Assessing the Fiscal and Macroeconomic Drivers of Tax Evasion in Romania

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Abstract

Tax evasion remains a major challenge for the sustainability of public finances, particularly in countries characterised by persistent VAT collection deficiencies. This study investigates the fiscal and macroeconomic drivers of tax evasion in Romania over the period 2014–2024, using the VAT Gap as a proxy for tax evasion. The empirical analysis is based on annual macroeconomic data and employs a multiple linear regression model to examine the influence of the tax burden, corporate income tax, tax wedge, personal income tax, excise taxation and unemployment on the evolution of the VAT Gap. The findings reveal that labour taxation, personal income taxation and excise taxation are positively associated with tax evasion, while the estimated model demonstrates a high explanatory power and overall statistical significance. These results highlight the importance of combining balanced fiscal policies with effective tax administration and digitalisation measures to improve tax compliance. The study contributes to the literature by providing updated empirical evidence on the determinants of tax evasion in Romania and offers policy recommendations aimed at strengthening revenue collection and enhancing the sustainability of public finances.

Keywords: *Tax evasion, VAT Gap, fiscal policy, tax compliance, macroeconomic factors, tax wedge, public finance.*

JEL classification: C2, H21, H26

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1. Introduction

Tax evasion remains one of the most significant challenges affecting the sustainability of public finances worldwide. By reducing government revenues, undermining fiscal fairness and limiting the capacity of public authorities to finance essential public services, tax evasion generates considerable economic and social costs. Within the European Union, reducing tax evasion and improving tax compliance have become strategic priorities, particularly in the context of increasing fiscal pressures generated by the green and digital transitions, demographic changes and the need to strengthen fiscal resilience following recent economic crises. Consequently, the European Commission (European Commission, 2025a) and the Organisation for Economic Co-operation and Development (OECD) (OECD, 2025a) have promoted a broad range of initiatives aimed at improving tax administration, enhancing administrative cooperation, expanding digital reporting systems and reducing the VAT Gap across Member States.

Despite the progress achieved in recent years, substantial differences continue to exist among European Union countries regarding the effectiveness of tax collection and the magnitude of tax evasion. The VAT Gap remains one of the most widely used indicators for evaluating tax compliance because it measures the difference between the theoretical VAT liability and the revenue effectively collected by tax authorities. Although the average VAT Gap has gradually declined across the European Union, several Member States continue to experience persistent difficulties in improving tax compliance. Romania has consistently recorded one of the highest VAT Gap levels within the European Union, indicating important structural deficiencies related to tax administration, institutional effectiveness and voluntary taxpayer compliance (European Commission, 2026).

The complexity of tax evasion has attracted considerable attention within the economic literature. Early theoretical contributions by Allingham and Sandmo (Allingham and Sandmo, 1972) explain tax evasion as the outcome of a rational decision-making process in which taxpayers compare the expected benefits of non-compliance with the probability of detection and the severity of penalties. More recent studies have expanded this framework by emphasising that tax compliance is influenced not only by economic incentives but also by institutional quality, taxpayers' trust in public authorities, perceptions of fiscal fairness and administrative efficiency (Anjarwi, 2025; Surugiu *et al.*, 2025). At the same time, studies investigating the determinants of the shadow economy argue that labour taxation, excessive regulatory burdens and weak institutional capacity may encourage undeclared economic activities and reduce fiscal compliance (Achim and Mare, 2025; Przekota, Kowal-Pawul and Szczepańska-Przekota, 2025).

In addition to institutional factors, fiscal policy plays a fundamental role in shaping taxpayers' behaviour. Previous empirical research has shown that changes in labour taxation, personal income taxation and indirect taxation may significantly influence tax compliance by modifying the incentives associated with formal and informal economic activities. High tax wedges increase labour costs and may stimulate undeclared employment, while elevated excise duties often create incentives for illicit trade and tax fraud in markets characterised by highly taxed products (Radu, Schebesch and Fenișer, 2025; OECD, 2026c). Nevertheless, the magnitude and direction of these relationships differ across countries, depending on institutional characteristics, administrative capacity and macroeconomic conditions.

Although numerous international studies have examined the determinants of tax evasion, empirical evidence focusing on Romania remains relatively limited, particularly regarding the combined influence of fiscal policy and macroeconomic conditions on the VAT Gap (Badiu (Cazacu) *et al.*, 2024; OECD, 2026a). Most previous studies analyse individual fiscal measures or institutional reforms separately, whereas fewer contributions investigate the joint effects of multiple fiscal and macroeconomic variables within an integrated empirical framework. This research gap is particularly relevant considering Romania's persistent VAT compliance challenges and the extensive fiscal reforms implemented during the last decade, including the digitalisation of tax administration through RO e-Factura, SAF-T and RO e-Transport.

Against this background, the present study aims to assess the fiscal and macroeconomic drivers of tax evasion in Romania during the period 2014–2024. The analysis employs the VAT Gap as a proxy for tax evasion and examines the influence of the tax burden, corporate income taxation, the tax wedge, personal income taxation, excise taxation and unemployment on the evolution of tax compliance. By integrating fiscal and macroeconomic variables within a multiple regression framework, the study seeks to identify the main determinants of tax evasion and to evaluate their contribution to explaining variations in the VAT Gap.

The study makes several contributions to the existing literature. First, it provides updated empirical evidence regarding the determinants of tax evasion in Romania using recent data covering the period 2014–2024. Second, it analyses simultaneously both fiscal and macroeconomic factors, offering a more comprehensive understanding of the mechanisms influencing tax compliance. Third, the findings generate policy-relevant evidence that may support the design of more effective fiscal policies aimed at improving tax collection, strengthening voluntary compliance and enhancing the sustainability of Romania's public finances.

The remainder of the paper is organised as follows. Section 2 reviews the relevant literature on tax evasion and its fiscal and macroeconomic determinants. Section 3 presents the research methodology, data, variables and empirical model. Section 4 reports and discusses the empirical results, while Section 5 examines their implications for fiscal policy and proposes recommendations for strengthening tax compliance. Finally, Section 6 concludes the study by summarising the main findings, acknowledging the limitations of the research and outlining directions for future investigation.

2. Literature review

Tax evasion has been extensively examined in the economic literature due to its implications for fiscal sustainability, public revenue collection and the efficiency of government policies. Existing studies emphasise that taxpayers' compliance behaviour is determined by a combination of economic incentives, fiscal structures, institutional quality and macroeconomic conditions (Trifan *et al.*, 2023; Surugiu *et al.*, 2025). Therefore, tax evasion cannot be explained exclusively by the level of taxation, but must be analysed through an integrated perspective that includes administrative capacity, taxpayers' perceptions and broader economic conditions.

Traditional approaches focus on the relationship between tax burden, enforcement mechanisms and taxpayers' rational decisions, while more recent perspectives highlight the importance of institutional trust, tax morale and digital transformation of fiscal administration (Belahouaoui and Attak, 2023; Kamal Singh Kunwar, 2026). At the same time, empirical studies demonstrate that factors such as labour taxation, corporate and personal taxation, indirect taxes and labour market conditions may significantly influence the incentives associated with tax compliance (Lavic, 2022; Fortea, 2025, Pricopoaia, O et all, 2025).

Considering these perspectives, this section reviews the main theoretical and empirical contributions regarding tax evasion determinants, focusing on three dimensions: theoretical approaches to tax compliance, fiscal determinants of evasion, and the role of macroeconomic and institutional factors in improving fiscal compliance.

2.1 Theoretical perspectives on tax evasion and tax compliance

The theoretical analysis of tax evasion has evolved significantly over time, moving from traditional economic models based on rational behaviour toward more complex approaches that integrate institutional, psychological and behavioural factors. Early contributions considered tax evasion primarily as an economic decision influenced by financial incentives, while contemporary research emphasises that compliance behaviour results from the interaction between taxpayers, fiscal institutions and the broader socio-economic environment (Saptono *et al.*, 2024; Lukovszki *et al.*, 2025).

The classical framework for analysing tax evasion was developed by Allingham and Sandmo (Allingham and Sandmo, 1972), who adapted the economics of crime approach to taxpayers' decisions. According to this model, individuals decide whether to report their income correctly by comparing the expected benefits of tax evasion with the potential costs generated by audits and penalties. The probability of detection, the level of sanctions and the amount of taxes avoided represent the main factors influencing compliance decisions. From this perspective, taxpayers are assumed to behave rationally, attempting to maximise their expected utility under conditions of uncertainty (Cristache, N et all, 2024).

Although the Allingham-Sandmo model represents the foundation of modern tax compliance research, subsequent studies have highlighted several limitations of purely economic explanations. Empirical evidence (Dimitras *et al.*, 2025; Yamen, Basuony and Noureldin, 2025) indicates that many taxpayers comply even when the probability of detection is relatively low, suggesting that non-economic factors play an important role in shaping fiscal behaviour. Consequently, later approaches introduced concepts such as tax morale, institutional trust, perceived fairness and social norms as essential determinants of voluntary compliance.

Kirchler (Kirchler, 2007) developed a broader behavioural perspective by emphasising that tax compliance depends on the relationship between taxpayers and fiscal authorities. According to this approach, compliance can be achieved not only through enforcement and control mechanisms but also through trust-building measures and cooperative interactions. When taxpayers perceive public institutions as transparent, efficient and fair, voluntary compliance tends to increase. Conversely, low institutional trust and perceptions of an unfair tax system may encourage avoidance and evasion behaviours.

Similarly, Alm (Alm, 2019) argues that tax compliance should be understood as a multidimensional process influenced by economic incentives, behavioural characteristics and institutional conditions. In this context, effective fiscal systems require a balance between deterrence strategies, such as audits and penalties, and policies aimed at increasing voluntary cooperation. Therefore, improving compliance involves not only strengthening tax enforcement but also simplifying administrative procedures, increasing transparency and enhancing taxpayers' confidence in public institutions.

The literature on the shadow economy provides additional explanations regarding the persistence of tax evasion. Several empirical studies (Dell'Anno, 2022; Bilan and Apostoaie, 2025; Mihai, Dumitrescu and Bozagiu, 2025) suggest that individuals and firms may shift towards informal economic activities when the perceived costs associated with operating in the formal sector become too high, particularly as a result of excessive taxation, regulatory complexity or weak institutional frameworks. Excessive taxation, regulatory complexity and weak institutional effectiveness represent important factors that may increase the attractiveness of undeclared economic activities. More recent research confirms that the relationship between taxation and evasion is strongly influenced by governance quality and administrative capacity (Nimer *et al.*, 2022; Wu and Li, 2025).

Overall, theoretical contributions suggest that tax evasion cannot be explained by a single determinant. While traditional models underline the importance of tax rates, penalties and enforcement mechanisms, contemporary approaches highlight the relevance of institutional trust, fairness perceptions and administrative efficiency. These perspectives provide the foundation for analysing how fiscal and macroeconomic factors influence taxpayers' behaviour and justify the inclusion of multiple determinants when assessing the evolution of tax evasion.

2.2 Fiscal determinants of tax evasion

Fiscal policy represents one of the most important factors influencing taxpayers' behaviour and the level of tax compliance within an economy. The structure of taxation, the overall fiscal burden and the distribution of taxes among different economic activities affect the incentives faced by individuals and firms when deciding whether to fully comply with fiscal obligations (OECD, 2025b; Doan, 2026). Although taxation is essential for financing public expenditure and supporting economic development, excessive or poorly designed fiscal systems may generate incentives for tax avoidance, informal activities and revenue losses.

A central concept analysed in the literature is the relationship between tax pressure and tax compliance. According to the economic theory of tax evasion, higher taxation increases the potential financial benefits associated with non-compliance because taxpayers can obtain greater savings by avoiding their fiscal obligations (Allingham and Sandmo, 1972). However, empirical studies (Bani-Mustafa *et al.*, 2024; Mebratu, 2024) suggest that the effect of taxation on evasion is not determined exclusively by the tax rate itself but also by the perceived fairness of the fiscal system and the efficiency of public institutions. Previous studies (Castañeda-Rodríguez, 2025; Nathan, Perez-Truglia and Zentner, 2026) suggest that voluntary tax compliance increases when taxpayers perceive the fiscal system as fair and legitimate, and when the allocation of public revenues reflects transparency, efficiency and the provision of high-quality public services.

Recent evidence also emphasises that fiscal pressure should be analysed within a broader economic framework, as taxation mechanisms influence not only public revenue collection but also investment behaviour, economic resilience and taxpayers' responses to changing fiscal conditions (Zlati, Fortea, *et al.*, 2026).

Labour taxation has received considerable attention in studies analysing the determinants of the shadow economy. The tax wedge, defined as the difference between total labour costs for employers and the net income received by employees, represents an important indicator of the fiscal burden imposed on labour. A high tax wedge may reduce incentives for formal employment by increasing labour costs and decreasing the attractiveness of declared work (Damiani, Pompei and Ricci, 2023; OECD, 2026c). Barra and Papaccio (Barra and Papaccio, 2024) argue that excessive labour taxation represents one of the main factors encouraging undeclared employment and informal economic activities. Similarly, OECD studies (OECD, 2026a) indicate that reducing excessive labour taxation may contribute to improving employment incentives and increasing fiscal compliance.

Corporate taxation represents another important dimension influencing taxpayers' behaviour, particularly among firms. Corporate income taxes affect business decisions regarding investment, profit reporting and financial strategies.

According to Klassen and Valle Ruiz (Klassen and Valle Ruiz, 2023), firms may respond to taxation not only through changes in real economic activities but also through tax planning, income shifting or reporting adjustments. However, the relationship between corporate taxation and evasion depends strongly on institutional capacity and enforcement mechanisms. In countries with efficient tax administrations and transparent regulations, higher corporate taxation does not necessarily lead to increased evasion, while weak institutional environments may create opportunities for aggressive avoidance strategies (OECD, 2025a; Rodríguez and Horno Bueno, 2026).

Personal income taxation also plays a significant role in shaping compliance behaviour. Higher taxation of individual income may increase incentives for taxpayers to underreport earnings, particularly when administrative controls are limited or when taxpayers perceive the tax system as inequitable (Wilkinson and Hageman, 2023; Bachas, Jensen and Gadenne, 2024). Appiah, Domeher and Agana (Appiah, Domeher and Agana, 2024) argues that voluntary compliance depends on taxpayers' perception of fairness and trust in fiscal institutions. Therefore, personal income taxation must balance revenue objectives with maintaining taxpayers' willingness to participate in the formal economy.

Indirect taxation, especially excise duties, represents another area frequently associated with tax evasion risks. Excise taxes applied to goods such as tobacco, alcohol and energy products may create incentives for illicit trade, smuggling and informal transactions when tax differences generate significant price advantages. The European Commission (European Commission, 2023a) and OECD (OECD, 2026b) reports highlight that markets subject to high excise taxation require effective monitoring mechanisms because they are particularly vulnerable to fraudulent activities and revenue losses.

Consequently, the existing literature indicates that fiscal determinants influence tax evasion through multiple channels. While higher taxation may increase incentives for non-compliance, the magnitude of this effect depends on the interaction between fiscal pressure, administrative capacity, institutional quality and taxpayers' perceptions. These theoretical and empirical arguments support the inclusion of tax burden, corporate income taxation, labour taxation, personal income taxation and excise taxation as relevant determinants for analysing the evolution of the VAT Gap.

2.3 Macroeconomic, institutional and digitalisation factors influencing tax compliance

Beyond fiscal policy variables, tax evasion is strongly influenced by macroeconomic conditions and institutional characteristics that determine the incentives and opportunities associated with non-compliant behaviour. The effectiveness of a fiscal system depends not only on the level and structure of taxation but also on broader economic conditions, administrative capacity and the ability of public institutions to ensure efficient tax collection (Okunogbe and

Tourek, 2024; Vintilă, Fometescu and Vintilă, 2025). Therefore, analysing tax evasion requires an integrated perspective that combines fiscal, macroeconomic and institutional dimensions.

Labour market conditions represent an important macroeconomic factor affecting tax compliance. Unemployment may contribute to the expansion of informal economic activities by increasing financial pressure on individuals and reducing opportunities within the formal labour market (Moridian *et al.*, 2025; Stroe *et al.*, 2025). In periods characterised by economic uncertainty and limited employment opportunities, individuals may be more likely to participate in undeclared activities as an alternative source of income. Przekota. Kowal-Pawul and Szczepańska-Przekota (Przekota, Kowal-Pawul and Szczepańska-Przekota, 2025) argue that unemployment and labour market vulnerabilities are closely related to the development of the shadow economy, particularly in countries where institutional enforcement mechanisms are less effective.

The relationship between unemployment and tax evasion is also connected to firms' behaviour. Economic difficulties and increased labour costs may encourage some companies to reduce declared employment or partially transfer activities into the informal sector (Asllani and Schneider, 2025; Bhaduri and Banerjee, 2025). Consequently, labour market instability may affect public revenues through multiple channels, including lower tax collection, reduced social contributions and increased incentives for non-compliance. However, the magnitude of these effects depends significantly on the capacity of fiscal authorities to monitor economic activities and enforce compliance.

Institutional quality represents another essential determinant of tax compliance. Previous studies emphasise that taxpayers' decisions are influenced not only by financial considerations but also by their perception of public institutions (Blaufus *et al.*, 2022; Nimer *et al.*, 2022). High levels of transparency, government effectiveness and regulatory quality are generally associated with stronger voluntary compliance. Conversely, weak institutional frameworks, excessive bureaucracy and low trust in authorities may reduce taxpayers' willingness to comply with fiscal obligations. Achim and Mare (Achim and Mare, 2025) highlight those differences in the size of the shadow economy across countries are explained not only by taxation levels but also by institutional performance and governance quality.

Recent evidence further confirms that informal economic activities are strongly influenced by institutional characteristics, highlighting that governance quality and institutional effectiveness can moderate the relationship between economic pressures and informal behaviour (Si *et al.*, 2025).

In recent years, digital transformation has become an increasingly important mechanism for improving tax compliance and reducing opportunities for evasion. Digital tax administration systems enhance the ability of fiscal authorities to collect, process and analyse large volumes of information, improving the identification of inconsistencies and reducing information asymmetries between taxpayers and authorities (OECD, 2025a; Liu and Chen, 2026). Electronic reporting systems, automated data verification and risk-based control mechanisms represent important tools for increasing the efficiency of fiscal administration.

Moreover, digital transformation has become an essential factor in improving institutional efficiency, as digital economic development strengthens information processing capacity, transparency and administrative performance (Ionescu *et al.*, 2023).

At the European level, the digitalisation of tax systems has become a strategic priority for reducing the VAT Gap and strengthening public revenue collection (European Commission, 2023b; Zídková, Arltová and Josková, 2024). In Romania, several important reforms have been implemented during the last decade, including the Standard Audit File for Tax (SAF-T), the RO e-Factura electronic invoicing system and the RO e-Transport platform. These instruments aim to increase transaction transparency, improve real-time monitoring and strengthen the ability of tax authorities to detect irregularities. Although digitalisation alone cannot eliminate tax evasion, it represents an essential component of modern fiscal governance (Kisska-Schulze and Bird, 2026; Sari *et al.*, 2026).

Digital disparities and technological capabilities represent important factors influencing institutional adaptation, as economies with stronger digital infrastructures are generally better positioned to implement advanced administrative and monitoring systems (Zlati, Beldiman, *et al.*, 2026).

Overall, macroeconomic stability, institutional effectiveness and digital transformation represent complementary factors influencing taxpayers' behaviour. While unemployment and economic vulnerabilities may increase incentives for informal activities, strong institutions and advanced digital tools can reduce opportunities for non-compliance. Therefore, understanding tax evasion requires considering not only fiscal variables but also the broader institutional environment in which taxpayers and authorities interact.

2.4 Research gap and positioning of the study

Although the determinants of tax evasion have been widely investigated in the international literature, several important research gaps remain, particularly regarding the interaction between fiscal policy, macroeconomic conditions and tax compliance at the country level. Most empirical studies focus either on cross-country comparisons or on the general determinants of the shadow economy, while fewer contributions analyse how specific components of the fiscal system influence tax evasion dynamics within a national context.

Previous research has demonstrated that tax evasion is affected by multiple factors, including taxation levels, institutional quality, economic development and taxpayers' behavioural characteristics (Hossain *et al.*, 2024; Khaltar, 2024). However, many studies examine these determinants separately, focusing on individual aspects such as labour taxation, corporate taxation or institutional performance. This approach provides valuable insights but may not fully capture the combined influence of different fiscal instruments on taxpayers' compliance decisions. Considering that fiscal systems operate through interconnected mechanisms, analysing several tax components simultaneously can provide a more comprehensive understanding of the factors contributing to revenue losses.

Another important limitation identified in the existing literature concerns the measurement of tax evasion. Due to the hidden nature of non-compliant activities, directly quantifying tax evasion remains challenging. Consequently, many studies rely on estimates of the shadow economy or indirect indicators. Within the European Union context, the VAT Gap has increasingly been recognised as a relevant proxy for evaluating tax compliance and the effectiveness of tax administration. Nevertheless, despite Romania's persistent difficulties in reducing the VAT Gap, empirical studies specifically focused on its fiscal and macroeconomic determinants remain relatively limited.

Romania represents a particularly relevant case study due to the coexistence of important fiscal reforms, accelerated digital transformation and persistent challenges related to tax collection efficiency. During the last decade, several measures have been implemented to strengthen fiscal administration, including digital reporting systems, electronic invoicing and improved monitoring mechanisms. However, the persistence of a relatively high VAT Gap suggests that additional research is required to understand the factors influencing tax compliance and the effectiveness of fiscal policies.

In this context, the present study contributes to the literature by developing an integrated empirical framework that examines the relationship between fiscal and macroeconomic determinants and tax evasion in Romania during the period 2014–2024. Unlike approaches focused on a single fiscal indicator, this research simultaneously considers the effects of overall tax pressure, corporate income taxation, labour taxation, personal income taxation, excise taxation and unemployment. Therefore, the study provides updated empirical evidence regarding the mechanisms through which fiscal structures and economic conditions influence the VAT Gap.

By addressing these research gaps, the paper contributes both theoretically and practically to the debate on fiscal sustainability and tax compliance. From a theoretical perspective, it extends the understanding of tax evasion determinants by integrating different categories of explanatory factors into a unified analytical framework. From a policy perspective, the findings may support the development of more effective strategies aimed at reducing tax evasion, improving revenue collection and strengthening the long-term sustainability of public finances.

3. Methodology

This study investigates the fiscal and macroeconomic drivers of tax evasion in Romania over the period 2014–2024, using annual macroeconomic data. Tax evasion is proxied by the VAT Gap, an indicator that measures the difference between the theoretical VAT liability and the VAT revenue actually collected by tax authorities. Due to its widespread use in the empirical literature (Siglé *et al.*, 2024; European Commission, 2025a; Ileana Iulia, Mocanu and Preda, 2025), the VAT Gap provides a reliable proxy for assessing tax non-compliance and the efficiency of tax collection.

The selection of the explanatory variables is grounded in the theoretical and empirical literature on tax evasion, tax compliance and public finance, which argues that taxpayers' behaviour is influenced by both fiscal policy instruments and macroeconomic conditions. Accordingly, the study incorporates fiscal indicators reflecting the tax structure together with a macroeconomic indicator capturing labour market conditions.

The dependent variable is represented by the VAT Gap, which is widely recognized as a reliable proxy for tax evasion because it measures the difference between the theoretical VAT liability and the VAT revenue effectively collected by tax authorities. The VAT Gap has been extensively used in studies assessing tax compliance and the effectiveness of tax administration (European Commission, 2025b). The explanatory variables were selected as follows:

- TaxPres (tax burden, %) reflects the overall level of taxation imposed on the economy. According to the economic theory of tax compliance, excessive tax pressure may alter taxpayers' cost-benefit assessment and increase incentives for tax evasion (Nar, 2023; Zlati, Fortea, *et al.*, 2026)
- CorTax (corporate income tax) captures the effect of business taxation on firms' incentives to comply with tax obligations. Previous studies suggest that corporate taxation influences firms' reporting behaviour and may affect profit shifting and tax avoidance strategies (Beer, de Mooij and Liu, 2020; Rodríguez and Horno Bueno, 2026).
- TaxWed (tax wedge, %) measures the fiscal burden imposed on labour income. A high tax wedge increases labour costs and may encourage undeclared employment and informal economic activities, thereby contributing to tax evasion (OECD, 2024b; Asllani and Schneider, 2025)
- IncTax (personal income tax) reflects the taxation of individual earnings. Higher personal income taxation may reduce voluntary tax compliance by increasing incentives to underreport taxable income (Batrancea *et al.*, 2019; Saptono *et al.*, 2024).
- ExTax (excise taxes) represents indirect taxation on excisable products. Excise duties are frequently associated with illicit trade and tax fraud, particularly in markets for tobacco, alcohol and energy products (European Commission, 2023a; OECD, 2024a)
- Unempl (unemployment rate, %) captures labour market conditions. Higher unemployment is generally associated with a greater incidence of informal employment and undeclared economic activities, which may contribute to tax evasion (Si *et al.*, 2025; OECD, 2026a).

Based on these theoretical arguments, the selected variables provide a comprehensive framework for analysing the fiscal and macroeconomic drivers of tax evasion in Romania.

The empirical relationship between tax evasion and its potential determinants is specified as follows:

$$VATGap_t = \alpha + \beta_1 TaxPres_t + \beta_2 CorTax_t + \beta_3 TaxWed_t + \beta_4 IncTax_t + \beta_5 ExTax_t + \beta_6 Unempl_t + \varepsilon_t \quad (1)$$

where VATGap denotes the dependent variable representing tax evasion, α is the intercept, β1–β6 are the estimated coefficients associated with the explanatory variables, and ε is the random error term.

Based on the estimated coefficients obtained from the empirical analysis, the regression equation is expressed as follows:

$$VATGap_t = -28.637 - 1.678 TaxPres_t - 1.403 CorTax_t + 1.741 TaxWed_t + 2.622 IncTax_t + 5.313 ExTax_t - 0.279 Unempl_t + \varepsilon_t \quad (2)$$

The signs of the estimated coefficients indicate that increases in the tax wedge, personal income tax and excise taxation are associated with higher levels of tax evasion, whereas higher tax pressure, corporate income tax revenues and lower unemployment are associated with a reduction in the VAT Gap during the analysed period.

The empirical analysis is structured around the following research hypotheses:

H1: Higher labour taxation, measured by the tax wedge, contributes to increasing tax evasion in Romania by strengthening incentives for tax non-compliance and informal economic activities.

H2: Higher personal income taxation and excise taxation are positively associated with the VAT Gap, reflecting a lower level of voluntary tax compliance and a greater propensity toward tax evasion.

H3: Fiscal and macroeconomic factors jointly exert a statistically significant influence on tax evasion in Romania, explaining variations in the VAT Gap during the period 2014-2024.

Therefore, the econometric model developed in this study provides a relevant analytical framework for assessing the relationship between fiscal factors, macroeconomic conditions, and the level of tax evasion in Romania, helping to identify the main vulnerabilities of the tax system and to support the development of effective measures to strengthen tax compliance and the sustainability of public finances.

4. Results

Reducing tax evasion has become a strategic objective of both the European Union and the Romanian fiscal authorities, particularly through measures aimed at improving tax compliance, strengthening tax administration and accelerating fiscal digitalisation. Despite these initiatives, Romania continues to experience a relatively high VAT Gap. Therefore, the empirical results presented in this section assess the extent to which fiscal and macroeconomic factors explain the dynamics of tax evasion over the period 2014–2024.

Table 1 presents the descriptive statistics for the dependent variable (VAT Gap) and the six explanatory variables included in the regression model. The descriptive analysis provides an overview of the distribution, central tendency and variability of the variables before estimating the regression model. Examining these indicators is essential because it allows the identification of the general characteristics of the dataset and offers preliminary evidence regarding the evolution of fiscal and macroeconomic conditions in Romania during the analysed period.

Descriptive Statistics

Table 1

Indicators	Minim	Maxim	Mean	Std. Deviation
TaxPres	14,22%	18,91%	16,04%	1,49%
CorTax	1,90%	3,10%	2,26%	0,32%
TaxWed	36,00%	40,00%	37,63%	1,24%
IncTax	2,30%	3,70%	2,90%	0,59%
ExTax	2,80%	4,00%	3,36%	0,42%
Unempl	4,90%	8,60%	6,25%	1,25%
VATGAP	26,70%	35,50%	30,56%	2,23%

Source: Author's own work using SPSS

Table 1 presents the descriptive statistics of the variables included in the empirical analysis. The VAT Gap, used as a proxy for tax evasion, recorded an average value of 30.56%, ranging from 26.70% to 35.50%, indicating persistent VAT revenue losses in Romania throughout the analysed period. Among the explanatory variables, the tax wedge (TaxWed) exhibited the highest average value (37.63%), reflecting the substantial fiscal burden on labour, while TaxPres remained relatively stable, with an average of 16.04%. The remaining fiscal indicators, namely CorTax, IncTax and ExTax, showed moderate variability, suggesting a relatively stable fiscal environment. The unemployment rate averaged 6.25%, indicating moderate labour market fluctuations over the study period. The descriptive statistics reveal sufficient variation across the explanatory variables while maintaining limited dispersion, supporting the suitability of the selected indicators for the subsequent regression analysis.

Figure 1 illustrates the comparative evolution of the dependent variable (VAT Gap) and the explanatory variables included in the empirical model over the period 2014-2024.

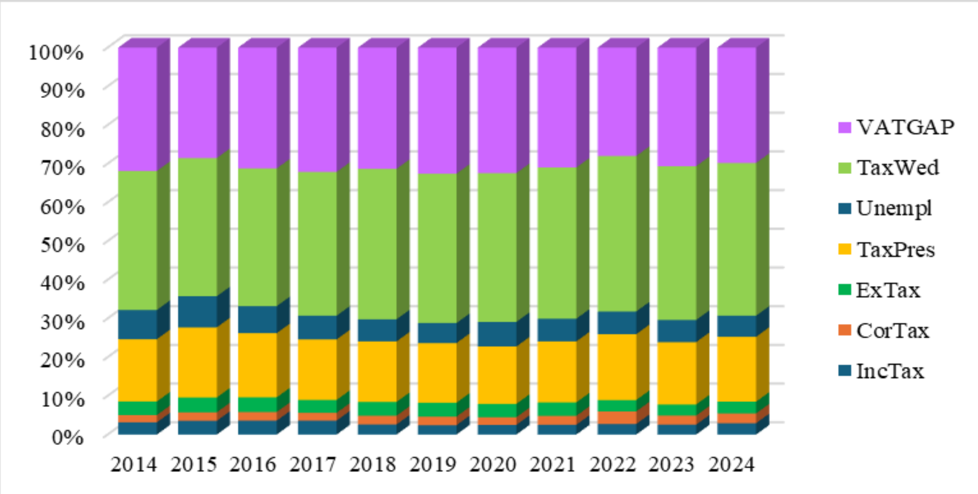

Figure 1. Evolution of the fiscal and macroeconomic indicators included in the empirical model, Romania, 2014–2024

Source: Developed by the authors

The results indicate that the tax wedge (TaxWed) consistently represented the largest component among the analysed indicators, highlighting the persistently high fiscal burden on labour in Romania throughout the study period. By contrast, corporate income tax (CorTax), personal income tax (IncTax) and excise taxation (ExTax) exhibited relatively limited fluctuations, reflecting the overall stability of the fiscal framework. The VAT Gap remained at relatively high levels during the entire period, confirming the persistence of tax revenue losses and the continuing challenges associated with tax compliance. Although moderate variations can be observed across the analysed years, the overall evolution of the indicators suggests that the fiscal and macroeconomic environment remained sufficiently stable to support the estimation of the regression model. These findings are consistent with the descriptive statistics reported in Table 1 and provide preliminary evidence that the selected variables constitute relevant determinants of tax evasion in Romania.

The statistics reported in Table 2 indicate that the proposed regression model provides a very good fit for explaining the variation in the VAT Gap in Romania. The multiple correlation coefficient (R = 0.981) reveals a very strong linear relationship between the dependent variable and the selected fiscal and macroeconomic determinants. Furthermore, the coefficient of determination (R^2 = 0.963) indicates that approximately 96.3% of the variation in the VAT Gap is explained by the combined effect of TaxPres, CorTax, TaxWed, IncTax, ExTax, and Unempl, highlighting the substantial explanatory power of the proposed model.

The adjusted coefficient of determination (Adjusted $R^2 = 0.907$) remains high after correcting for the number of explanatory variables, suggesting that the estimated model is robust and that its explanatory capacity is not driven by model complexity alone.

Model Summary

Table 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,981[a]	0,963	0,907	0,68222%	0,963	17,254	6	4	0,008	2,468
a. Predictors: (Constant), TaxPres, CorTax, TaxWed, IncTax, ExTax, Unempl										
b. Dependent Variable: VATGAP										

Source: Author's own work using SPSS

The model summary confirms that the selected fiscal and macroeconomic variables provide an appropriate framework for analysing the determinants of tax evasion in Romania.

The results of the ANOVA test, presented in Table 3, confirm the overall statistical significance of the estimated regression model. The calculated F-statistic ($F = 17.254$), together with the associated p-value (0.008), is statistically significant at the 5% level, leading to the rejection of the null hypothesis that the explanatory variables jointly have no influence on the VAT Gap. Therefore, the empirical evidence demonstrates that the selected fiscal and macroeconomic indicators collectively explain the dynamics of tax evasion in Romania during the period 2014-2024.

ANOVA Test

Table 3

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	48,184	6	8,031	17,254	0,008[b]
	Residual	1,862	4	0,465		
	Total	50,045	10			
a. Dependent Variable: VATGAP						
b. Predictors: (Constant), TaxPres, CorTax, TaxWed, IncTax, ExTax, Unempl						

Source: Author's own work using SPSS

The decomposition of the total variation also supports the adequacy of the estimated model. The regression sum of squares (48.184) accounts for the vast majority of the total variability (50.045), whereas the residual sum of squares (1.862) remains comparatively small. This distribution indicates that only a limited proportion of the variation in the VAT Gap remains unexplained by the model, reinforcing the high explanatory power previously reflected by the coefficient of determination. Consequently, the ANOVA results corroborate the findings presented in the model summary and confirm that the proposed empirical specification provides a statistically reliable basis for examining the fiscal and macroeconomic determinants of tax evasion in Romania.

The empirical findings provide strong support for the research hypotheses formulated in the methodological framework. First, the positive coefficient associated with the tax wedge (TaxWed) indicates that a higher fiscal burden on labour contributes to increasing the VAT Gap, suggesting that elevated labour taxation may encourage tax non-compliance and the expansion of informal economic activities. This result confirms H1 and is consistent with the theoretical framework proposed by Balasoiu, Chifu and Oancea (Balasoiu, Chifu and Oancea, 2023), according to which higher tax burdens increase taxpayers' incentives to evade taxation. Similar conclusions have been reported by Ianole-Călin, Horodnic, Williams (Ianole-Călin, Horodnic and Williams, 2025) and Asllani and Schneider (Asllani and Schneider, 2025), who argue that excessive labour taxation represents an important determinant of undeclared employment and shadow economic activities.

The estimated coefficients also reveal a positive relationship between personal income taxation (IncTax), excise taxation (ExTax) and the VAT Gap, providing empirical support for H2. These findings suggest that increases in direct taxation on personal income and indirect taxation through excise duties are associated with lower voluntary tax compliance and greater incentives to conceal taxable income or engage in illicit economic activities. The results are in line with the evidence provided by Saptono *et al.* (Saptono *et al.*, 2026) and Bi *et al.* (Bi *et al.*, 2026) who emphasise that taxpayers' compliance decisions are strongly influenced by the perceived tax burden. Furthermore, some studies (Anastasiou *et al.*, 2025; Qazi and Aziz, 2026) identify excisable goods among the economic sectors most vulnerable to tax fraud, illicit trade and revenue losses, reinforcing the empirical evidence obtained in this study.

H3 is also validated by the overall performance of the estimated regression model. The ANOVA results indicate that the model is statistically significant ($F = 17.254$; $p = 0.008$), while the coefficient of determination ($R^2 = 0.963$) demonstrates that the selected fiscal and macroeconomic variables jointly explain approximately 96.3% of the variation in the VAT Gap during the period 2014–2024. These results confirm that tax evasion is a multidimensional phenomenon influenced simultaneously by taxation and macroeconomic conditions rather than by a single fiscal instrument. This conclusion is consistent with the studies (Allam *et al.*, 2024; Lisi and Castañeda-Rodríguez, 2024) which argue that tax evasion reflects the combined effects of fiscal policy, economic incentives, institutional quality and labour market dynamics.

The empirical results demonstrate that the proposed regression model provides a statistically robust and reliable framework for explaining the fiscal and macroeconomic determinants of tax evasion in Romania, thereby establishing a solid basis for the discussion of their policy implications.

5. Discussions

The empirical findings demonstrate that tax evasion in Romania is a multidimensional phenomenon influenced by the interaction between fiscal policy and macroeconomic conditions rather than by a single determinant. The regression results indicate that labour taxation, personal income taxation and excise taxation are positively associated with the VAT Gap, suggesting that increases in the tax burden may reduce voluntary tax compliance and create stronger incentives for undeclared economic activities. At the same time, the high explanatory power of the estimated model confirms that the selected fiscal and macroeconomic variables capture a substantial proportion of the variation in tax evasion during the period 2014–2024, emphasizing the importance of adopting an integrated approach to fiscal policy and tax administration.

These findings are consistent with the theoretical framework developed by (Müller *et al.*, 2023), who argue that taxpayers make compliance decisions by comparing the expected benefits of tax evasion with the potential costs associated with detection and penalties. Likewise, Appiah, Domeher and Agana (Appiah, Domeher and Agana, 2024) highlights that voluntary tax compliance depends not only on the level of taxation but also on taxpayers' perceptions of fairness, trust in public institutions and the efficiency of tax administration. Similar conclusions are reported by Amoh *et al.* (Amoh *et al.*, 2023), who demonstrates that tax compliance is influenced simultaneously by economic incentives, institutional quality and behavioural factors. Consequently, the positive relationship identified between the tax wedge and the VAT Gap confirms that excessive labour taxation may encourage undeclared employment and increase participation in the informal economy.

The positive coefficients estimated for personal income taxation and excise taxation also support previous empirical evidence reported in the international literature. Higher taxation of personal income may reduce taxpayers' willingness to comply voluntarily with fiscal obligations, particularly when compliance costs increase or when taxpayers perceive the tax system as complex and inequitable Perera, Kumara and Munasinghe (Perera, Kumara and Munasinghe, 2026). Similarly, excise duties are frequently associated with illicit trade, smuggling and tax fraud because substantial price differentials create incentives for illegal economic activities. This interpretation is consistent with the findings of the European Commission (European Commission, 2023a) and the OECD (OECD, 2024a), which identify tobacco, alcohol and energy products among the sectors most exposed to excise-related tax evasion within the European Union.

Although the overall tax burden (TaxPres), corporate income taxation (CorTax) and unemployment (Unempl) exhibited negative estimated coefficients, these variables should not be interpreted independently from the broader institutional and macroeconomic context. Tax compliance is determined not only by the level of taxation but also by the effectiveness of tax administration, the probability of detection, institutional trust and the quality of public governance. Consequently, the interaction between fiscal policy and institutional capacity appears to play a decisive role in explaining the evolution of the VAT Gap in Romania.

From a policy perspective, the empirical findings suggest that reducing tax evasion requires a comprehensive strategy combining fiscal reforms with improvements in tax administration. While adjustments in taxation remain important, sustainable improvements in tax compliance depend equally on strengthening institutional capacity, increasing transparency and accelerating the digital transformation of tax administration. During recent years, Romania has implemented several important initiatives, including the RO e-Factura system, the Standard Audit File for Tax (SAF-T), the RO e-Transport platform and the expansion of electronic fiscal reporting, all of which contribute to improving tax monitoring, reducing information asymmetry and increasing the efficiency of fiscal controls. Nevertheless, the persistence of a relatively high VAT Gap indicates that further reforms are required to maximise the effectiveness of these digital instruments.

Based on the empirical evidence and the existing literature, several policy recommendations can be proposed to strengthen tax compliance and reduce tax evasion in Romania. These recommendations are summarised in Table 4, which outlines the principal directions for improving fiscal governance and enhancing the sustainability of public finances.

Policy recommendations for strengthening the fiscal system and reducing tax evasion in Romania

Table 4

Policy area	Recommendation
Fiscal digitalisation	Accelerate the digital transformation of tax administration and expand electronic reporting and monitoring systems.
Institutional capacity	Strengthen ANAF's institutional capacity and improve fiscal control mechanisms.
Administrative procedures	Simplify tax reporting procedures and reduce taxpayers' compliance costs.
Fiscal governance	Improve the transparency, stability and predictability of fiscal policies.
Labour taxation	Reduce the fiscal burden on labour in order to discourage undeclared employment.
Illicit economy	Strengthen measures aimed at combating illicit trade, particularly in excisable goods markets.

Policy area	Recommendation
Fiscal risk management	Develop advanced risk analysis systems for identifying high-risk taxpayers.
Institutional cooperation	Enhance cooperation between tax authorities, customs administration and law enforcement agencies.
Tax education	Promote tax education programmes to encourage voluntary compliance.
Financial monitoring	Expand digital monitoring of financial transactions and limit cash payments in high-risk sectors.
Revenue collection efficiency	Increase the use of integrated digital databases and data analytics to improve tax collection.
Fiscal sustainability	Adopt coordinated fiscal policies aimed at reducing the shadow economy and strengthening the long-term sustainability of public finances.

Source: Authors' own elaboration

The recommendations presented in Table 4 highlight that reducing tax evasion requires coordinated actions that combine fiscal digitalisation, institutional strengthening, risk-based tax administration, simplified tax procedures and taxpayer education. Rather than acting independently, these measures reinforce one another by improving voluntary compliance, increasing the effectiveness of tax controls and enhancing revenue collection. Consequently, an integrated policy framework capable of combining technological innovation with institutional reform represents the most effective approach for reducing the VAT Gap and strengthening the sustainability of Romania's public finances.

6. Conclusions

This study examined the fiscal and macroeconomic drivers of tax evasion in Romania during the period 2014–2024 by analysing the relationship between the VAT Gap and a set of fiscal and labour market indicators. Using the VAT Gap as a proxy for tax evasion, the empirical analysis investigated the influence of the tax burden, corporate income taxation, the tax wedge, personal income taxation, excise taxation and unemployment on tax compliance dynamics in Romania.

The empirical findings demonstrate that fiscal policy plays a significant role in explaining the evolution of tax evasion. In particular, the positive relationships identified between the tax wedge, personal income taxation, excise taxation and the VAT Gap suggest that increases in the fiscal burden may weaken voluntary tax compliance and encourage participation in informal economic activities. Furthermore, the estimated regression model exhibited a high explanatory power, confirming that fiscal and macroeconomic variables jointly explain a substantial proportion of the variation in the VAT Gap during the analysed period. Consequently, the three research hypotheses formulated in the methodological framework were supported by the empirical evidence.

Beyond its empirical findings, this study contributes to the literature by providing an integrated assessment of the fiscal and macroeconomic determinants of tax evasion in Romania, a country that continues to record one of the highest VAT Gap levels within the European Union. The results highlight that reducing tax evasion requires not only appropriate fiscal policies but also efficient tax administration, institutional capacity, transparent governance and the continued digitalisation of tax collection systems. Therefore, the findings provide useful evidence for policymakers seeking to strengthen tax compliance while improving the sustainability of public finances.

Despite these contributions, several limitations should be acknowledged. The analysis relies on annual macroeconomic data covering the period 2014–2024, which limits the number of observations and does not capture potential regional or sectoral heterogeneity in tax compliance behaviour. Moreover, tax evasion is a complex phenomenon influenced by behavioural, institutional and governance-related factors that cannot be fully represented through aggregate macroeconomic indicators alone.

Future research could extend the analysis by incorporating panel data across European Union Member States or by using regional and sector-specific data to investigate differences in tax compliance behaviour. Additional institutional variables, such as government effectiveness, regulatory quality, corruption perception, tax morale or the degree of fiscal digitalisation, could also be incorporated to provide a more comprehensive understanding of the determinants of tax evasion. Furthermore, applying dynamic econometric approaches or causal inference techniques would enable a deeper assessment of the long-term relationship between fiscal policy and tax compliance.

The findings confirm that combating tax evasion requires a comprehensive and coordinated policy framework integrating balanced fiscal policies, effective tax administration, institutional reforms and digital transformation. Strengthening these complementary dimensions is essential for improving voluntary tax compliance, reducing the VAT Gap and enhancing the long-term sustainability of Romania's public finances.

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