Volume **14** / **2026** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

SIMULATIONS ON TURNOVER TAX VERSUS INCOME TAX: A CASE STUDY OF COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE

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Abstract
This paper aims to study the relative fiscal impact of implementing a turnover tax at different rates (1%, 2%, and 3%) compared with the traditional corporate income tax (CIT) for companies listed on the Bucharest Stock Exchange (BVB) over the period 2020–2024. This topic is prompted by current debates on fiscal policy in Romania and the EU concerning tax reform and a potential change in the tax base and structure towards alternative regimes, such as turnover-based regimes, which would be more resistant to profit manipulation and base erosion. Based on a sample of 67 companies listed on the BVB, the article provides an estimate of total budget revenue for each tax system under examination and evaluates its redistributive effect on sample companies reporting both positive and negative results. We estimate the variability of revenue over the business cycle using the coefficient of variation and propose a quartile approach for analysing companies exposed to a turnover-tax burden using the EBITDA indicator. Our findings indicate that a 2% rate yields results similar to the historical average of CIT, while a 3% turnover tax would result in an increase in revenue of approximately 18%, ensuring full coverage of all entities. Overall, a turnover tax includes all 67 companies in the sample in the taxpayer base, compared with 41 to 50 companies subject to CIT. However, we point out that 14 to 18 companies report negative or zero EBITDA each year and are unable to bear the burden of a fixed tax on revenue. Policy implications and directions for future research are also discussed, including broadening the research to include SMEs and unlisted entities.

Keywords: *turnover tax; income tax; tax simulations; Bucharest Stock Exchange; budget revenues; tax reform; EBITDA; Romania*

JEL Classification: *H25, H21, G38, M41, E62*

Received on*:* 10 April 2026 **Accepted on:** 20 July 2026 **Published on:** 23 July 2026

INTRODUCTION

The debate on the best corporate tax base has become a prominent topic in recent years, with governments seeking to shore up their fiscal base, fight profit shifting and broaden their tax base. As is the case in most countries, Romania's tax system has relied for decades on corporate income tax (CIT), levied at a flat rate on net profit. At 16%, the Romanian CIT base is highly volatile, being subject to aggressive tax-planning schemes, accelerated depreciation, interest deductibility, profit shifting to low-tax jurisdictions, and so forth. Erosion of the CIT base is a structural vulnerability of the tax system, which is all the more serious in countries such as Romania that suffer from poor administrative capacity and a large shadow economy. In contrast, a turnover tax levied on gross revenue could provide: (a) a high degree of predictability, (b) 100% coverage of all companies (all of which have some revenue), (c) ease of administration, and (d) resilience to base erosion and profit-shifting (BEPS) schemes (Devereux & Griffith, 2003). These qualities have made turnover-based taxes an attractive option among minimum-tax instruments in international tax policy and explain their relevance to the recent OECD Pillar Two initiative. This provides another motivation for exploring the subject, with a strong emphasis on an economy in transition such as Romania Moreover, the Romanian corporate tax landscape is distinctive in that a specific microenterprise income-tax regime already applies a tax on turnover rather than profit to a particular segment of companies, the so-called microenterprises, a group comprising companies whose turnover is below a specified threshold (Litvinchevici et al., 2025). On this basis, an expansion of the microenterprise regime to include all companies could be envisaged, or the current system could be replaced with a new one in which a turnover tax applies to

DOI: 10.4316/EJAFB.2026.14114

Volume **14** / **2026** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

all firms. As Romania suffers from chronic structural fiscal deficits, the question of finding new sources of revenue remains pertinent. This article aims to fill the gap by simulating, for 67 Romanian publicly traded companies listed on the BVB (Bucharest Stock Exchange) over the period 2020–2024, the potential turnover-tax revenue compared with CIT revenue. Specifically, it simulates a turnover tax for 67 companies listed on the BVB during the period 2020–2024 at three possible turnover-tax rates, namely 1%, 2%, and 3%. This paper makes the following three empirical contributions at both macro and micro levels: Firstly, it compares estimated budget revenue and budget coverage at the macro level. Secondly, it estimates stability using the coefficient of variation of actual CIT revenue and hypothetical turnover-tax revenue at different tax rates. Thirdly, it assesses the tax burden by applying firms' EBITDA quartiles in order to identify potentially distressed company segments. The rest of the paper is organised as follows: Section 1 gives the theoretical context of measures of firms' performance; Section 2 addresses taxation and budgetary-function issues; Section 3 provides the empirical analysis of the simulated results; and the final section concludes on tax policy.

1. THEORETICAL APPROACHES TO CORPORATE PERFORMANCE INDICATORS

To assess a company's tax capacity, a strong understanding of key financial performance indicators is essential. For accounting and tax purposes, three figures are of central interest: gross profit (profit or loss before tax), earnings before interest, taxes, depreciation and amortisation (EBITDA), and revenue (total gross operating income). Each measure represents a different aspect of corporate financial health and provides the context for designing tax policy. Gross profit represents the total profitability of a company after the recognition of all operating revenue and expenses, financing expenses, and all other non-operating items. Historically, this figure has served as the basis for CIT in Romania and in most Member States of the European Union. Gross profit, however, is highly volatile and susceptible to managerial discretion through decisions such as depreciation methods, inventory valuation, provisions for risks, or financing structure (Fridson & Alvarez, 2022). From a fiscal-stability perspective, such volatility means that revenue based on net income can decline dramatically during a recession without any change in statutory rates. EBITDA, by excluding financing-structure choices and non-cash depreciation costs, offers a better proxy for the cash generated by core activities. It is a metric widely used by financial analysts, rating agencies, and lenders in loan covenants as a measure of operational financial capacity (Brealey et al., 2019). In a turnover-tax context, the ratio of the simulated turnover tax to EBITDA, for example, becomes a crucial measure of affordability; when this ratio approaches or exceeds 100%, the firm will be unable to cover its tax liability from operational cash flows, requiring either the liquidation of reserves, additional debt financing, or cuts in capital expenditure. Turnover (or total gross revenue) represents the broadest measure of a company's business activities. It has been used as a tax base in different ways in several countries—the PIS/COFINS taxes in Brazil and the French Cotisation sur la Valeur Ajoutée des Entreprises (CVAE)—while some OECD proposals for a minimum tax share conceptual similarities with turnover-based tax bases (European Commission, 2024).

The inherent trade-off in turnover-based tax systems arises from their broad coverage (including any economically active company, irrespective of its reported profit) and their regressiveness with respect to operating margins: firms with high turnover and low margins, such as retailers, wholesalers or commodity traders, tend to bear higher tax burdens than companies with high profit margins (pharmaceuticals, IT, and financial services). Another relevant perspective is suggested by the pecking-order theory (Myers & Majluf, 1984): when a firm experiences an increase in its tax liabilities, it will try to cover this impact first with internal funds, then through debt and eventually through equity. An abrupt introduction of a turnover tax could thus lead to deleveraging, cuts in capital expenditure or job restructuring in low-margin firms, and trigger significant aggregate-demand effects that cannot easily be modelled in static simulations. This is why behavioural responses are worth mentioning as an area for future research. Table 1 further contrasts the three indicators in terms of their volatility, manipulability, coverage and policy relevance, and sets the stage for the empirical analysis.

Table 1. Comparative Overview of Corporate Performance Indicators as Tax Bases

Dimension	Gross profit	EBITDA	Revenue	Implications for tax policy
Volatility	Very high	Moderate	Low	Most stable over the economic cycle
Manipulability	High	Moderate	Low	Revenue is resistant to BEPS strategies
Tax base coverage	Partial (only profitable companies)	Partial	Universal	Revenue covers the broadest taxpayer base
Margin sensitivity	Low	Low–moderate	High	Risk of regressivity in low-margin sectors

DOI: 10.4316/EJAFB.2026.14114

Volume **14** / **2026** ISSN 2344-102X
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Dimension	Gross profit	EBITDA	Revenue	Implications for tax policy
Administrative simplicity	Low	Moderate	High	Revenue is the easiest to audit and implement

Source: Author's own synthesis based on Fridson & Alvarez (2022), Devereux & Griffith (2003), and the European Commission (2024)

2. THE IMPORTANCE OF TAXES AND FEES IN NATIONAL BUDGET FORMULATION

The tax system constitutes an integral part of public finance due to its sensitivity, stability and predictability. Romania's consolidated national budget consists of revenues from tax sources, such as VAT, personal income tax and social contributions, CIT, excise duties, property tax, customs duties and other taxes and administrative fees. In terms of total tax revenues, compared with personal income tax and tax on consumption, CIT revenues represent a relatively lower share due to the economic structure of the country and to a real reduction in tax revenues due to lawful tax optimisation strategies.

The 2020 COVID-19-induced recession demonstrated the vulnerability of profit-based CIT in a functioning economy. The level of CIT revenues in Romania decreased sharply in 2020, with considerable declines in sectors such as hospitality, tourism, transport and retail, alongside increased government expenditure (European Commission, 2024). CIT pro-cyclicality acts as a systemic risk, with revenues falling at a moment when the demand for financial resources is greatest. This compels governments to implement pro-cyclical expenditure cuts, finance government expenses through public deficits, or resort to special emergency measures, which have very high economic and political costs. The Fiscal and Budgetary Responsibility Law No. 69/2010 and the Tax Code No. 227/2015 define and regulate the levels of deficit and debt; Romania has repeatedly failed to comply with the EU deficit target of 3% of GDP, which resulted in its being placed under the excessive-deficit procedure and points to the evident need to introduce reforms to strengthen and broaden the tax base (European Commission, 2024).

Faced with such a situation, a turnover tax appears as an institutional choice with great potential: it is much more resilient to recession cycles and tax fraud and is easier to administer. Many Member States of the EU have introduced turnover-based taxes as a complement to CIT; for instance, France uses turnover-based taxation without any linkage to CIT through the CVAE, which is imposed upon businesses regardless of their profitability. In Hungary, there is a bank tax imposed on assets, and in Italy, the Imposta Regionale sulle Attività Produttive (IRAP) is applied to business activities, but not to payroll costs. It seems that turnover taxes are compatible with the EU legal framework and that their implementation could diminish the negative impact on tight-margin companies (Keen, 2013).

The taxation system also affects private investment. A high and volatile CIT may discourage foreign investment and favour more stable systems and low-tax countries (Zodrow & Mieszkowski, 1986). Romania could benefit from a low and stable turnover tax on two fronts: ensuring fiscal revenue and increasing foreign direct investment.

3. SIMULATIONS COMPARING TURNOVER-BASED TAXATION VS. NET PROFIT-BASED TAXATION FOR COMPANIES LISTED ON THE BVB

3.1. Research methodology

In the empirical part of the study, a total of 67 companies listed on the BVB with complete annual financial statements for 2020–2024 and audited financial statements was taken as the study sample. Companies providing financial services (banks, investment funds and insurance companies), which have specific accounting and legal treatment, as well as holding companies that did not report consolidated turnover revenue, were excluded from the research sample. Financial data were obtained from the annual financial statements of these companies submitted to the Ministry of Public Finance and published on the BVB information dissemination system (www.bvb.ro), as well as from data in the public tax register kept by the Ministry of Public Finance.

In order to analyse three alternatives involving the application of the turnover tax at rates of 1%, 2% and 3% to annual gross revenue, these sums were grouped together by year to estimate the total impact on the budget and then compared with the actual corporate tax paid by profitable firms at the standard rate of 16%.

We recorded how many companies fell under each tax regime and calculated the difference in coverage for each regime. To measure revenue stability, we used the coefficient of variation (CV), calculated as the ratio between the standard deviation of annual operating revenues over a five-year period and their arithmetic average. A smaller CV indicates greater stability/predictability of revenues. For the purposes of measuring tax affordability at firm level based on EBITDA relative to the 3% turnover-tax rate, we sorted all firms into four groups: 0–25%, 26–50%, 51–75%, and >75%, based on the ratio of the 3% turnover tax to EBITDA, and excluded firms with negative EBITDA as being unable to support the tax from their operations.

DOI: 10.4316/EJAFB.2026.14114

Volume **14** / **2026** ISSN 2344-102X
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3.2. Comparison of aggregate tax revenues

The table below gives the aggregate simulated tax revenue for each scenario, together with the number of taxpaying companies, for 2020–2024. The results indicate differences in both scale and resilience between the CIT and turnover-tax scenarios.

Table 2. Aggregate tax revenue and tax-base coverage (CIT vs. 1%/2%/3% turnover tax), 2020–2024 (values expressed in RON)

Year	Historical CIT	1% Turnover Tax	2% Turnover Tax	3% Turnover Tax	CIT Taxpayers	Turnover-tax Taxpayers
2020	13,222,907	12,301,366	24,602,733	36,904,099	41	67
2021	12,174,007	10,829,725	21,659,450	32,489,175	44	67
2022	62,951,882	18,544,588	37,089,176	55,633,763	50	67
2023	56,748,481	17,763,683	35,527,367	53,291,050	44	67
2024	49,839,375	17,120,013	34,240,026	51,360,039	46	67
Average	38,987,330	15,311,875	30,623,750	45,935,625	45	67

Source: Author's own calculations based on data from financial statements published on the Bucharest Stock Exchange (BVB).

Some patterns are clear from the table: first, CIT revenue is highly volatile on a year-on-year basis, ranging from approximately RON 12.2 million in 2021 (when the impact of COVID-19 was fully reflected in reduced corporate profits) to approximately RON 63.0 million in 2022 (when exceptional profits in the energy and financial sectors increased the tax base). A fivefold change over three years highlights the intrinsic instability of profit taxation and the extreme difficulty of forecasting revenue under such a system on a multiyear basis. Second, revenue from the 1% turnover tax is systematically lower than the five-year CIT average, meaning that it would not fully replace CIT revenue. Revenue generated by the 2% rate is comparable to the five-year average of CIT in ordinary years but remains below the 2022 and 2023 peaks. Revenue generated by the 3% turnover-tax rate systematically exceeds CIT revenue except in 2022, exceeding the five-year average of CIT by approximately 18%. The additional difference is especially relevant in years with low profits: if a 3% turnover tax had been applied in 2020 and 2021, it would have raised approximately RON 36.9 million and RON 32.5 million, compared with actual CIT revenue of RON 13.2 million and RON 12.2 million, respectively (nearly three times as much). Third, the structural benefits of turnover taxation are equally evident in terms of coverage. Under a corporate income tax (CIT) system, 17 to 26 companies in a sample of 67 listed companies (25% to 39% of all companies) fail to pay any CIT in a given year because they incur net losses or carry forward previous losses. Those companies contribute no CIT revenue despite being actively involved in economic activity. This structural shortfall would be completely removed by a turnover tax because gross revenue is positive even in a loss-making year.

Table 3. Revenue from the turnover tax as a percentage of CIT revenue, by year and scenario

Year	Turnover Tax 1% / CIT (%)	Turnover Tax 2% / CIT (%)	Turnover Tax 3% / CIT (%)
2020	93.0%	186.1%	279.1%
2021	89.0%	178.0%	266.9%
2022	29.5%	58.9%	88.4%
2023	31.3%	62.6%	93.9%
2024	34.4%	68.7%	103.1%
Average	39.3%	78.6%	117.8%

Source: Author's own calculations based on data from financial statements published on the Bucharest Stock Exchange (BVB).

The impact of this revenue outcome on different parts of the economic cycle seems unbalanced. In boom years (2022–23), a 3% tax on revenue is still insufficient to match CIT revenue (88–94% of CIT) owing to energy rents.

DOI: 10.4316/EJAFB.2026.14114

Volume **14** / **2026** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

Conversely, a 3% levy on revenue in good or bad years (2020–21, 2024) represents 103–279% of CIT, thus representing a valuable safety net. A hybrid approach in which a portion of the initial levy is based on total revenue, but a further portion would be based on CIT, may better support revenue generation throughout the economic cycle.

3.3. Analysis of revenue stability

Analysis of coefficients of variation: The analysis of the coefficients of variation supports and quantifies the greater stability of revenue from a gross-revenue perspective. The coefficient of variation of CIT revenues across the 2020–2024 period is roughly 0.68. This means that actual annual revenue over the five-year period deviates from the average by 68%, and therefore reliable forecasting is technically impossible. If we compare revenue from the turnover tax at all three possible rates, the coefficient of variation varies between 0.19 and 0.22. This indicates that the year-on-year fluctuations are three to four times lower. The difference in stability also has a real impact on public finance. Under EU guidelines, Romania's Fiscal and Budgetary Strategy also needs to include multiyear projections of revenue and expenditure. For tax bases for which the coefficients of variation fall below 0.25, it is possible to provide estimates of tax revenue and expenditure over a period of three years without major budgetary reserves or adjustments. Based on the coefficient of variation of CIT revenue, Romania can make forecasts for a relevant period only by assuming very prudent revenue estimates, which limit public investment, or by making constant and numerous budgetary reallocations, which reduce fiscal credibility. Therefore, switching to a turnover-tax base—that is, shifting towards revenue-based tax structures—would represent a structural improvement in Romania's system of public financial management.

3.4. Analysis of tax affordability based on EBITDA

Aggregate turnover provides the macroeconomic case for a turnover tax, but the distributive impact on firms should also be of interest to tax policy. What interests us here is whether firms are able to bear the tax from cash flow generated by current operations without jeopardising their economic survival. Table 4 divides the firms according to the turnover-tax-to-EBITDA ratio, based on a simulated turnover-tax rate of 3%.

Table 4. Distribution of firms by EBITDA quartiles (3% turnover tax / EBITDA) and excluded cases, 2020–2024

Year	Excluded (EBITDA ≤ 0)	0–25% EBITDA	26–50% EBITDA	51–75% EBITDA	>75% EBITDA
2020	14	37	7	5	4
2021	16	40	5	4	2
2022	11	41	7	2	4
2023	17	38	7	2	3
2024	18	39	6	0	4
Average	15.2	39.0	6.4	2.6	3.4

Source: Author's own calculations based on data from financial statements published on the Bucharest Stock Exchange.

The data indicate a structurally polarised distribution of tax affordability across companies listed on the Bucharest Stock Exchange. The vast majority of companies—an average of 39 per year, or approximately 58% of the calculable sample—fall into the first quartile, so the application of a 3% turnover tax would represent less than one-quarter of the firms' EBITDA. This group would face a sustainable operational impact and a low risk of financial distress or restructuring as a result of the tax. An additional 6.4 companies per year, on average, have a 3% turnover-tax-to-EBITDA ratio of 26%–50%. This configuration changes radically for two other categories. The first category comprises companies with negative or zero EBITDA—an average of 15.2 per year (from 11 companies in 2022, a favourable year for the economy, to 18 companies in 2024)—which, by definition, cannot fund a positive turnover tax from operations. If such a turnover tax were applied, these companies would be obliged to finance it through asset sales, additional loans or equity dilution, incurring costs that would further exacerbate their existing financial difficulties. The second group comprises an average of six companies per year for which the ratio of the 3% turnover tax to EBITDA exceeds 51%, meaning that the turnover tax would absorb more than half of their operating cash flows. Companies in the last quartile (>75%) would find themselves in an extremely adverse and, from an operational perspective, potentially confiscatory tax scenario. The analysis of the distribution leads to practical conclusions for the tax system. If the proposed tax were implemented at a flat rate and levied on revenue (without any reference to profitability), it would disproportionately affect firms with thin profit margins and those facing difficulties (Andrioaia et al., 2025). It is therefore important that any such

DOI: 10.4316/EJAFB.2026.14114

Volume **14** / **2026** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

legislation should consider: a) a minimum-revenue or EBITDA-based threshold below which companies benefit from a reduced tax rate or tax credits; b) temporary exemptions or reduced rates for companies undergoing reorganisation under insolvency proceedings; c) industry-specific exclusions; and d) a hybrid model similar to the OECD Pillar Two global minimum tax, under which a company pays the higher of a revenue-based tax and corporate income tax. Any of these options requires further sectoral analysis, which is outside the scope of the present simulation.

CONCLUSIONS

This multidimensional empirical simulation of alternative corporate tax regimes applied to 67 firms listed on the BVB between 2020 and 2024 has produced results with significant implications for both tax-policy design and tax governance in Romania. The analysis combines a measure of overall revenue with a measure of cyclicality and a firm-level tax-affordability metric to offer a more balanced perspective on the trade-offs associated with a potential shift from profit taxation to turnover taxation. The main result is that a turnover tax is structurally more stable in terms of revenue generation than CIT, with a coefficient of variation three to four times lower for all modelled rates; this property is most apparent during adverse economic conditions—that is, in the years when the government's budgetary needs are generally greatest—thus allowing the tax to function as a natural countercyclical fiscal instrument. The 3% rate, in particular, generates revenue approximately 18% above the annual average of CIT, while also covering the entire corporate tax base—67 companies compared with 41–50 under CIT. As shown by the differential analysis in Table 3, during periods of average or below-average corporate profitability—which constitute the majority of the economic cycle—even a 2% tax on gross revenue would generate at least the same amount of revenue as CIT, with the 3% tax securing a significant surplus. CIT has historically outperformed turnover taxation as a source of revenue in only a limited number of high-profit years with significant sectoral windfalls, such as 2022. CIT may therefore be an appropriate choice as part of a policy mix with a basic turnover tax combined with a surcharge for highly profitable businesses. An analysis based on EBITDA, however, adds an additional layer of understanding: in the analysable sample, more than half of the firms (58%) can absorb a 3% turnover tax; another fifth (23%) cannot bear any operational tax charges because of zero or negative EBITDA, and about one in six (16%) would pay more than half of EBITDA. If the government intends to implement a turnover tax, it has to complement it with differentiated strategies, such as graduated taxes for companies operating with tight margins or phased implementation for firms with zero or negative EBITDA. There are a number of limitations to the current study. The study includes only firms traded on the BVB, which tend to be systematically larger, more transparent, and more diverse than the Romanian corporate sector. Expanding the scope of this research to include small and medium-sized enterprises (SMEs) and unlisted companies, which typically generate lower margins, would probably emphasise the distributional effects of a turnover tax more strongly. Secondly, the analysis is static in the sense that it does not model companies' behavioural responses to turnover taxes, such as changing prices, reorganising their structure or reallocating business activities among related entities. Finally, a detailed cross-country comparison of the implementation of similar turnover taxes in other EU Member States would provide useful information on the appropriate range of tax rates and suitable safeguarding measures. Nonetheless, the present research offers a solid foundation, supported by a rich dataset, for a well-informed discussion of the advantages and disadvantages of a turnover-based tax system in Romania, a matter of increasing urgency given the ongoing fiscal-consolidation efforts and the country's commitments under EU fiscal governance.

ACKNOWLEDGEMENT: This paper was presented and supported as part of the International Student Competition "Performance in Economic Education – Students Shape Tomorrow's Economy!", Edition 1, organised under the project "Links between Theory and Practice in Cross-border Education Romania–Ukraine" (LINKSROUACBE), ID HUSKROUA/23/RS/3.1/043. "This material was produced with the financial support of the European Union. Its contents are the sole responsibility of the lead partner and do not necessarily reflect the views of the European Union."

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DOI: 10.4316/EJAFB.2026.14114

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