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BEPS – A challenge for the increasing budget revenues in the process of digitalization

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Abstract. *In this paper we analyze the measures that led to the formation and implementation of the action plan regarding the outsourcing profit. These measures are adopted in the European Union and are also found in the Romanian tax code starting with 2018. The analysis is based on the action number 1 – "Digital Economy". In the end, we will analyze the strategy that is based on the CCCTB (Common Consolidated Corporate Tax Base).*

Keywords: fiscality, tax revenue, digitalization, tax avoidance, OECD countries.

JEL Classification: H26, H32, H87.

1. Introduction

The fiscality must be a state attribute, but it also must take into consideration the will and the element of consensus from the part of tax payer. The fiscality is undoubtedly necessary. Nobody, till now, could replace this way of financing and sustaining the state.

In fiscality, there are two terms that are used by tax payers and administrative entities of contributions, for the description of the decision taken by some tax payers in order to reduce the taxation at minimum: *tax avoidance* vs. *tax evasion*.

Tax evasion is an illegality that includes a series of juridical consequences, while the tax avoidance does not have any juridical consequences. The tax evasion represents violation of fiscal legislation, while tax avoidance involves the utilization of the law gaps and acting within the limits allowed by the law.

Due to the high rate of competition that appears in the economic sector, enterprises have adopted strategies of fiscal planning which are exploiting the gaps in the rules regarding fiscality in order to transfer artificially the profits to specific locations that are tax-free or have low rates of taxation, where there does not exist or is a reduce economic activity (through offshore companies). Thus, a system has been created that recognizes over 100 countries and jurisdictions collaborating in the implementation of the OCDE/G20 Base Erosion and Profit Shifting package (referred to as the "BEPS package") for multinational enterprises.

Over 80 countries that are developing and other economies non-OCDE/non G-20 discuss the BEPS challenges through direct participation at the fiscal business committee.

OCDE and G20 countries, together with the number of countries that participated at the elaboration of BEPS package, establish a modern international tax framework, where the profits are taxed when the economic activity or the created valued are identified.

BEPS package provides 15 actions that equip the governments with internal and international instruments. These countries have now the necessary instruments for ensuring that the profits are taxed within the jurisdictions of their economic activity that generate the respective profits and where the added value is created. These instruments also offer a higher security of the firms by reducing disputes regarding the application of the international fiscal norms and standardizing compliance requirements.

BEPS actions:

- Digital Economy.
- Hybrid Arrangements.
- Controlled Foreign Companies.
- Limitation of the deduction of interest.
- Harmful tax practices.
- CEDI abuse.
- Permanent headquarters.
- Transfer prices.
- Intangibles, Risk and capital.
- Transactions with high risk.

- Dates.
- Disclosure of tax planning schemes.
- “Country-by-Country” report.
- The disputes resolution.
- Multilateral instrument.

2. Literature review

In 2013, 362 out of 500 companies in Fortune were found to be transferred to tax havens (Fortune *500* is a ranking of the largest US public companies by turnover, compiled by the prestigious Fortune magazine). Approximately 64% of companies with any registered tax offices have at least one in Bermuda or Cayman Islands - two notorious paradises. In addition, the profits that all the American multinationals had, not just Fortune 500, were earned in these islands in 2010, and accounted for 1,643% (1.60% of the country's entire annual economic situation). Tax evasion by 30 companies with the most offshore, collectively funded funds reaches around $ 1.2 trillion in the US. The loss due to avoiding this tax must be offset by higher individual taxes or reductions in public investment and public services. Therefore, this leads to a burden for the entire nation. The profitable strategies of multinational companies raise serious issues of fairness and compliance, as the current international tax system offers opportunities to exploit legal loopholes and benefit from tax-free gains (Jansky and Prats, 2013). Taxes paid do not reflect the income they have earned. In addition, finding subsidiaries in countries with tax havens is one of the red flags of commercial money-laundering (Omara and Zolkaflila, 2015). Most tax systems in countries operate somewhere in the spectrum between two extremes: a global or territorial taxation. In a global tax system, corporations are subject to worldwide income tax by their country of residence. Under a territorial system, income is subject to tax only in the country in which it is earned. (Dowd et al., 2017).

Globalization has encouraged countries to continually assess their tax systems and public spending to improve the “fiscal climate” for investment. Reduced taxation could initially stimulate investment, but it will then damage all countries in the long run. There is no need to say that tax evasion is attempted not only by multinationals, but also by individuals with a private net worth of more than one million dollars.

In an increasingly integrated global market, national tax laws and international standards have not kept pace with multinational companies with liquid capital and the digital economy, the resulting gaps being exploited by tax avoidance in resident countries by transferring activities, risks or assets to exempt or tax-free jurisdictions out of borders. This undermines the fairness and integrity of tax systems around the world, and in particular developing countries are devoid of an important revenue source. Moreover, these undermines can lead to higher economic risks that can refer to the occupation of the labor force or innovation and productivity, that can be affected if the fiscal profitability becomes a principal stimulant for investments (Lamers et al., 2014).

The decision of companies to avoid taxes and engage in informal activities is influenced by the policy of charging taxes, and particularly sanctions and probabilities of discovery.

Financial fraud is an incredibly dynamic phenomenon - and fraud patterns have a very short period of validity - a simple tax system and full information on agents can reduce tax evasion. Small businesses are particularly vulnerable to fraud because of the rare controls they are subject to. In addition, the perception that fiscal policy is fair is associated with low levels of tax evasion. Increased knowledge of the possibilities of tax evasion has a negative influence on tax compliance as it contributes to its non-compliance. For tax evasion at the international level, it is necessary to develop and implement appropriate strategies to minimize its harmful effects. This should lead to improved tax revenue collection by governments (Stankevicius and Leonas, 2015).

It was often believed that the existence of tax havens contributed to the financial crisis and had a negative impact on the fiscal sustainability of the countries, even though there is no clear evidence in this respect. All of these have contributed to the OECD/G20 BEPS initiative on tax base erosion and the transfer of profits. This initiative does not intend to modify the existing international standards on the allocation of taxing rights to cross-border income sources. What it wanted to do was restart the source and residence tax on those incomes that would otherwise have been taxed or taxed at very low rates. The rules of foreign controlled companies (CFCs) are designed to address the shift of profits to foreign subsidiaries that are subject to lower taxation, thereby eroding the tax base and often delaying long-term taxation.

In addition, ineffective CFC rules are considered a key element contributing to tax base erosion and profits transfer, especially since many countries have CFC rules, but they have not kept pace with the changes in this environment. (Christiana HJI Panayi, 2016) The OECD estimates that 4-10% of global income tax revenue ($ 100-240 billion annually) is lost. An important objective of the BEPS project is therefore to provide governments with more efficient tools to ensure the effectiveness of their sovereign fiscal policies, with other visible goals being the correction of “distortions” that occur in commercial and investment patterns, and the provision of conditions of fair competition between multinationals and national companies. Another important objective of the project is to support “effective fiscal sovereignty of countries in designing their tax systems” (OECD, 2014, p. 14). This goal is shared by the dominant approach in philosophical literature on justice in the field of international taxation.

In general, the literature suggests that the redistribution of revenues through the progressive allocation of the fiscal task in countries with reduced revenues was inefficient.

For this reason, it is recommended for countries with low revenues to head towards the expenditure side of government budget in order to achieve the desired redistribution. Since countries with low revenues have difficulties in the implementation of the progressive fiscal systems and increasing fiscal revenues.

3. Case study

"Base erosion and profit shifting (BEPS)" refers to tax implications that may result in double non-taxation or erosion of the tax base in high-taxation jurisdictions.

In addition to the 15 actions, a process of monitoring the four minimum standards (Action 5, Action 6, Action 13, Action 14) will be adopted and will implement review mechanisms for other elements of the BEPS package. Monitoring mechanisms will be developed to monitor compliance by the jurisdictions. These mechanisms will ensure the effectiveness of the registration and dissemination of country reports as foreseen in the country-by-country revision by 2020. All countries and jurisdictions adhering to this framework will participate in this review process, allowing members to revise their own tax systems and identify and eliminate elements that raise the risk of BEPS.

It also wants to help developing countries with reduced capacity. The G20 Development Working Group (G20 DWG) called on the IMF, the OECD, the UN and the WBG to work together to develop tools and guidance to help these countries address the issues of BEPS. Sets of tools are prepared to facilitate the implementation of measures to combat BEPS as well as other issues that developing countries have identified as priorities in regional consultations. Countries and jurisdictions have been invited to express their interest in joining this framework as partners, to participate on an equal footing and to commit themselves to implementing the comprehensive BEPS package. Implementation times may vary to reflect the level of development of the participating countries.

Relevant countries and jurisdictions are those whose adherence to minimum standards will be necessary to ensure a level playing field. Relevant jurisdictions will be informed about minimum standards and will be invited to engage in the BEPS package and to participate in the review process. Regional tax organizations such as the African Tax Administration Forum, the Centre for Refurbishments and Tax Administrations, the Tributarias Interamerican Administration Centre will continue to play an important role in this project. Specifically, regional tax organizations are essential for regional networks, and regional meetings play an important role in the inclusive framework. Regional networks will provide special support to developing countries for the implementation of the BEPS package.

The 15 actions of the BEPS plan are outlined below, in Table 1.

Table 1. *The 15 actions of BEPS plan*

BEPS Actions – 2020	
Action 1: Digital Economy	▪ The risks of digital economy ▪ It completes with the rest of actions
Action 2: Hybrid Engagement	▪ Rules to counteract hybrid arrangements; ▪ Domestic legislation (hybrid instruments) + Model Convention (hybrid instruments).
Action 3: Controlled Foreign Companies (CFCs)	▪ Rules for defining a CFC (including definition of control); ▪ Exemptions and CFC thresholds; ▪ Definition of CFC income; ▪ Rules for income calculation; ▪ Rules for revenue allocation ▪ Rules to prevent or eliminate double taxation.
Action 4 - Limitation of interest deduction	▪ Main recommendation/default rule - deductibility according to a fixed indicator; ▪ The secondary rule - a group-wide indicator (optional) for each country. ▪ There are additional optional elements, each of which has specific rules. ▪ Identify preferential tax regimes;

BEPS Actions – 2020	
Action 5: Dangerous fiscal practices	▪ Introduces mandatory automatic exchange of information on tax decisions related to preferential tax regimes; ▪ Requires the existence of the economic substance for any preferential tax regime.
Action 6: CEDI Abuse	▪ Preferred approach: Inclusion in the Treaties of both a benefit-limiting article and a general anti-abuse rule in the form of a primary endpoint test.
Action 7: Permanent Headquarters	▪ Changes to the definition of permanent headquarters (online commission/sales, e-commerce).
Action 8-10: Transfer Prices, Intangible, Risk and Capital, High Risk Transactions	▪ Transfer of intangible assets between group members; ▪ Risk transfer/capital allocation between group members.
Action 11: Data	▪ Does not suggest any changes in the local laws of the countries; ▪ Indicates a number of practices in the collection and analysis of data; ▪ Provides some specific recommendations for a more effective measurement in the future.
Action 12: Disclosure of aggressive tax planning schemes	▪ Mandatory reporting rules for tax planning perceived as aggressive or abusive.
Action 13: Reporting "Country by Country"	▪ Enhance tax transparency; ▪ Reporting appropriate information for the purpose of conducting risk assessments regarding transfer prices.
Action 14: Dispute Resolution	▪ Improving the efficiency of the amicable settlement procedure ("MAP") with regard to dispute settlement on disputes arising under double taxation treaties following transfer pricing adjustments by local tax authorities ▪ Required to introduce compulsory arbitration.
Action 15: Multilateral Instrument	▪ Enhance the implementation of BEPS measures on double taxation treaties through a multilateral instrument to modify existing bilateral treaties

Source: OECD.

Digitalization

Digitalization turns many aspects of our everyday life, as well as the way our economy and society are organized and working. The size and speed of change caused by digital transformation is notable and raises many public challenges. It also changes the very nature of policy-making through the emergence of a new range of tools to support the development and implementation of policies.

The widespread use of digital devices, connectivity and "smart" technology bring significant changes that deeply affect relationships and markets. Information and communication technology has become a fundamental part of business and social infrastructure, highlighted by a strong dependence on online and efficient online communications services, software and hardware.

An enormous amount of data is now generated by these users and devices connected constantly. These data are collected by companies and governments and combined with advances in data analysis and technology diffusion, providing the insights needed to transform and shape both human behaviour and how organizations work.

Digital transformation into society has had significant effects on how we interact with each other through social media growth and how we do business in the Internet age. The most valuable element in the modern world is not gold or oil but data. Many of the largest companies in the world are not manufacturers, retailers or owners, but platform providers, data collectors.

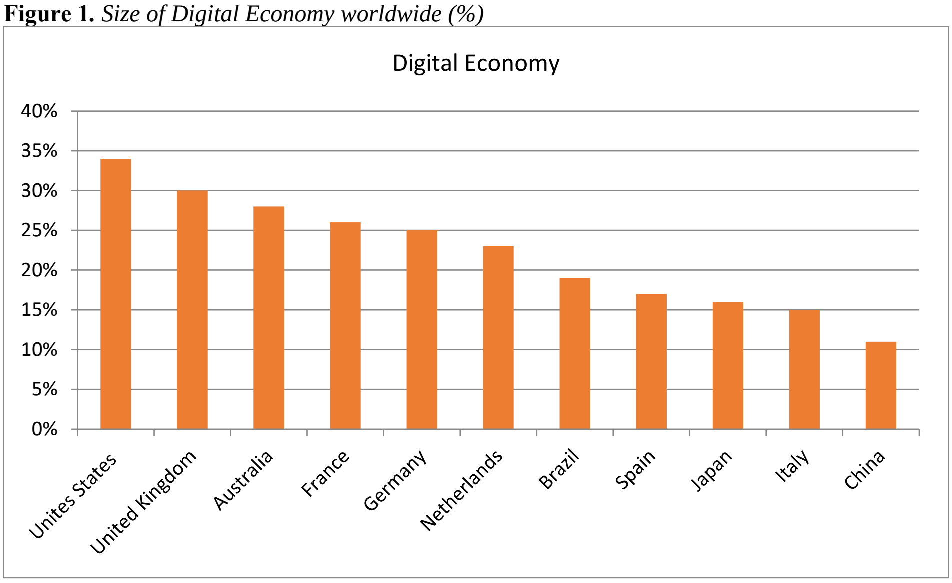
These new business models are increasingly international and online. In this context, the fiscal rules designed at the level of the business models of the 19th-20th centuries are increasingly proving to keep up with the changes. Moreover, governments are always under pressure to do more with less, and the ability of technology to increase collections and reduce costs is extremely attractive.

Digital economy

In the digital economy, information is digitized and transmitted over digital networks, so a new world of opportunities is emerging for business development. More and more people and businesses are being introduced into the new information space. A huge amount of information can be compacted and transmitted at high speed anywhere in the world. Information and information technology are used in all economic sectors, somewhat to a lesser extent, somewhat less, but in the end they are used everywhere. Their efficient use allows companies to be competitive (Garifova, 2014).

The general concern in this area is the lack of a basis rather than the existence of erosion of the taxable base. This is not a new area of concern. At the end of the 1990s, the digital economy, formerly known as e-commerce, was considered by the OECD (Panayi, 2016).

Figure 1. *Size of Digital Economy worldwide (%)*



Source: Accenture Strategy and Oxford Economics.

According to the graphic above, the estimated size of the European digital economy is 24.5% of the European Union's GDP, equivalent to 3.6 trillion euros, and estimates show that it will be 27.3% of GDP by 2020 of the European Union, which means 4.4 trillion euros. But all this amount of money, though very large, fail to reach the budgets of the respective states, but they reach tax havens, where they are improperly taxed or not at all.

Taking as a point of reference the results in Figure 1, it is very important to think of a digital toll, because by increasing household access to the Internet, the volume of data provided by the population to digital companies also increases, and then these data should be remunerated by different methods.

Digital taxation

A digital tax application does not just mean converting paper forms to PDFs which are uploaded to a government site. True digitization must be revolutionary, not only in the way taxpayers complete their filings (the task of placing documents/electronic information in a document), but also what is taxed and how can the authority use the powerful data pipelines to complete and control taxes. (Pre-popular retaliations, with information collected from third parties, fundamentally alters the structure of trust and direction of review, their taxpayers and counselors now working on reviewing and challenging the authority's work.)

As far as fiscal aspects are concerned, it means that policy development and implementation must be designed to change the environment, while being clear enough to provide the certainty and clarity that facilitates sustainable economic growth and long term.

The digital tax is a tax like any other, so it must have in its calculation area both a *tax rate* that is currently set by the OECD at the 3% threshold and a *base taxable*.

However, this basis puts states at a disadvantage, because it is not possible to accurately quantify all digital services. One of the variants would be to approximate them to an optimal solution for each jurisdiction.

For a number of years, political leaders, the media and civil society around the world have voiced growing concerns about tax planning for multinationals (INEs) that take advantage of gaps in interaction with tax systems to artificially reduce taxable income or change profits to low-tax jurisdictions where little or no economic activity takes place.

Discussions on how to address the fiscal challenges posed by digitization have been ongoing. Recent international efforts to address these issues have highlighted the divergent positions of several jurisdictions.

Although the introduction of unilateral measures in several countries has highlighted the urgency of the issue and the need to reassess some of the main international tax principles, these divergent positions have made it difficult to obtain a consensus-based solution.

There are two proposals that are currently draft directives which, in order to be legislation, must be adopted in a first step by the European institutions. In a second step, they must be transposed into national law by each Member State. Therefore, they do not work at this time.

First Proposal: Implementing a “Significant Digital Presence” in Tax Law.

This directive requires each member state to amend its legislation so that profits can already be taxed if a company has a “significant digital presence” (“virtual permanent establishment”) in that Member State. This is decisive for taxing where the company has significant user interaction through digital channels and where digital profits are generated. As a result, a physical presence of this company will no longer be necessary for taxation. A company is considered to have a “significant digital presence” in a Member State if it meets one of the following limits: - annual revenue of EUR 7 million in one Member State;

- more than 100 000 users in one Member State in a taxable year, or - over 3,000 business contracts for digital services that are created between the company and business users in a taxable year. These new rules apply to all companies that provide digital services through a digital interface. This explicitly includes, for example, cloud computing using search engines and internet directories accessing or downloading movies providing online news traffic information and weather reports and placing online advertising and streaming services. The second proposal (“I Digital Services Tax”) suggests a new 3% tax on revenues from certain types of digital services, which therefore resembles value added tax. Taxation takes place when users play a major role in tax revenue will be collected by the member state where the users are located and will thus generate immediate tax revenue for that member state. The Commission estimates annual tax revenues of approximately 5 billion Euros.

This fee would apply to revenue generated from the following three types of digital services:

- the sale of online advertising space on a digital interface addressed to users of this interface;
- providing a multiple digital interface that allows users to find and interact with other users and also to facilitate the direct sale of goods and services among users;
- the sale of data collected and generated by user activities on digital interfaces.

Since the Commission wishes to eliminate newly-created businesses and enlargement enterprises, this new tax only applies if the following income thresholds are exceeded:

- total annual total revenues of over € 750 million;
- total EU annual revenue of EUR 50 million.

While working on a global, consensus-based solution, a number of jurisdictions consider introducing interim measures. Several countries believe that a provisional measure will generate negative risks and consequences, regardless of the limits that might be imposed for such a measure, and therefore oppose it. Other countries recognize these challenges, but they believe digital services provided in their jurisdictions do not require fees to be paid, and also say that designing measures would be beneficial.

There are a number of states that have begun the process of introducing interim measures, including: France, Spain, Great Britain, Belgium, and Italy.

France

The country has decided to take a toll on technology giants in December 2018, after talks on digital taxation across the European Union stagnated in the same month. The companies affected by this measure are those with annual digital income of 750 million euros globally and 25 million euros in France. It is estimated that this tax will bring the budget revenue of 500 million euros per year.

This charge could affect about 30 companies, most Americas, Uber Inc., Airbnb Inc., Google Alphabet Inc. and Facebook Inc. are part of the global technological giants waiting for details on France's digital tax.

Spain

The tax proposed by Spain for digital taxation is three percent of the digital revenue achieved on the territory of the state. The companies affected by this measure are those with annual digital income of 750 million euros globally and 3 million euros for Spain.

The Spanish government forecasted that the financial transaction tax (FTT) and the digital service tax (DST), which will go into effect on January 16, 2021, will bring additional revenue of €1.818 billion ($2.1 billion) annually, while the Independent Authority for Fiscal Responsibility (IAFR) has a lower pre-pandemic forecasting of €966 million ($1.1 billion). Legislative plans were disturbed when government failed to approve the budget, which led to Prime Minister's request for early elections.

These elections mean that all the proposed tax laws, as well as the digital tax plans awaiting parliamentary approval, will be dissolved with the government. The only option would be for the new government to reintroduce the bill.

United Kingdom of Great Britain

The UK proposes a 2% digital income tax rate for companies with digital revenue of around 500 million pounds (around 580 million euros) globally and 25 million (about 29 million euro) British pounds of digital revenue in the UK. A disadvantage would be deductibility, companies may deduct UK tax from income tax they have in the country but will not receive tax credits (as opposed to deductions and exemptions, which reduce the amount of taxable income, tax credits reduce the real value of the tax due).

Chancellor Philip Hammond said the United Kingdom would implement the only digital tax if it still stagnates at the EU level on digital taxation.

The Ministry of Finance of the country expects the law to be added to the draft law for 2019 and to enter into force in January 2020.

Italy

Italy has proposed a digital levy since 2017, and Parliament finally endorsed it in 2018. Unlike the EU tax, the digital tax is more about service buyers than sellers. Any enterprise that performs more than 3000 digital transactions between businesses in Italy in a calendar year will be taxable. Companies cannot use the tax to offset Italian income tax.

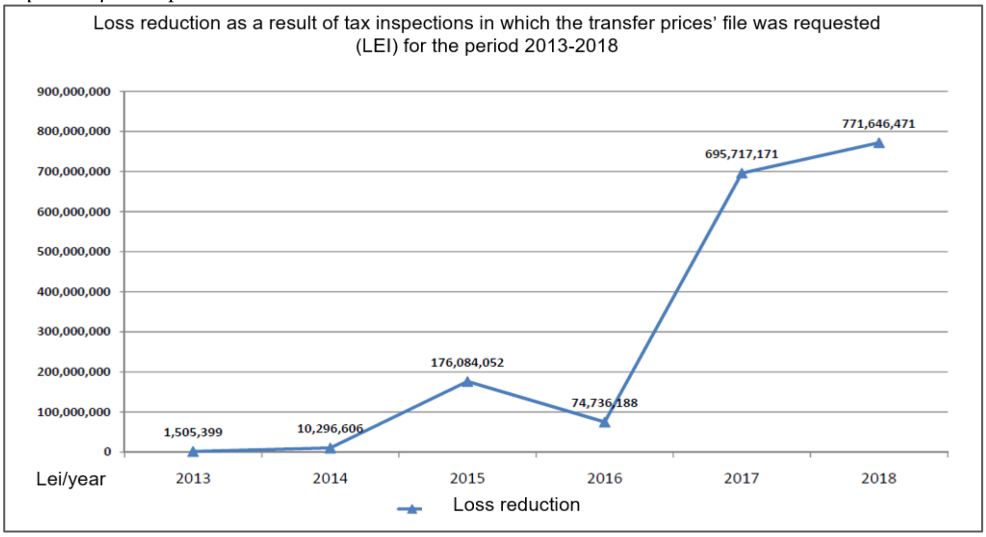
Belgium

It is the last country in the European Union to publish a digital service tax bill. The country wants to introduce a 3% provisional tax on digital income, such as the sale of user data to companies with a total revenue of 750 million euros and revenue of 50 million euros in the European Union.

Romania

The graph (Fig.2) with diminishing loss show how much the fiscal loss was diminished by the NAFA (National Agency for Fiscal Administration) controls, following the application of the transfer pricing rules. And the graph with tax on additional profit (Fig.3) shows the additional amounts of tax on profit established by NAFA following the application of transfer pricing rules. The idea is as it follows: a company is either on a *profit* or a *loss*.

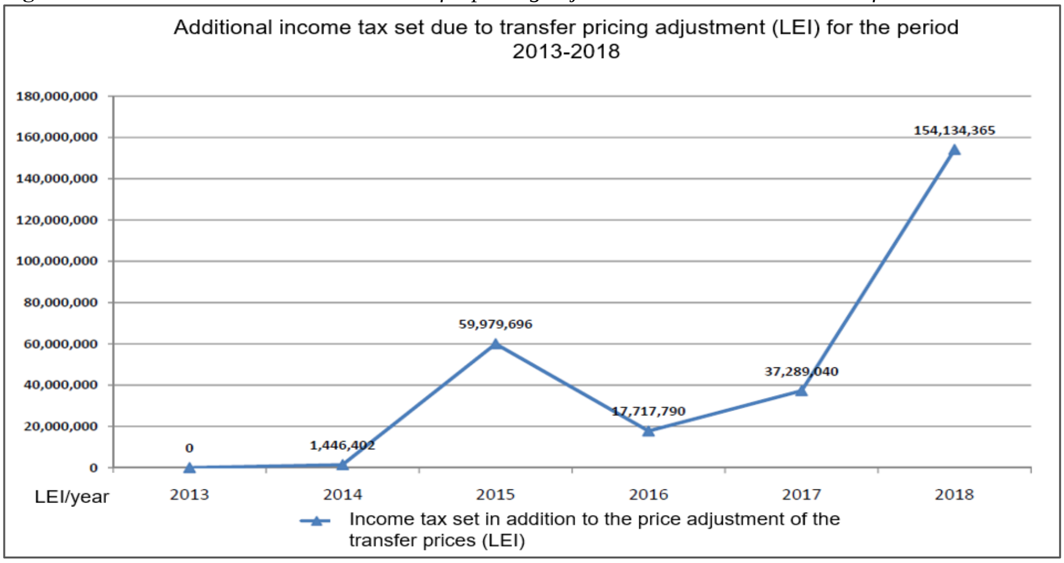
Figure 2. *Loss reduction in Romania as a result of tax inspections in which the transfer prices' file was requested for the period 2013-2018*



Source: National Agency for Fiscal Administration.

As it can be seen in Figure 2, in 2018 the loss reduction was 771,664,471 LEI, being the highest value recorded during the period of 2013-2018. It was noted that the evolution of loss reduction had a substantial growth in 2015 followed by a downfall in 2016. The loss reduction observed in 2013 was in amount of 1,505,399 LEI, considered the lowest value from the period.

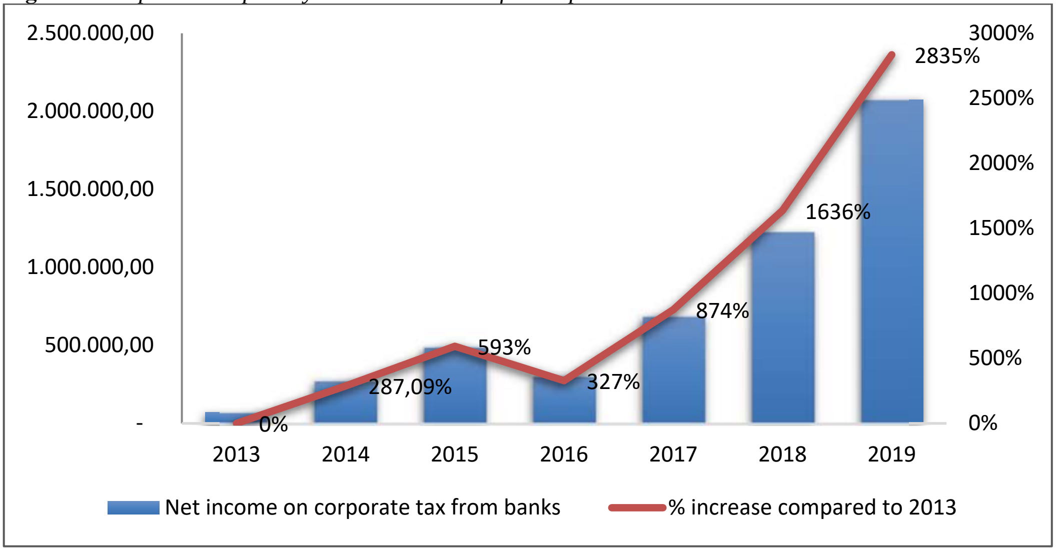
Figure 3. *Additional income tax set due transfer pricing adjustment evolution in Romania for 2013-2018*



Source: National Agency for Fiscal Administration.

Figure 3 shows the additional income tax set due transfer pricing adjustments in Romania that started increase from 2016 when it was a downfall, doubling its value in 2017 in comparison with the previous year and following an increase trend for the next period, in 2018 the increase being significant, more than 4 times compared with year 2017.

Figure 4. *Corporate tax paid by banks in Romania for the period 2013-2019*



Source: National Agency for Fiscal Administration.

Ensuring that our tax systems are prepared to respond to the changes brought about by digital transformation, and to capitalize on its opportunities and provide protection against its potential risks is a critical challenge. Reviewing international tax rules in the light of the impact of digitization will be a significant component of this activity and will have important ramifications for MNEs and governments as well as for the future of our tax systems. An update of the OECD's work in these areas will form part of the Tax and Digitalization Report, which will be prepared under the inclusive framework to be transmitted to the G20 in 2020, The report also acknowledged that it would be difficult, if not impossible, to stop the digital economy from the rest of the economy for fiscal purposes because of the increasingly widespread nature of digitalization (OECD 2015).

Although the banking system has increased in terms of net assets reported by banks and their activities, the tax on profit paid by banks was at a very low value.

In 2015, the first punctual verifications are initiated at the banks level and on the 9th of May 2016 the tax office starts the first fiscal control at a bank in Romania. The control targets several categories of taxes but the result is focused on the tax on profit.

During 2016, at the Department of administration of large taxpayers level, a department that manages administratively all the banks located in Romania, several analyzes are made and it is found that 35 of the 42 banks operating in the Romanian banking system did not pay any tax on profit in the last 5 fiscal years.

Afterwards, new controls are initiated among the banks located in Romania.

The graph shows a sudden increase in the tax on profit paid by banks, starting with 2017. This result is given by both the fiscal controls generated and also the overwhelming proportion to a legislative change that clearly regulates the way in which receivables are recorded in the accounts off the balance sheet and then transferable.

This legislative change practically begins to prevent banks from artificially generating tax-deductible expenses, by selling high-performing or non-performing loan portfolios at a value between 5-7% of their value. By assigning these receivables, the banks recorded losses between 93-95% of the value of the assigned receivables. Most often these receivables were assigned to affiliates or offshore companies.

This change practically forces the banks located in Romania to switch to profit and by default to pay amounts representing the higher tax on profit by 2385% higher than in 2013.

With respect to the assigned receivables, the net loss representing the difference between the transfer price and the value of the assigned receivable is deductible up to a ceiling of 30% of the value of this loss. If the transferee assigns the receivable, the net loss is determined as the difference between the transfer price and the acquisition cost of the receivable. When it comes to the credit institutions, if the assigned receivables are partially or fully covered by adjustments for expected losses, as well as if the receivables are recorded in off-balance sheet accounts and then assigned, 70% of the difference between the amount the alienated receivable and the transfer price represent elements that are similar to the income. (Romanian Fiscal Code, Article 25, paragraph 10)

Conclusions

The effects of these researched actions will be seen in a few years, the EU expects to be implemented by 2020, hoping to improve the fiscal climate in the Member States.

The graphs with diminishing loss show how much the fiscal loss diminished the NAFA controls, following the application of the transfer pricing rules. And the graph with tax on additional profit shows the additional amounts of tax on profit established by NAFA following the application of transfer pricing rules. The idea is this: a company is either profit or loss.

In the wake of the implementation of work procedures on the transfer of profits, access to databases that provide information on the transfer of profits and the acquisition of risk analysis software, a strong increase in the amounts collected from the state budget can be noticed.

Through operations of transfer of goods and services at overvalued prices, large companies in Romania used to transfer profits to other countries, generally tax havens.

Through these payments at an overvalued price of the contracted goods and services, the Romanian companies practically registered very high expenses that artificially diminished the profit or even generated the loss of the companies.

Following the controls performed, especially during the period 2017-2019, the tax authorities decreased the losses artificially recorded by the companies, reconsidering certain types of expenses and thus, in the event of some of them, practically forcing them to register profit and, therefore, to pay tax on profit. This happened considering that they have been recording losses for years.

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