directive implementing the mechanisms for applying the 15% minimum tax*, with mandatory implementation in Member States in 2023, with the first reportable year being 2024.

The OECD's BEPS initiative has drawn attention to cross-border intra-group transactions. Transfer pricing rules have already been introduced into the tax systems of almost all countries involved (in Bulgaria, transfer pricing documentation can be prepared upon specific request of the tax authority). The documentation obligations have recently changed. The BEPS Action Plan - Action on Base Erosion and Profit Shifting has led to international collaboration of over 135 jurisdictions to put an end to abusive tax practices. In addition, the Multilateral Convention on Mutual Administrative Assistance allows for the exchange of tax information between 146 jurisdictions (including Romania).

The fundamental objective of country-by-country reporting mandated by the OECD is to *promote transparency* by providing local tax authorities with the information needed to assess tax risks. Over the past year, taxpayers in the CEE region have had to actively participate in the launch of the country-by-country reporting system.

Fiscal transparency is the fundamental objective of the Organization for Economic Cooperation and Development (OECD) and the European Union (EU), the two organizations imposing a series of measures aimed at ensuring the fulfillment of this objective (through increased regulations, as detailed as possible and real-time reporting of duties and taxes, fiscal risk analysis and targeted controls).

At EU level, an important element of tax transparency is *the Country-by-Country Reporting* (CbC), which will enter into force in June 2024. European Directive 2021/2101 has already been transposed at the Romanian level by Order 2048/2022. According to this order, multinational groups with headquarters in the EU, as well as outside the EU, with a consolidated annual turnover of more than 3,7 billion RON (equivalent to 747,5 million euros on December 31, 2021), in each of the last two consecutive financial years, will have to publicly report the information on the profit tax starting from January 1, 2023. The implementation of this directive at the level of Romania brings even higher fiscal transparency, with the aim of reducing and avoiding tax evasion.

The increase in tax transparency at EU level was also brought about by the EU Anti-Tax Avoidance Directives – ATAD, namely:

- DAC 4 on mandatory automatic exchange of information between tax authorities regarding reporting by multinational enterprises for each country.
- DAC 6 on the reporting obligation of cross-border tax optimization schemes.
- DAC 7 on new tax reporting rules for digital platforms.

- DAC 8 on reporting obligations for electronic currencies and crypto assets

The Standards on environmental, social and governance (ESG) objectives, a priority for companies and implicitly investors, also contribute to increasing transparency and sustainable economic growth; these are regulated by the existing legislative framework regarding sustainability perspectives, such as the Directives on non-financial reporting and corporate sustainability reporting, which introduce the obligation of large, public interest companies to prepare a non-financial report reflecting the relationship between the company and the environment, along with the Regulation on financial market participants and the Taxonomy, which provides a classification of sustainable activities, at the European Union level, respectively OMFP no. 1938/2016, OMFP no. 3456/2018 and the Sustainability Code, at the national level.

3.Fiscal administration - essential role in increasing income from capital taxation

Tax administrations must ensure that taxpayers meet their tax responsibilities. An effective administration achieves this primary objective by promoting voluntary compliance with tax obligations, as well as by identifying and addressing the risks associated with non-compliance.

There are two main reasons why it is vital that tax administrations function effectively. First, they are a key player in ensuring the adequate financing of public policies and public services. Tax administrations collect, on average, 62% of total government revenue in the EU and in some Member States, such as Sweden, up to 99% of total government revenue. A percentage of Member States' value added tax bases also contributes directly to the EU budget.

Second, tax administrations play an important role in protecting honest taxpayers and upholding the principles that everyone pays their fair share. By tackling tax evasion and fraud, they can also help prevent market distortions and ensure a level playing field in the single market. An efficient tax administration facilitates the timely calculation and payment of taxes. On-time filing rates can serve as a useful indicator of the efficiency of tax administrations in this respect, as they partly reflect the ease with which taxpayers can meet their tax obligations in a timely manner. For example, for the timely filing of CIT returns, Portugal, France, the Netherlands and Slovenia are among the best performing countries, while Malta, Cyprus, Ireland and Poland are among the worst performers in 2020. Regarding the timely filing rates of PIT, Spain, France, Bulgaria and Greece are in the highest positions, while Cyprus, Romania, Ireland and Slovenia have the worst results in terms of this indicator.

Tax administrations play an important role in determining the compliance costs faced by taxpayers. These reflect the time spent on complying with tax responsibilities, e.g. completing tax returns. While the size of the compliance costs a taxpayer incurs is partly determined by the rules and obligations of a tax system, it is also affected by the ability of the authorities to simplify the tax compliance process.

Electronic services play an important role in reducing compliance costs as well as the administrative burden on tax authorities. The latest data from 2020 show high levels of e-filing, i.e. the online filing of tax returns, both CIT and PIT returns, across the EU and with significant improvements between 2015 and 2020. However, while the proportion of CIT returns completed electronically is at 100% for most Member States, there is room for improvement in the share of online PIT filings. This is especially true in Luxembourg, Slovenia and the Czech Republic, where e-filing rates are below 25%.

Therefore, the tax administration has the following mission:

- Increasing the collection of taxes and duties, by improving the administrative capacity of ANAF, simplifying, clarifying and predicting tax legislation, combating the underground economy through frequent and efficient controls, supporting voluntary compliance measures, transparency, predictability and real dialogue with the business environment.
- Optimizing the digitalization of the tax system, through the complete and efficient implementation of digital systems (SAF-T, RO e-Invoice, RO e-Transport, SPV, e-cash registers, e-seal), optimizing, and in the absence of this possibility, eliminating e-VAT reporting, eliminating redundant tax returns, interoperability and high-performance IT infrastructure at the ANAF level, training program for ANAF staff to acquire digital skills, stimulating research-development-innovation activities, initiating a public information campaign, along with organizing seminars for industry and consultants, focused on representative case studies and good practices, simplifying the practical implementation of the tax facilities system by clarifying the application method, Correlating these facilities with the global minimum tax, An easier, less bureaucratic documentation system, in order to maintain the competitiveness of research centers.

For Romania, it is necessary to improve the administrative capacity of ANAF (by investing in more and better trained human resources); simplify and clarify tax legislation (by reducing bureaucracy, simplifying tax procedures, clear and easy-to-apply legal texts); assume a transparent attitude regarding legislative intentions and have a real dialogue with the business environment, whose expertise can help find better methods of implementation on the ground.

Some measures that can lead to an increase in capital tax revenues in Romania are:

- eliminating the transaction tax on the sale of residential property and replacing it with a 10% capital gains tax,
- the capital gains tax should only apply to properties purchased after the date of the reform announcement. The measure reduces budget revenues but eliminates the expenses of revaluation of all properties, maintaining the current 10% tax rate on capital gains obtained through an intermediary (e.g. an investment fund),
- increasing the tax rate on dividends to 10% to match the taxation of most other forms of capital income,
- reforming corporate tax incentives to improve effectiveness and transparency,
- simplifying the tax incentive for research and development: a single, increased deduction, eliminating the current exemption for newly established enterprises in research and development,
- reviewing and clarifying the definition of eligible research and development expenses,
- reassessing the efficiency of the tax exemption for reinvested profits.

4.Conclusions

Over the past two decades, the cost of capital has declined significantly and steadily, reflecting a historic decline in both interest rates and corporate tax rates. After the global financial crisis, large firms and firms that are part of multinational groups, firms that hold a high proportion of intangible assets in total fixed assets, and firms that are highly profitable have become less tax-sensitive compared to other firms. The tax sensitivity of older firms also decreases over time compared to younger firms. Changes in corporate taxation that

result in higher effective tax rates (ETRs) reduce investment less than before the global financial crisis. Tax incentives can increase investment in research and development.

Accelerated depreciation is a type of tax support used to help stimulate investment. It is important that tax incentives are well designed and regularly monitored to ensure that they are effective and cost-effective, given their fiscal impact and that they are consistent with existing policy objectives. Such regular assessment could improve the quality of tax support policies aimed at increasing competitiveness, growth and prosperity.

Greater compliance by all taxpayers - legal entities and individuals - can improve the functioning of the economy. Significant improvements have already been achieved through the OECD and EU Directives on administrative cooperation by improving coordination and information exchange between countries. Digitalisation and artificial intelligence (AI) can also help tax administrations to increase tax compliance.

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