

TAX HAVENS: REFUGE OR OPTIMIZATION? AN ANALYSIS IN THE CONTEXT OF THE EU'S FIGHT AGAINST TAX FRAUD AND EVASION

Dumitru Mihai Nedelescu, Lucian Botea *

Abstract

It is perfectly legal to conduct business through an offshore company registered in a tax haven if the legislation of that state is complied with. However, concerns regarding these tax havens are related to the possibility of hiding dirty money obtained from illegal activities (tax evasion, fraud or embezzlement of funds), since every year, at European level, billions of euro are lost when taxpayers do not declare and do not pay their tax liabilities, thereby undermining the economic stability of the European Union. In this context, tax havens represent a major challenge for the member states of the European Union, as they facilitate the shifting of profits, the concealment of the identity of beneficial owners and the artificial reduction of tax liabilities, with negative effects on the financing of public services, economic competitiveness and tax fairness.

Keywords: tax evasion and avoidance, business taxes and subsidies, international fiscal issues

JEL Classification: H26, H25, H87

1. Introduction

Tax havens and offshore financial centres have become a central concern for policymakers and scholars, as they sit at the intersection of tax justice, fiscal sustainability, and the integrity of global financial markets. By offering extremely low or zero tax rates, strict banking secrecy and flexible regulatory frameworks, these jurisdictions enable multinational companies and high-net-worth individuals to shift profits and assets across borders, often beyond the effective reach of domestic tax administrations. In the European Union, this dynamic undermines the financing of public services, distorts competition within the single market, and places a disproportionate tax burden on compliant taxpayers and small and medium-sized enterprises.

Against this backdrop, the EU has stepped up its fight against tax fraud and evasion, promoting greater transparency, tighter rules on aggressive tax planning and common lists of non-cooperative jurisdictions. This article examines the dual nature of tax havens as both legal instruments of tax

*Dumitru Mihai Nedelescu is PhD Lecturer at Romanian-American University, Bucharest.

E-mail adress: dumitru.mihai.nedelescu@rau.ro

Lucian Botea is PhD Lecturer at Romanian-American University, Bucharest.

E-mail address: lucian.botea@rau.ro

optimisation and sources of fiscal risk, analyses the role of offshore companies in profit shifting, and discusses recent EU initiatives aimed at reducing the fiscal and economic imbalances generated by these practices.

2. Literature review

Among the factors that have contributed to the emergence and development of tax havens are the decline in trust in financial institutions, distrust in governments and the need for financial privacy. In other words, the purpose of using tax havens is simple: to pay as little as possible and earn as much as possible. This is why businesspeople set up companies in the territory of a tax haven, to protect their profits, the aim being to obtain a tax optimization of their business [Ungureanu, (2013)].

Most of the time, tax havens are perceived as a means of protecting income and wealth from the control of tax authorities. Thus, from a tax perspective, a tax haven can be seen as the territory of a state or part of the territory of a state within which certain facilities are granted: no taxes, duties or contributions are levied, or they are charged at reduced rates and apply only to specific categories of income, assets and activities; banking secrecy is guaranteed; there are no restrictions on foreign exchange transactions; and a simple and rapid system is in place for setting up a company [Minea, Costaş, (2006)].

Specialized literature groups tax havens as follows [<http://www.sfin.ro>]:

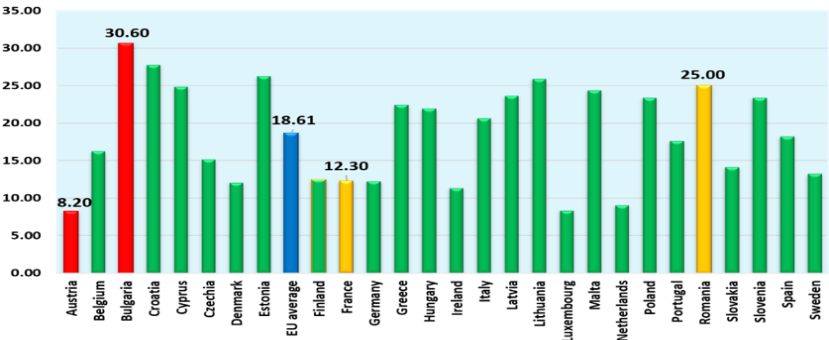
- *Tax Paradise*: States or territories of states that have not concluded any kind of tax treaty with other states and that do not levy income or wealth taxes.
- *Low Tax Haven*: States or territories of states that have concluded tax treaties with other states but have set very low tax rates on income and wealth and do not tax income from dividends and/or interest.
- *Tax Resort*: States or territories of states that have simplified procedures for incorporating a company and offer specific advantages in terms of the level of taxation for certain activities. This category of tax havens is particularly preferred by multinationals.
- *Tax Shelter*: States or territories of states that have very low tax rates or that have established the collection of income tax on a territorial basis, meaning that profits that do not originate in the territory of the respective state are not taxed.

Over time, tax havens have been a symbol of wealth, luxury, and sophisticated business, being the preserve of private banking. However, the financial crisis, terrorist threats, as well as the escalation of illegal activities and corruption at international level have revealed a darker side of these territories. Thus, countries around the world, especially developed ones, have begun to exert increasing pressure at international level to reduce the role of these

territories (tax havens) in fueling tax evasion and in financing illegal activities [Căpraru, (2017)].

The phenomenon of tax evasion deprives the EU every year of considerable amounts and distorts competition, to the detriment of taxpayers. Such behavior undermines the concept of a tax system that supports economic growth and hinders the integration of capital markets. Innovation and competitiveness also risk being stifled, since SMEs, the main source of jobs in the EU, end up paying more taxes than large companies that can resort to aggressive tax planning [International Tax Policy Forum, (2024)]. Furthermore, the avoidance of tax obligations may increase the tax burden on labor, as governments compensate for lost revenues by raising other taxes, to the detriment of employment.

Figure no.1: Underground economy in the EU as share in GDP



Source: Schneider (estimates of shadow economy in EU) University of Linz, Austria

Given the cross-border nature of tax evasion, actions to combat it taken at national level are, in general, ineffective [Alstadsæter et al., (2023)]. In fact, the adoption of uncoordinated measures to combat tax abuse at national level may worsen the situation, by fragmenting the single market, creating new burdens for taxpayers, and opening new loopholes that can be exploited by those resorting to aggressive tax planning.

In the current context, the notion of tax haven increasingly tends to be transformed into financial haven or international financial center or, more recently, offshore financial center. Thus, the tax haven constitutes a refuge for all types of companies, with the purpose of allowing their owners to minimize the tax obligations to which they are subject, in full compliance with the law and in a way that is beyond the control of the tax authorities in their home states, so as to generate high profits and protect their money and capital [EU Tax Observatory, (2026)].

At present, according to the OECD, there are approximately 50 tax havens worldwide, some of them located in the very heart of the European Union, such

as Andorra, Cyprus, Gibraltar, Guernsey, the Isle of Man, Jersey, Liechtenstein, Malta, Monaco or San Marino, which attract European taxpayers through banking secrecy, low tax pressure and few taxes, duties and contributions [EU Tax Observatory, (2024)].

Currently, more and more states and territories are in the process of giving up their status as tax havens, such as the Cayman Islands, Switzerland, Gibraltar, Liechtenstein and the Virgin Islands, by signing agreements under which they are willing to disclose, to a greater or lesser extent, information regarding resident offshore companies and to renounce fully or partially their status as tax havens. This process is explained by the international pressure exerted on them by the Financial Stability Board, a body established by the G20 group.

3. A brief introduction to the typology of offshore companies

In general, when tax havens and offshore companies are discussed, most people think of illegal business; however, contrary to this view, offshore companies are a legal instrument for organizing business, whose advantages are usually related to taxation. Therefore, it should be noted that when a taxpayer sets up an offshore company, the reason is to avoid paying certain, often burdensome, tax obligations in the state of residence; however, this is not an illegal option.

At present, the term tax haven has turned into offshore financial centre, due to the main instrument used for conducting business in a tax haven, namely the offshore company [Bişa, Costea, Capotă, Dăncău, (2005)], which is a company incorporated in a country or in a dependent territory of a country with autonomous legislation, but which does not carry out economic activities on that territory [Busiernesu, (2007)].

The offshore company is a financial instrument used for tax planning and tax avoidance, for increasing the profitability of the business, for participation (as shareholder or partner) in the management of the business, with full freedom of movement of financial resources and in complete anonymity.

Thus, depending on the operating conditions of offshore companies, tax havens can be grouped as follows [Chicoş, Drăghici, (2010)]:

- **Group 1** – Bahamas, Jersey, the Isle of Man, Delaware (USA) (the share capital does not have to be paid in, the financial statements do not have to be filed with any authority, and the company's profit is taxed annually with a fixed tax).
- **Group 2** – Hong Kong (companies must submit their financial statements to the authorities, certified by an authorized accountant).
- **Group 3** – Madeira, Cyprus, Switzerland, Liechtenstein (when the company is set up, the share capital must be paid in, filing financial statements is compulsory, but the company's profit is taxed at a reduced rate).

The disclosure of financial transactions is prohibited. If business activities are legal, financial secrets are protected. It is forbidden to disclose financial transactions and information on bank accounts without a court order. As a rule, a condition for granting tax exemptions is that the company does not carry out its economic activity on the territory in question (a condition imposed to protect the domestic economy from external influence). Offshore companies must be viewed in the correct context: they are set up in a jurisdiction where there are no taxes. They are by no means proven for money laundering since tax-haven states also have laws and monitor companies' activities whenever they seem suspicious.

In conclusion, an offshore company can represent both a valuable instrument for protecting profits, thereby increasing the profitability of investments made by the owners, and a nightmare for the tax authorities in the states of residence, whose main objective is to combat fraud and tax evasion and to reduce the loss of tax revenues caused by the way tax havens operate. In addition, tax havens offer confidentiality to individuals or to the beneficial owners of registered companies by not showing their identity, which allows money to be held in these areas, often unreported and untaxed

Types of offshore companies [Busiernescu, (2007)]:

- *Offshore trading companies* – used to reduce the profits of parent companies found in high-tax areas.
- *Offshore credit companies* – owning an offshore credit company provides opportunities to minimize taxes on granted loans and borrowed funds, as well as to improve the financial and credit services offered to clients.
- *Offshore investment companies* – in some tax havens, the authorities may offer tax facilities to entrepreneurs who invest in certain sectors. The purpose of granting these facilities is to develop specific areas, attract capital and technologies, rebalance the trade balance and stabilize the labor force.
- *Offshore banks* – captive banks are banks that operate under the cover of other banks. Following the model of captive insurance companies, a large group may set up its own bank, found in a tax haven and operating under an offshore regime. Thus, the main activity of the offshore bank may be the centralized management of the group's treasury.
- *Offshore holding companies* – used to finance the activities of subsidiaries found under various jurisdictions, offering them the possibility of reducing the taxes on interest for loans granted by the parent company. In this case, the holding companies are established in an offshore area where they do not pay other taxes. The profit thus obtained can be used to finance activities carried out by the holdings or to reinvest it for other purposes.

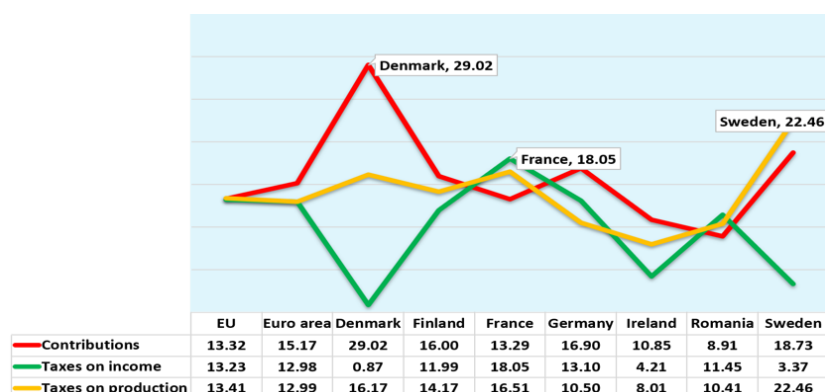
4. Definition, magnitude, and potential effects of fiscal pressure

Tax pressure implies certain limits of affordability on the part of taxpayers. These limits are imposed by taxpayers' reactions, as they may resist

increases in compulsory levies by resorting to evasion, fraud, reducing productive activity or even revolts. If, up to a certain point, the honest taxpayer makes the payment of tax voluntarily, when taxes exceed certain limits of affordability, phenomena arise that seriously undermine the state's intention to collect these revenues [Dobrotă, Chirculescu, (2010)].

Specialists use the concept of fiscal pressure to denote the magnitude of the redistribution of GDP through the payment and/or collection of taxes. Thus, fiscal pressure is defined as the relative expression of the tax burden borne by the taxpayer [Brezeanu, (2009)]. Some authors also consider that fiscal pressure signifies how onerous taxes are, or, in other words, how heavy the tax burden is on taxpayers' shoulders [Talpoș, Enache, (2001)]. In another sense, fiscal pressure represents an indicator for measuring the income extracted from production which passes through the budget by means of a compulsory and public allocation process, instead of being left at the free disposal of private initiative [Tulai, Șerbu, (2005)].

Figure no. 2: Fiscal pressure based on taxes and contributions in EU



Source: European Commission – DG TAXUD (Taxation Trends)

Regardless of how it is defined, fiscal pressure can be interpreted as follows:

- **From the taxpayer perspective**, it expresses the degree to which the taxpayer is subjected to bearing the tax burden established by law. In this case, the level of fiscal pressure shows how much of the income that constitutes the tax base will be taken for the general needs of society.
- **From the state as tax collector perspective**, it indicates what share of the income created by taxpayers is to become budgetary revenue. For the state, an increase in fiscal pressure means an improvement in the mechanism for financing public expenditure, while a decrease in fiscal pressure affects the budget deficit.

In the USA, fiscal pressure is determined by considering individual income taxes, sales taxes and excise duties, social security contributions, corporate profit taxes, and value added taxes. For the calculation of fiscal pressure at the level of federal states, the taxes and duties paid to these states are also taken into consideration: property taxes, inheritance taxes, certain sales taxes, sin taxes, etc. In some European countries, in fiscal practice, fiscal pressure is determined by considering tax revenues derived from: taxes related to production and imports, and taxes on income, wealth and capital.

Thus, in practice, three types of tax pressure rates can be used:

- *Low tax rate* – implies low pressure on taxpayers and therefore relatively low budget revenues. In the view of some neoliberal authors, such a tax rate may stimulate efforts to achieve stability in disposable national income, accelerate economic growth, and thus increase tax revenues to the budget.

- *High tax rate*, especially a rising marginal tax rate, may generate tax evasion, tax fraud, a decrease in GDP and a reduction in tax revenues to the state budget.

- *Optimal tax rate* – represents that threshold of taxation up to which, and beyond which, tax revenues are lower. A rate that exceeds the optimal level has a discouraging effect on investors and employees.

The level of fiscal pressure (the degree of taxation or tax rate) is influenced by numerous factors, among which we mention:

- Internal factors, for example:
 - the scale of progressivity of tax rates;
 - the method of determining the tax base.
- External factors to the system of taxes and duties:
 - the level of GDP per capita and the size of public debt;
 - the degree of development of the national economy;
 - the priorities set by public authorities regarding the allocation of resources (social protection and/or economic development);
 - the efficiency with which public resources originating from taxpayers' obligations are used;
 - the degree of taxpayers' adherence to government policy;
 - the degree of voluntary compliance of taxpayers with the declaration/payment of taxes.

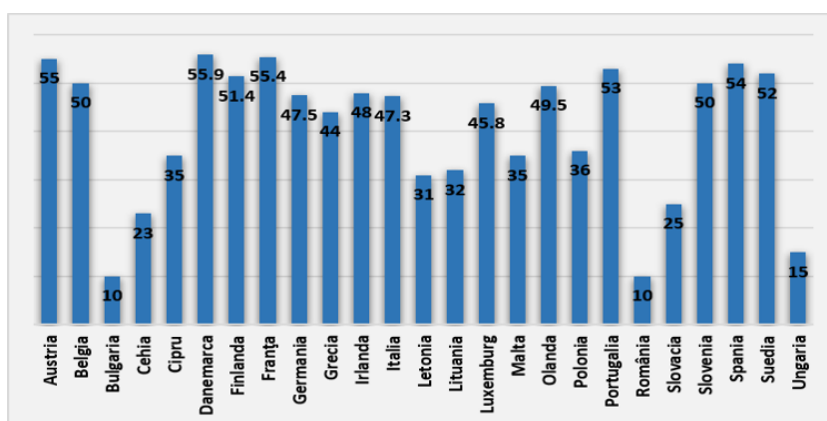
In the view of many specialists, the main cause of increasing fiscal pressure is the continuous growth of public expenditure, whose evolution is subject to certain economic, social, and political regularities.

Possible effects of high fiscal pressure may lead to:

- risk of tax-induced inflation (any increase in tax rates may influence price increases);

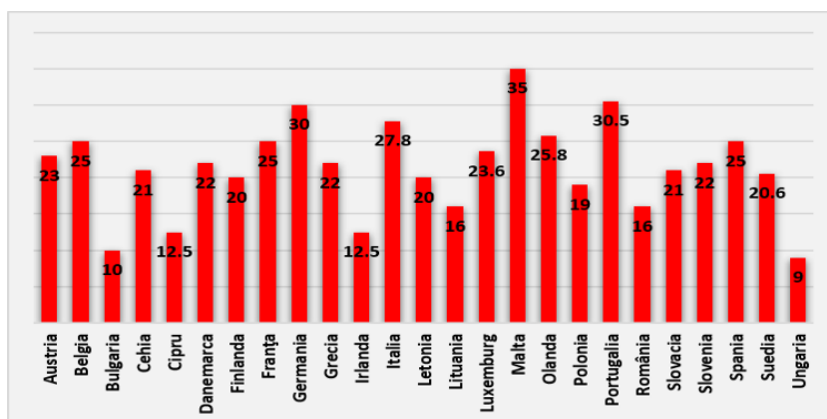
- tax evasion and tax fraud;
- a reduction in productive efforts (tax optimization through “fiscal abstinence”);
- political resistance (demands, positions taken for or against certain tax obligations);
- relocation of activities to countries where tax legislation is more favorable, with the corresponding consequences for the country of residence;
- deterioration of international competitiveness, which for developed countries with significant trade flows and companies able to face competition constitutes a key factor in economic growth and the level of employment.

Figure no.3: Income tax rates in 25 EU Member States

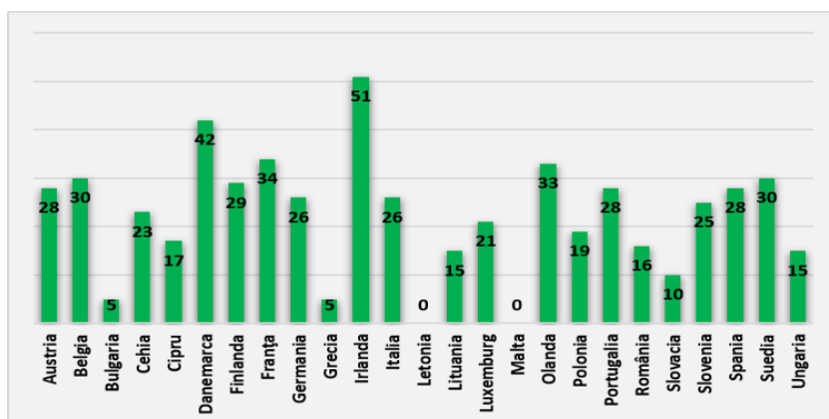


Source: European Commission – DG TAXUD (Taxation Trends)

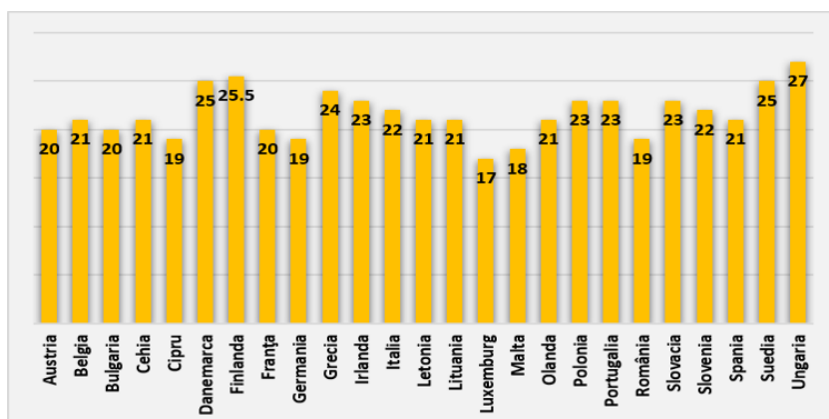
Figure no.4: Profit tax rates in 25 EU Member States



Source: European Commission – DG TAXUD (Taxation Trends)

Figure no.5: Dividend tax rates in 25 EU Member States

Source: European Commission – DG TAXUD (Taxation Trends)

Figure no.6: VAT rates in 25 EU Member States

Source: European Commission – DG TAXUD (Taxation Trends)

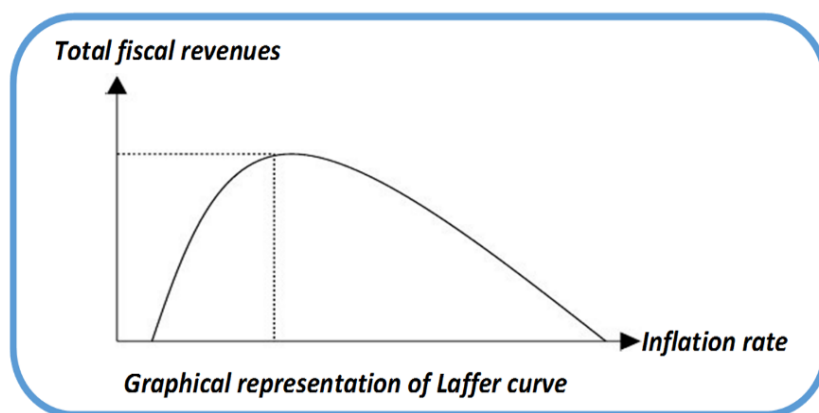
Any significant increase in the degree of taxation and, implicitly, in compulsory levies may generate a risk to competitiveness, namely price increases, a reduction in self-financing capacity, in investment and in modernization. The extent of taxation in EU member states is illustrated in Figures 3–6.

Opinions in the literature are mixed. Thus, J.B. Say proposed the *minimum tax*, while D. Ricardo considers that *any tax levy reduces the power of capital accumulation*. Likewise, supporters of Keynesian theory argue that a limit imposed on tax levies would be linked to certain confusions or technical purposes, since it would fail to consider the advantages taxpayers derive from the contribution of taxes to the formation of public financial resources.

Optimal fiscal pressure particularly concerned the economist Laffer, who in 1974 graphically represented the relationship (the Laffer Curve), starting from an idea of A. Smith (1776) on “tax rates”, according to which, if they are too high, they may destroy the very base on which taxation operates. Thus, Laffer estimates that there is a threshold of fiscal pressure which, if exceeded, can reduce tax yield and may discourage taxpayers from investing, producing, and saving [Alstadsæter et al., (2023)].

According to the Laffer curve (Figure 7), the amount of compulsory levies is an increasing function of the tax pressure rate only up to a threshold corresponding to the maximum level of the curve, after which it becomes a decreasing function, tending towards zero if the rate were to reach the theoretical level of 100%.

Figure no.7: Laffer curve



Source: authors' own illustration

5. Tax evasion in EU member countries

Tax evasion is a socio-economic phenomenon of utmost importance that states are currently facing and whose negative consequences they seek to limit, its eradication being impossible. The effects of tax evasion directly affect the level of tax revenues, lead to distortions in the functioning of the market mechanism and may contribute to social inequities arising from taxpayers' different access and inclination to engage in tax evasion. Nevertheless, the state, through its public authority, may incite tax evasion, thus pursuing two objectives [Moraru, (2008)]:

- a positive one, justified by the stimulation of capital formation;
- a negative one, reflected in supporting mafia-type interest groups, with all the risks arising from such practices.

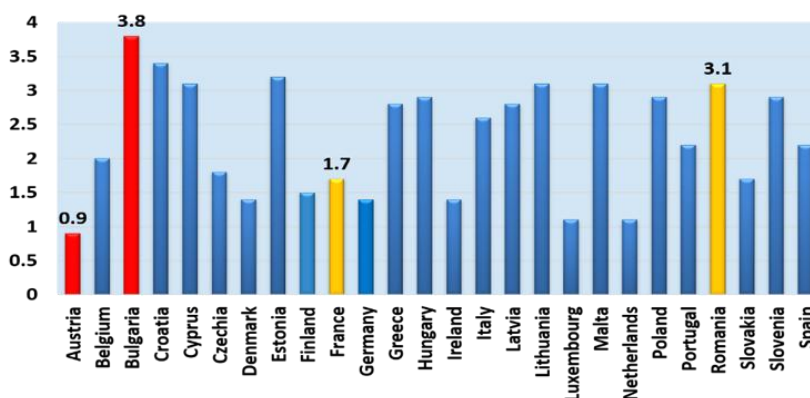
Hence, we can identify the very role of tax evasion as a desired or undesired element of fiscal policy, deriving directly from the role of taxation in general. One of the “secrets” of the Japanese regarding capital formation is tax evasion, which is officially encouraged. Legally, an adult Japanese citizen is exempt from taxes on an average savings account. Japan has five times more such accounts than the number of its population, including children. As a result, it has the highest capital formation rate [Moraru, (2008)].

Referring to some government measures aimed at changing the distribution of income in the USA, Milton Friedman noted that “the effect of high and strongly progressive tax rates has disappeared also because they have stimulated the emergence of legal provisions and other measures that support tax evasion, namely the so-called legal loopholes that allow a percentage reduction of tax rates. As a result, the effective tax rates have been much lower than the nominal rates and, what is very important, the incidence of taxes has become capricious and unequal. People in the same economic situation pay different taxes depending on the nature of their income source and on the opportunities, they must engage in tax evasion.” Thus, tax avoidance may have been essential for economic welfare. If this was the case, the gain was achieved at the cost of a great waste of resources and by introducing widespread inequity [Moraru, (2008)].

The state’s intervention in maintaining a certain degree of tax evasion, for the purposes mentioned above, must be analyzed through the lens of the direct relationship between the effect (capital formation) and the efforts (waste of resources, creation of inequality in taxpayers’ incomes).

It must also be borne in mind that the beneficial effect of state intervention, especially in legislative terms, is direct, immediate, and visible, while the effects of tax evasion are gradual, indirect, and difficult to perceive. Figure 8 shows the size of tax evasion in 2023 in EU member states.

Figure no.8: Tax evasion in EU (2023)



Source: Schneider, University of Linz, Austria

Table no.1: Definitions of Tax Evasion and Tax Fraud in Selected EU Member States

Country	Definitions
Franța	Tax fraud is defined as “the attempt to evade or the fraudulent evasion of the assessment or payment of taxes regulated by the General Tax Code; the intentional omission to declare within the limitation period, the intentional concealment of amounts that should have been taxed, the organized creation of insolvency or the obstruction by other means of tax collection is considered tax fraud.”
Germania	Tax fraud is the deliberate omission to provide the tax administration with the information necessary for determining the tax, or the submission of inaccurate or false documents where this would reduce the tax due or lead to the obtaining of unjustified tax advantages.
Irlanda	Tax fraud is defined as any intentional criminal activity in the fiscal sphere aimed at evading the payment of tax. Penalties are harsher where tax offences concern all taxes and duties levied. This is the case of offences considered very serious and liable to severe sanctions, such as: filing an inaccurate tax return or submitting inaccurate documents, obstructing tax audits, refusing to keep or to provide the documents required by law.
Luxemburg	Tax fraud is divided into two concepts: simple fraud and international fraud. Simple fraud is of an unintentional nature and is committed through negligence by any person who has the status of taxpayer. This offence may be punished only with a fine. International fraud is punishable by fines that are not limited by law and may also be punished with imprisonment.
România	Tax evasion represents the avoidance, by any means, in whole or in part, of the payment of taxes, duties and other amounts owed to the budget by Romanian or foreign natural and legal persons having the status of taxpayer.
Țările de Jos	Tax evasion is defined as the deliberate filing of an inaccurate tax return, the submission of false documents, or the failure to comply with the legal obligation to provide the tax administration with certain information at the time of tax inspection. Tax fraud is punishable by imprisonment.

Source: Ungureanu, 2013

The significant differences between the definitions and sanctions on tax fraud and tax evasion in EU member states (Table 1) prove the absence of genuine harmonization, making it easier for taxpayers seeking to avoid tax obligations to exploit legislative loopholes.

In parallel with efforts towards tax harmonization and coordination, the EU has intensified its fight against tax evasion and tax fraud, which threaten fair competition and are a cause of major budget deficits. Combating aggressive tax planning also constitutes a challenge of utmost importance. Improving cooperation and fiscal coordination and increasing transparency in relations between member states in the field of tax policy enables them to avoid losses and, at the same time, contributes to ensuring a high level of fairness.

In addition to the progress made, the EU has proposed to relaunch the initiative on a common corporate tax base and to finalize the list of tax havens. In this context, **the European Union has drawn up a list of non-cooperative**

jurisdictions for tax purposes (Table 2), consisting of states that have not fulfilled their commitments to comply with the criteria of good tax governance within a given period or that have refused to do so.

Table no.2: Non-cooperative jurisdictions for tax purposes

States that do not cooperate with the EU or have not fulfilled their commitments.	
American Samoa, Anguilla, Fiji, Guam, Palau, Panama, Russia, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu	
States that do not yet comply with all international tax standards but have committed to implementing reforms.	
States that cooperate with the EU and have ongoing commitments	States that cooperate with the EU and have no ongoing commitments
Antigua and Barbuda, Belize, British Virgin Islands, Brunei, Eswatini, Seychelles, Turkey, Vietnam	Albania, Andorra, Argentina, Armenia, Aruba, Australia, Bahamas, Bahrain, Barbados, Bermuda, Botswana, Bosnia and Herzegovina, Brazil, Cabo Verde, Canada, Cayman Islands, Chile, China, Colombia, Cook Islands, Costa Rica, Curaçao, Dominica, Faroe Islands, Georgia, Greenland, Grenada, Guernsey, Hong Kong, Iceland, India, Indonesia, Isle of Man.

Source: European Council, 17 February 2025,

<https://www.consilium.europa.eu/ro/policies/eu-list-of-non-cooperative-jurisdictions/>

Tax fraud and tax evasion can take different forms, each with distinct characteristics and implications, the most harmful being:¹

- **Tax avoidance.** Involves the use of legal instruments and strategies to minimize tax liabilities. Common practices include shifting profits to countries with low tax rates or deducting interest payments on loans with artificially inflated interest rates. Although formally legal, these tactics exploit loopholes and inconsistencies in legislation to reduce the amount of tax paid.

- **Aggressive tax planning.** This occurs when large enterprises and wealthy individuals push the limits of the law to minimize the amount of tax they pay. While such actions may be technically legal, they are ethically questionable and contribute to an overall loss of tax revenues.

Tax fraud has several major consequences:²

- **Economic consequences.** It reduces public revenues needed to finance essential public services.

- **Inequity.** It creates an unfair and disadvantageous burden for honest taxpayers.

- **Erosion of trust in public institutions.** It undermines public trust in the rule of law and in public institutions.

¹ <https://www.consilium.europa.eu/ro/policies/combating-tax-avoidance-in-the-eu/>

² <https://www.consilium.europa.eu/ro/policies/combating-tax-avoidance-in-the-eu/>

- **Criminal activity.** It finances criminal or illegal activities, endangering citizens and even states themselves.
- **Global implications.** It distorts competition, grants unfair advantages, and contributes to the growth of cross-border crime.

Furthermore, the **blacklist of tax havens** (Table 3) drawn up by the European authorities includes approximately 50 states or territories of states from:

Table no.3: The blacklist of tax havens

Africa	Liberia, Mauritius, Seychelles
Asia	Bahrain, Hong-Kong, Macao, Maldives, Singapore
America de Nord și de Sud	Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Costa Rica, Dominican Republic, Delaware, British Virgin Islands, Cayman Islands, Grenada, Montserrat, Netherlands Antilles, Panama, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Saint Lucia, Turks and Caicos Islands, United States Virgin Islands
Europa	Andorra, Cyprus, Gibraltar, Guernsey, Jersey, Liechtenstein, Isle of Man, Madeira, Malta, Monaco, San Marino
Oceania	Cook, Nauru, Niue, Marshall, Samoa, Vanuatu

Source: European Council, 17 February 2025,

<https://www.consilium.europa.eu/ro/policies/eu-list-of-non-cooperative-jurisdictions/>

The EU's efforts to **combat aggressive tax planning**, to draw up lists of non-cooperative jurisdictions and to intensify the exchange of tax information are essential steps towards strengthening tax fairness and integrity; however, their effectiveness depends on global cooperation and the uniform implementation of standards.

Conclusions

Tax fraud and tax evasion undermine the functioning of the member states, distort decision-making processes at the level of the economy, erode trust between citizens and governments, and limit the capacity of member states to raise the resources needed to implement economic and social policies and to support public services. Tax fraud and tax evasion also have negative structural effects on European economies, generating inequalities, market distortions, and a reduction in public resources.

Regarding tax havens, these represent both a legal instrument for tax optimization and a risk factor for the proliferation of tax fraud and tax evasion, affecting the capacity of EU member states to collect essential budgetary resources. Offshore companies, although legitimate in principle, can generate significant tax losses for the states of residence, especially when they are used for profit shifting or for concealing the identity of beneficial owners. The

process of capital and labor migrating to low-tax countries (tax havens) makes it necessary to adopt new taxation mechanisms at EU level.

Therefore, at EU level, we consider that it is necessary to initiate concrete actions regarding:

➤ **Harmonizing legislation** on tax fraud and tax evasion at EU level. Member states should adopt a common framework regarding the definitions, sanctions and procedures for combating tax evasion and tax fraud, to eliminate legislative differences that allow loopholes between jurisdictions to be exploited.

➤ **Strict regulation** of offshore companies and financial intermediaries. Introducing additional transparency requirements for consultancy firms, lawyers and financial institutions that facilitate the establishment of offshore companies would limit their use for illicit purposes.

➤ **Strengthening the administrative capacity** of tax authorities. Investment in digitalization, data analytics, artificial intelligence, and the training of tax inspectors would increase the effectiveness of audits and allow the rapid detection of suspicious transactions.

➤ **Enhanced international cooperation** with offshore jurisdictions. The EU should continue to exert diplomatic pressure on non-cooperative states, making access to European markets conditional on compliance with tax transparency standards.

➤ **Ongoing monitoring** of cross-border financial flows. Creating a European monitoring system for tax risks, analyzing trends in capital relocation, and issuing early warnings would support the design of proactive policies.

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