Understanding and Preventing VAT Fraud: Lessons from One of the EU's Highest Gap Economies

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Abstract: VAT fraud represents one of the most pervasive and damaging forms of economic crime within the European Union, leading to substantial losses in public revenue and undermining the efficiency of tax systems. As member states face increasing pressure to enhance fiscal sustainability, understanding the underlying mechanisms of VAT evasion becomes essential. This study focuses on Romania, a country with one of the highest VAT gaps in the EU, to explore the relationship between tax fraud and broader economic and institutional dynamics. By employing a quantitative approach, the present paper aims to analyze the impact of VAT fraud on public revenues, to assess the effectiveness of existing anti-fraud measures and to identify innovative practices that could be adapted across the EU to prevent this phenomenon. The Romanian case is analyzed not only for its specific vulnerabilities but also for its potential to generate transferable insights for other countries facing similar, though less acute, challenges. The findings are expected to contribute to the development of practical, data-driven recommendations for improving VAT compliance, reducing tax gaps, and strengthening fiscal governance at both national and European levels.

Keywords: VAT gap, Tax fraud, Fiscal efficiency, Budget revenues

1. Introduction

Fraud has been one of humanity's oldest challenges. Since the emergence of property rights, people have sought various ways to gain advantages over others—often through means that were not entirely legal, fair, or ethical. Historical records reveal many forms of fraud. Examples range from counterfeiting currency in the Roman Empire and forging goods in the Middle Ages to modern-day schemes such as Ponzi schemes, credit card fraud, and carousel fraud.

According to James et al (1991) tax fraud is a much more complex behavior than traditional economic theories would suggest. As shown in their study, people don't necessarily cheat on their taxes just because the chances of being audited are low or the penalties aren't severe. In fact, many individuals tend to overestimate even small probabilities of getting caught, which leads them to comply more than rational models would predict. Moreover, some taxpayers choose to pay their taxes simply because they value the public goods those taxes help fund—like schools, roads, or healthcare—even when there's no real threat of punishment. These findings show that tax compliance depends not only on fear or calculation, but also on personal values, social norms, and civic responsibility. Understanding this human side of tax behavior is crucial for designing more effective policies to prevent fraud. Thus, James and Alley (2002) argue that compliance also depends heavily on how the tax system is administered. A well-functioning self-assessment system can promote voluntary compliance, but only if taxpayers trust the fairness and efficiency of tax authorities. When people feel that the system treats them with respect and equity, they are more likely to cooperate; when they perceive it as arbitrary or biased, the likelihood of fraud increases. In this sense, preventing tax fraud is not only about increasing audits or penalties—it also requires building a tax administration that fosters transparency, consistency, and mutual trust between the state and its citizens.

On the other hand, Sritharan et al. (2022) highlights both traditional and emerging themes for being responsible of frauds. In addition to James et al (1991) and James and Alley (2002), Sritharan et al. (2022) identify three major categories of drivers for the fraud: individual-level determinants such as personal ethics, risk perceptions, and tax morale; institutional factors like weak enforcement, corruption, and administrative inefficiencies; and contextual elements, including informality, digital readiness, and socioeconomic conditions. Their analysis shows that tax evasion is a multifaceted issue, deeply embedded in the relationship between citizens and the state, where compliance is shaped not only by deterrence but also by perceived fairness and trust. Notably, the review also emphasizes the growing importance of digitalization and corporate social responsibility (CSR) in shaping compliance behavior, pointing to the need for future research to explore how technology and governance reforms can improve tax systems and reduce evasion in both developed and developing economies.

In the case of Romania, recent survey data reveals a deep mistrust in public institutions, most respondents perceive institutional corruption as "high" or "very high" (Achim & McGee, 2022). This conclusion is based on a nationwide survey conducted on a representative sample of 1,856 Romanian citizens, balanced across age, gender, education level, and region. The perception of high corruption was particularly prevalent among young adults (ages 25–44) and urban residents, who tend to interact more frequently with administrative systems and are thus more exposed to bureaucratic inefficiencies and favoritism. This widespread perception of institutional dishonesty presents a serious barrier to building a culture of voluntary tax compliance and reinforces the structural vulnerabilities already identified in the broader literature.

Another important aspect is the vulnerability of modern tax systems. According to Víghová (2023), taxes are the primary source of public revenue in most countries, which makes them a frequent target of fraud. Despite the efforts of authorities to safeguard this vital source, fiscal systems remain exposed to the risks of fraud and evasion. Since the complete elimination of such practices is not a realistic objective, administrative strategies focus instead on reducing risks and mitigating the negative effects of tax fraud. According to the author, the largest fiscal losses stem from indirect taxes— particularly consumption taxes and the value added tax (VAT)—highlighting the structural fragility of the mechanisms used to collect them.

Despite the wide recognition of VAT fraud as a serious policy issue, empirical evidence on its direct impact on state revenues remains limited, especially in the context of emerging economies. This study aims to address this gap by exploring the relationship between VAT fraud and government revenue collection over the past two decades. The findings of this research may offer valuable insights not only for academics and tax practitioners, but also for policymakers seeking to design more effective fiscal legislation and anti-fraud strategies in the future. In this respect, the main research questions developed for this paper are:

Research question 1: How does variation in the VAT Gap correlate with VAT revenue collection in Romania over time?

Research question 2: Does VAT fraud significantly affect the fiscal revenues in Romania?

Research question 3: Does VAT fraud significantly affect the total budget revenues in Romania?

2. Literature Review

VAT was first introduced in France in 1952. Since then, it has expanded—under various forms—across Europe, Latin America, and later into transitional and developing economies (James, 2011). According to the author, VAT is appealing to governments because it generates high and stable revenues while maintaining relatively low administrative costs.

Brezeanu et al. note that VAT implementation and collection efficiency vary significantly across EU member states, despite a generally uniform structure. Although efficient in generating revenue, VAT remains vulnerable to fraud and evasion. The VAT Gap reflects this vulnerability and has become a key concern for EU governments. As such, understanding the role of fiscal freedom, government effectiveness, and human development in reducing the VAT Gap is crucial for improving compliance and enhancing tax system performance.

Regarding the VAT Gap, this is mainly caused by tax fraud. In this respect, Keen and Smith (2007) provide a comprehensive classification of the main types of VAT fraud, highlighting how the structure of the tax—based on input credits and zero-rating of exports—creates specific vulnerabilities. Among the most common forms are: under-reporting of sales (when businesses deliberately hide part of their turnover), failure to register (particularly by small or fraudulent firms seeking to avoid VAT obligations), and misclassification of goods or services to benefit from reduced or exempt rates. A particularly damaging scheme is carousel fraud (also known as Missing Trader Intra-Community fraud). In this scheme, goods are moved across borders within the EU VAT-free and then sold domestically with VAT added. The trader subsequently disappears without remitting the tax, sometimes repeating the cycle through a chain of fictitious entities. Additionally, firms may submit false claims for VAT refunds by fabricating input invoices or inflating deductible amounts. The authors argue that these fraud types exploit core features of the VAT system and require targeted administrative responses, especially in the context of cross-border transactions.

In terms of methods for preventing and detecting VAT fraud, Bussy and Tassi (2025) examine the effectiveness of the reverse charge mechanism in addressing cross-border VAT fraud within the European Union. Using product- and country-level data from 2013 to 2020, their study shows that before the reverse charge rule was implemented in 2015, VAT fraud accounted for about 0.1% to 0.2% of total VAT revenues. Following the reform, fraud levels declined significantly—particularly in member states with higher levels of perceived corruption and weaker customs enforcement. Their findings underscore that while the reverse charge mechanism is a valuable tool in combatting carousel fraud, its success largely depends on the institutional quality and administrative capacity of individual countries.

To further strengthen VAT compliance, Bellon et al. (2022) emphasize the critical role of tax system digitalization, particularly through the implementation of electronic invoicing systems, which can enhance revenue collection efficiency and improve broader economic performance. Similarly, Takefuji (2023) warns that weak digital governance and outdated tax infrastructures leave countries increasingly vulnerable to organized tax fraud. His study cites significant losses during the COVID-19 pandemic, when countries such as the U.S., U.K., Japan, and Moldova struggled to detect fraud in emergency relief programs due to insufficient oversight and digital integration. Alarmingly, fraudsters already use advanced technologies like AI to facilitate tax evasion, while many governments still lack the tools to counter these evolving threats. In this context, preventing tax fraud has become not only a legal or ethical challenge, but also a matter of whether tax administrations can adapt to the rapidly changing digital landscape.

Regarding the impact of tax evasion on economic growth, McClellan (2019) combines firm-level data from the World Bank Enterprise Surveys—covering reported sales, bribes to tax inspectors, and audit probabilities across 79 countries—with macroeconomic indicators, and subsequently extends the analysis to a broader panel of 86 countries from 1995 to 2013. In this second stage, VAT collection efficiency (VAT gap) is used as a proxy for evasion, alongside indicators of tax administration quality. Using fixed effects and instrumental variable regressions, the findings suggest two key results. First, frequent audits and high compliance costs tend to suppress GDP growth. Second, a one-percentage-point improvement in VAT collection efficiency is associated with an approximate 17.8-percentage-point increase in per capita GDP growth. The study concludes that policies aimed at improving revenue through simplification, digitalization, and voluntary compliance are more conducive to economic development than coercive enforcement measures, which may deter private investment.

In their study, Butu et al (2021) construct a comprehensive panel database covering the period 2009–2018 for 26 EU member states (EU-27 excluding Cyprus and Croatia, plus the UK). The authors classify these countries into four regional clusters—Northern, Southern, Western, and Central-Eastern Europe—and explore the relationship between the VAT Gap and five structural or institutional indicators: Fiscal Freedom (FF), Government Effectiveness (GE), the Human Development Index (HDI), the Corruption Perceptions Index (CPI), and the share of population at risk of poverty or social exclusion (AROPE). Using Spearman rank correlations, the study finds statistically significant negative associations between the VAT Gap and FF, HDI, and CPI across the full sample. It also reports a strong positive correlation with AROPE. No significant link is identified with GE at the aggregate level. Regionally, the most notable negative correlations are found between the VAT Gap and HDI in Central-Eastern Europe, and between the VAT Gap and FF in Southern Europe. Interestingly, in Northern Europe, the VAT Gap shows a particularly strong inverse relationship with GE. The authors argue that enhancing institutional quality, reducing corruption, and improving social cohesion are key to narrowing the VAT Gap, while weak fiscal governance and high levels of social exclusion tend to exacerbate it.

On another hand, Ogneru et al. (2022) examine the extent to which the VAT Gap undermines a country's capacity to finance public programs, by analyzing its impact on the tax-to-GDP ratio—used as a proxy for the overall degree of taxation. Their study covers 26 EU member states over the period 2014–2019 and employs annual panel data with fixed-effects regressions. The authors model the tax-to-GDP ratio as a function of the VAT Gap and lagged revenue performance, government expenditure, and a selected subset of socio-economic variables (namely, poverty risk, employee compensation, household consumption, and gross value added), drawn from an initial pool of 28 indicators. The results highlight a statistically significant negative relationship: a higher VAT Gap consistently leads to a lower tax-to-GDP ratio, and this effect endures over time due to the path-dependent nature of tax collection efficiency. Additionally, when reversing the regression framework, the same four socio-economic variables jointly explain approximately 95% of the variation in the VAT Gap itself. These findings suggest that reducing the VAT Gap goes beyond administrative efficiency—it is a strategic means to strengthen fiscal capacity, particularly in countries where consumption structures and social vulnerabilities heighten the risk of revenue loss.

3. Research Methodology

To investigate the relationship between VAT fraud and public revenue collection in Romania, this study employs a quantitative research approach, consistent with previous empirical studies (McClellan, 2019; Ogneru et al., 2022; Butu et al., 2021), which demonstrate that robust statistical models can capture the macroeconomic impact of tax evasion with high explanatory power. The analysis covers the period 2009–2022, segmented into two sub-periods: 2009–2019, representing the pre-pandemic phase of relative economic and institutional stability (after the global financial crisis, and 2019–2022, corresponding to the years marked by exogenous shocks—namely, the COVID-19 pandemic and the Russo-Ukrainian war. This division reflects recommendations from recent literature (Takefuji, 2023; Víghová, 2023), which emphasizes the vulnerability of tax systems during periods of crisis, when administrative efficiency is disrupted, and fiscal fraud tends to increase due to emergency spending and weakened oversight. Furthermore, Sritharan et al. (2022) suggest that structural and contextual factors, such as digital readiness and socio-economic pressures, can exacerbate tax non-compliance during times of instability. By comparing these two distinct periods, the study aims to identify differential dynamics in the VAT Gap and fiscal performance, offering a more nuanced understanding of how Romania's tax system has responded to both long-term trends and short-term disruptions. This temporal segmentation also allows for the exploration of potential structural breaks in compliance behavior and revenue efficiency, as suggested by Bellon et al. (2022), who stress the need to reassess tax system resilience in the face of global crises. For analyzing the correlation between the variables it was used the SPSS program. Based on this, there were concluded the following research hypothesis:

Research hypothesis 1: There is a negative and statistically significant relationship between the size of the VAT Gap and the revenues actually collected from VAT in Romania.

Research hypothesis 2: The negative impact of the VAT Gap on total tax revenues is stronger during crisis periods (2019–2023) than in the period 2009–2019.

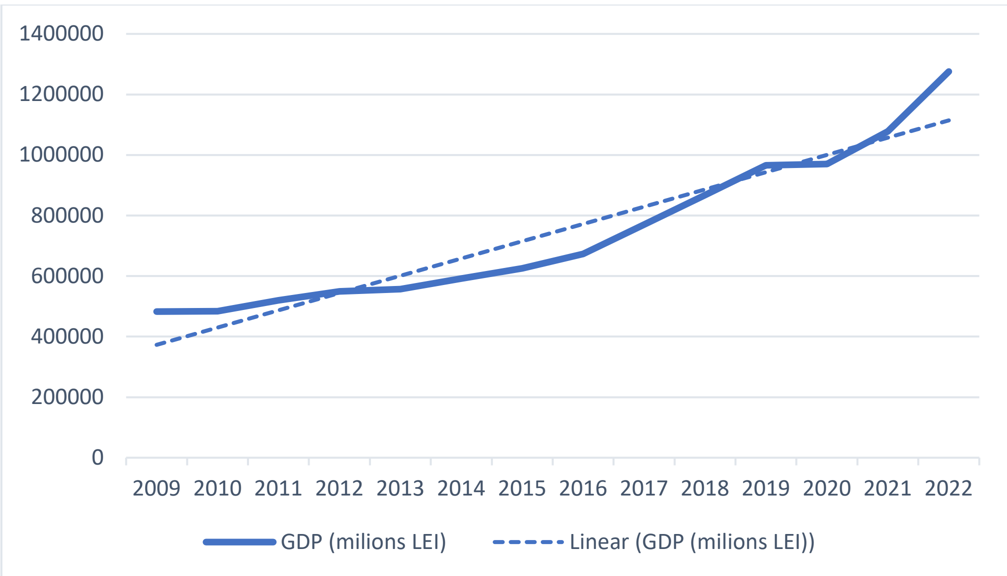
4. Data Collection

The study draws on quarterly series from the TIEMPO database of Romania's National Institute of Statistics (INS), covering gross domestic product across all industries; these quarterly observations were aggregated to obtain annual totals. According to INS methodology, GDP is reported through two complementary approaches: (a) the production method, given by GDP = GVA + TP − SP, where GVA is gross value added at basic prices, TP denotes taxes on products, and SP represents subsidies on products; and (b) the expenditure method, expressed as GDP = FCE + GCF + X − M, where FCE is final consumption expenditure, GCF is gross capital formation, X is exports of goods and services, and M is imports of goods and services. Subsequently, the same database was queried to retrieve series on total revenue, fiscal revenues, and value-added tax (VAT) collections.

Additionally, using the above-mentioned database, there were collected information on the Romanian's total revenues, tax revenues and VAT revenues for the analyzed period.

The VAT-gap series was sourced from the European Commission's annual VAT Gap reports, while standard VAT-rate figures were extracted from the archived versions of the Romanian Tax Code available on www.anaf.ro.

5. Results and Discussions

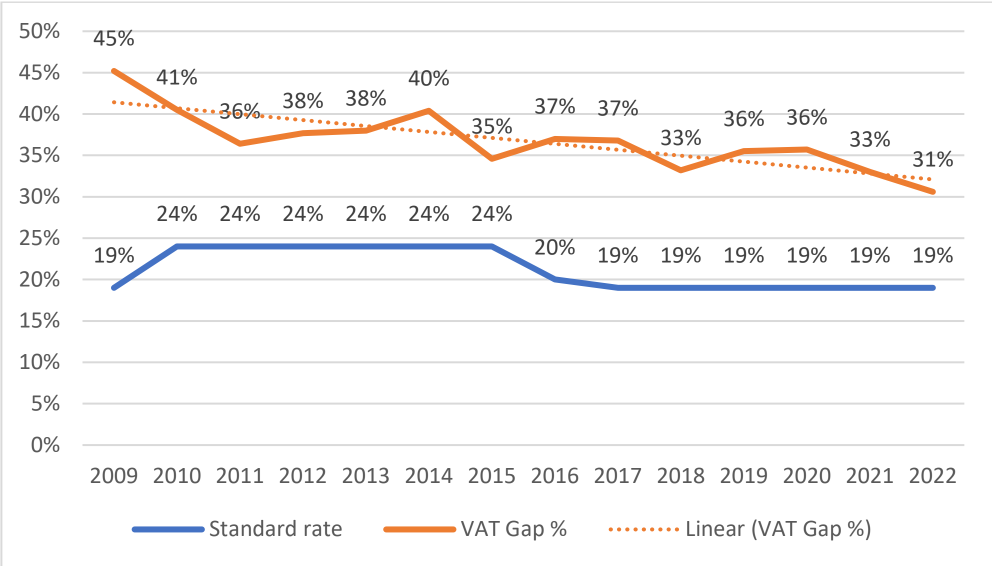


Source: Author's own contribution

Figure 1: The evolution of GDP during the period 2009 - 2022

Romania's nominal GDP has nearly tripled over the 14-year horizon, rising from almost 482 billion lei in 2009 to more than 1.27 trillion lei in 2022, having an increase of approximatively 164%. After a flat post-crisis year in

2010, the economy resumed a steady upward trajectory, passing the 600 billion lei mark in 2015 and accelerating sharply thereafter: average annual growth in nominal terms was about 8 % between 2009 and 2022. Although the COVID-19 shock almost stalled nominal expansion in 2020, Romania rebounded quickly, adding over 100 billion lei in 2021 and a further 200 billion lei in 2022—its strongest two-year jump in the series, having one of the biggest growths during these two years, 11,14% in 2021 from 2020 and 18,36% in 2022 from 2021. Overall, the data underline a robust medium-term growth profile, punctuated by only a brief pandemic pause, in 2020.



Source: Author's own contribution

Figure 2: The evolution of VAT standard rate and VAT gap during the period 2009 - 2022

Between 2009 and 2022, Romania's experience shows that the headline VAT rate explains only a fraction of the country's VAT Gap. The sharp hike from 19 % to 24 % in mid-2010 failed to generate lasting compliance gains, with the gap hovering around 38–40 % in the following years—evidence that businesses adapted quickly and that administrative capacity, rather than tax pressure alone, drove outcomes. In 2015 the deficit narrowed by almost six percentage points even though the standard rate remained unchanged, thanks to targeted reduced-rate measures on food and stepped-up audits. Conversely, reducing the rate to 20 % in 2016 and back to 19 % in 2017 produced no immediate improvement, the gap staying above 36 %. Only after 2018, alongside the roll-out of SAF-T reporting and the e-Invoice system, did the VAT Gap resume a clear downward trend, reaching 30.6 % in 2022.

To determine whether Romania can truly be classified as a highly taxed state, it was first analyzed its tax-to-GDP ratio and then examined how strongly overall government revenue depends on fiscal revenues—especially VAT collections. To achieve this, the indicators Tax-to-GDP and VAT-to-GDP were constructed, expressed as the ratio of tax revenues to GDP and VAT revenues to GDP, respectively. Subsequently, the share of tax revenues in total revenues and the share of VAT revenues in total revenues were also calculated. This assessment yielded the following results:

Table 1: Correlation between taxes, GDP, total and fiscal revenues

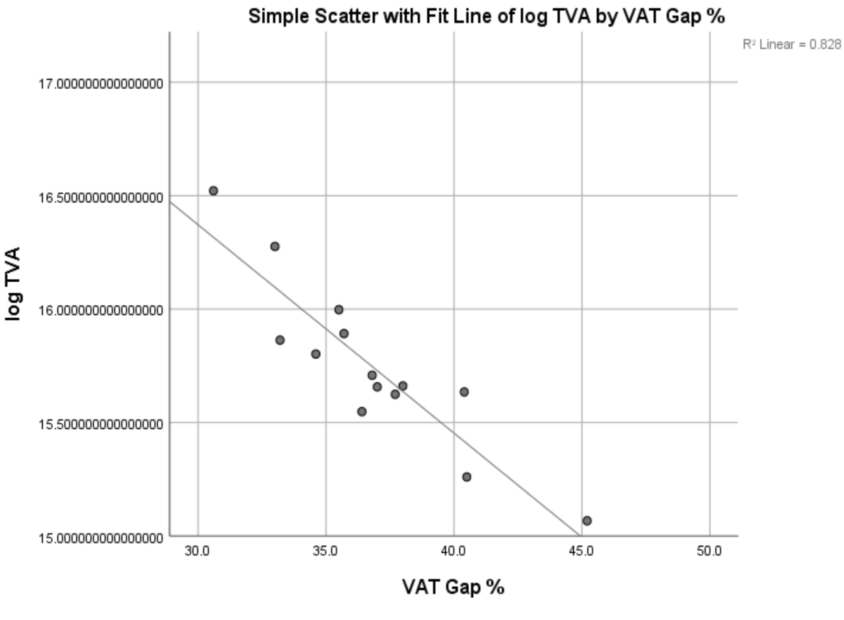
Year	Tax-to-GDP	VAT-to-GDP	Share of taxes in total revenues	Share of VAT in total fiscal revenues
2009	9.98%	7.11%	85.32%	71.28%
2010	11.64%	8.12%	84.61%	69.70%
2011	13.38%	9.22%	87.25%	68.92%
2012	13.77%	9.20%	87.91%	66.81%
2013	14.40%	9.31%	88.16%	64.64%
2014	13.61%	8.60%	85.21%	63.17%

Year	Tax-to-GDP	VAT-to-GDP	Share of taxes in total revenues	Share of VAT in total fiscal revenues
2015	14.31%	9.13%	86.32%	63.78%
2016	12.97%	7.67%	85.82%	59.18%
2017	11.04%	6.95%	78.30%	62.94%
2018	11.48%	6.87%	70.01%	59.84%
2019	11.01%	6.77%	71.18%	61.55%
2020	9.68%	6.27%	69.96%	64.76%
2021	11.38%	7.36%	72.63%	64.69%
2022	12.51%	7.38%	71.83%	58.95%

Source: Author's own contribution

Between 2009 and 2022, Romania fell well short of what would be considered a highly "fiscalised" state: the tax-to-GDP ratio ranged from just 9.68% to 14.40%, averaging 12.23%—barely half the EU-27 average. The elasticity of tax revenue with respect to GDP is only about 0.86, meaning receipts grow more slowly than the economy itself and signaling under-collection relative to potential. More than 80 % of budget resources come from taxes, and roughly 60 % of those taxes are generated by VAT, the very levy most exposed to evasion, with a persistent VAT Gap of 30–40 %. This mix of low overall tax effort, sub-unitary elasticity and structural vulnerability to VAT fraud explains why, despite solid economic expansion, Romania's public coffers remain constrained and underscores the need for simultaneous reforms: broadening the tax base, deepening digital compliance tools and diversifying non-tax revenue sources.

To test Hypothesis 1 previously mentioned, the VAT values were log-transformed and analyzed in relation to the VAT Gap. This approach resulted in the following scatter plot:



Source: Author's own contribution using SPSS program

Figure 3: The relation between the VAT gap and VAT revenues

The scatter plot reveals a clearly downward-sloping regression line, with an R^2 value of approximately 0.83. In other words, around 83% of the yearly variation in nominal VAT revenues can be explained by changes in the VAT Gap. As the gap increases by one percentage point, VAT revenues (in natural logarithm) systematically decrease. Visually, the H1 hypothesis is strongly supported. Going further with the hypothesis test, it was made a linear regression using the following equation:

$ln(TVA_t) = \alpha+\beta \times VATGap_t + \varepsilon_t$

The following results were obtained:

Table 2: The correlation between VAT revenues and VAT gap. Results of linear regression from SPSS

Dependent variable: log TVA	B	SE	Beta (std)	t
(Constant)	19.126	0.446	-	42.892
VAT Gap (%)	-0.092	0.012	-0.910	-7.604

Source: Author's own contribution using SPSS program

The linear regression strongly confirms the hypothesis of an inverse relationship between VAT evasion and VAT revenues. The model, which includes a single predictor (VAT Gap %), is statistically very robust ($F = 57.8$; $p < 0.001$) and explains approximately 83% of the annual variation in VAT revenues, as indicated by the R^2 coefficient. The unstandardized coefficient of -0.092 suggests that a 1 percent point increase in the VAT gap leads to a nearly 9% decrease in nominal VAT revenues, while the Beta value of -0.91 points to an extremely strong effect in terms of standard deviations.

This means that, VAT collection performance in Romania is strongly and negatively influenced by the size of the VAT Gap, aspect which highlights the importance of reducing VAT evasion to strengthen public revenue.

Moving further to hypothesis no. 2, it was built the following set of variables using annual data from 2009 to 2022: Tax-to-GDP (calculated as total tax revenues divided by GDP, multiplied by 100) as the dependent variable; VAT Gap % as the main predictor; a binary variable Crisis (coded 1 for the years 2019–2022 and 0 otherwise) to mark the pandemic and inflationary period caused by the Russo-Ukrainian war; and an interaction term INT = VAT Gap x Crisis to capture any shift in the slope during crisis years. The variables were initially processed in Excel—computing Tax-to-GDP, creating the dummy variable and the interaction term—then imported into SPSS, where it was performed an OLS regression.

After excluding the Crisis variable (since its coefficient was statistically insignificant), the two-predictor model became:

Tax-to-GDP = 20.83 – 0.215xVAT Gap – 0.073xINT

Table 3: The correlation between fiscal revenue and VAT gap during crisis periods. Results of linear regression from SPSS

Dependent variable: Tax-to-GDP	B	SE	Beta (std)	t
(Constant)	20.834	4.397	-	4.738
VAT Gap (%)	-0.215	0.115	-0.505	-1.863
INT	-0.073	0.027	-0.744	-2.743

Source: Author's own contribution using SPSS program

This model explains about 41% of the variation in the dependent variable (R^2 aprox. 0.41), is borderline significant overall ($F = 3.89$; $p = 0.053$), and, crucially, the interaction coefficient is negative and statistically significant ($\beta = –0.073$; $p = 0.019$). This means that during crisis years, the impact of the VAT Gap on tax revenues becomes stronger: the slope steepens from –0.215 percentage points in 2009–2018 to –0.288 percentage points of GDP for every 1 pp increase in the VAT Gap, confirming that the negative effect was indeed more pronounced in 2019–2022.

6. Limitations and Future Research

This analysis is constrained by a relatively short time series—just 14 years—and by its single-country focus on Romania, without extending to other EU jurisdictions operating under comparable fiscal frameworks. Moreover, the estimates may be influenced by institutional factors not fully captured in the baseline specifications, such as the enforcement capacity of the tax administration, the rollout intensity of digital reporting tools (e-Invoicing, SAF-T), judicial efficiency or broader governance quality. These factors could confound the observed relationship between VAT policy and compliance outcomes.

Future research could strengthen the analysis of VAT evasion by extending the observation window, incorporating a broader cross-country sample, or enriching the model with additional explanatory variables. In particular, new tools and datasets could be used to better capture the drivers of the VAT Gap, such as indicators of tax administration performance, governance quality, and the effects of fiscal policy measures over time. Furthermore, the current study could be complemented by a qualitative research—e.g., expert interviews with tax practitioners and policymakers—to provide deeper insight into taxpayer behavior under specific circumstances.

7. Conclusions

This paper aimed to analyze the extent to which VAT-related tax evasion, measured by the recorded VAT Gap, undermines Romania's fiscal capacity and whether this effect becomes more pronounced during times of crisis. For the period 2009–2022, an annual dataset was constructed—including GDP, total revenues, tax revenues, and VAT collections—using the TEMPO database of the Romanian National Institute of Statistics and the VAT Gap series published by the European Commission. Based on this dataset, two econometric models were estimated using SPSS.

The variables were initially processed in Excel, where a logarithmic transformation was applied to VAT revenues to stabilize variance. A binary variable "Crisis" was created (taking values of 1 for 2019–2022 and 0 otherwise), as well as an interaction term between Crisis and VAT Gap.

The first model tests the hypothesis of an inverse relationship between the VAT Gap and VAT revenues. The results show that a one-percentage-point increase in the VAT Gap reduces nominal VAT collections by approximately 9%, with the model explaining 83% of the annual variation ($\beta = -0.092$; $t = -7.6$; $p < 0.001$). These findings suggest that the performance of VAT collection is primarily driven by the degree of taxpayer compliance, rather than by adjustments to the standard VAT rate.

The second model investigates whether this mechanism becomes more acute during periods of external shock. Using Tax-to-GDP as the dependent variable and including the interaction term VAT Gap × Crisis, the estimation reveals that the negative slope steepens in the 2019–2022 period: from –0.22 percentage points in 2009–2018 to –0.29 pp of GDP for each additional percentage point in the VAT Gap during crisis years. The interaction coefficient is statistically significant ($\beta = -0.073$; $p = 0.019$), confirming the hypothesis that revenue losses caused by VAT fraud are greater precisely when the national budget is most vulnerable.

The practical conclusions are clear: Romania remains a country with a low level of taxation (tax-to-GDP around 12%), yet is highly dependent on VAT: over 60% of total tax revenues come from this source, while the VAT Gap remains elevated, at 30–40%. The evidence presented unequivocally shows that reducing the VAT Gap is essential for Romania's fiscal consolidation and for strengthening its resilience to future shocks.

Reducing VAT evasion—through digitalization (SAF-T, e-Invoice), risk-based audits, and rebuilding trust in the tax administration—represents the fastest and least distortionary way to expand fiscal space, especially during times of crisis, when this space becomes particularly vulnerable to fraud.

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Ethics declaration: I declare that the research complies with ethical principles and rules.

AI declaration: AI tools were used to translate the paper from Romanian into English and to perform spell-checking.

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