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Investment Income - Regulations in National and International Tax Legislation

Corina BULGAC
Academy of Economic Studies of Moldova
bulgac.corina@ase.md

Abstract
Reasoning for the decision to invest and the role of fiscal policy objectives on the level of investment. The use of financial instruments contributes to additional revenue that can be used for the social and economic development of taxpayers in the long term. Globalization of economic processes, and the deepening of international economic and financial cooperation, have led to the diversification of income earned and increased the visibility of our country in terms of investment. The Republic of Moldova can be considered an attractive area for foreign investors, while at the same time remaining a favourable area for domestic investors, due to its geographical location, fiscal, political, and social regulations, as well as the existence of a qualified and cheap labour force. The subject of the paper focuses on examining aspects of tax law on financial income from investment activities in national and international practice. Several methods were used in the research including statistical, analytical, comparative analysis, content analysis, graphical illustration, etc. In conclusion, as a result of the analysis, it was possible to identify the challenges faced by Moldovan taxpayers who obtain financial income from placement activities to ensure an increasing level of income, presenting the advantages and disadvantages.

Keywords: income, investments, tax code, dividends, shares, bonds

1 INTRODUCTION

At present, the population of the Republic of Moldova has understood the need to diversify their sources of income. At the same time, investment income, which is passive in nature, is becoming increasingly attractive to obtain, as it is achieved with a minimum of effort, but still requires an initial investment. This article aims to help taxpayers understand the tax considerations for investment income at the national level, compared to the rules for the same income in the tax laws of other states, both for residents and non-residents, which will allow the taxpayer to decide to optimise their tax liability. It should be noted that investment income is taxed differently (taxed at the source of payment or self-taxed) from one type of income to another, which we will detail in the article. At the same time, investment income comes with certain reporting and payment obligations that taxpayers must consider.

Taxes are money obligations levied, by law, by the public authority on natural and legal persons, in relation to their ability to pay, which are paid into the national public budget on a compulsory basis and without immediate consideration, and which are used by the latter as resources to cover public expenditure and as instruments to influence the behaviour of taxpayers so that their interests are aligned with the public interest.

2 METHODOLOGY

The setting of the level of taxes and duties should express their correlation both with the functions and purposes pursued by the Government and with the level and contributive power of taxpayers, with the fairness of the distribution of the tax burden for all citizens.

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Income tax is one of the most important sources of revenue, making a significant contribution to state budget revenues and financing public expenditure. Income tax was first introduced in Britain towards the end of the 18th century. Around the time of the First World War, this tax was also introduced by other countries such as the United States, Japan, Germany, France, the Netherlands and Belgium.

The introduction of income tax has given rise to much discussion about the differences between income tax, which covers all sources of income, and schedular tax, which taxes income on a source-by-source basis.

In the current economic environment, increasing fiscal pressure is hard to maintain. As economic integration increases, individual and corporate taxpayers gain greater freedom to take advantage of economic opportunities abroad; this increases the sensitivity of investment and location decisions to tax levels.

Analysing the investment picture in the Republic of Moldova, we have qualified it as an attractive destination with a high business return for multinational companies, due to its geographical location, fiscal framework and finally the existence of a qualified and cheap labour force [1].

In this study, we set out to analyse aspects of the tax administration of investment income in the Republic of Moldova, in comparison with the same legal provisions in two EU member states: Romania and France.

3 TAX REGULATION OF INVESTMENT INCOME

3.1.Tax regulation of investment income in the Republic of Moldova

Investment income belongs to the category of passive income, which is derived from capital investments and investments in financial assets, where the taxpayer's participation in the organisation of these activities is not regular, permanent or substantial.

Tax regulation is the set of legal rules adopted to regulate activities relating to the taxation of all taxable items, with the subsequent collection of the calculated tax liability.

Investment income generally includes the following types of income:

a) dividend- the amount of money paid regularly (usually quarterly or annually, at the discretion of the board of directors) by a company to its shareholders from its profits;
b) interest - income earned on bank deposits, certificates of deposit (CDs), bonds and other debt instruments that pay a fixed or variable rate of interest;
c) capital gains - the profit realised from the sale of an investment asset, such as shares, bonds or real estate, at a price higher than the purchase price;
d) annuities - periodic payments received from annuity contracts, which can be financed by initial investments;
e) rental income - money received for the use of the property by tenants;
f) fund income - distributions received from mutual funds or closed-end investment funds, which may include a combination of dividends, interest and capital gains;
g) income from real estate investment trusts (REITs) - distributions received from investments in funds that own and manage real estate.

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At its core, investment income plays a key role in managing and growing personal wealth and achieving short- and long-term financial goals. At its core, investment income plays a key role in managing and growing personal wealth and achieving short and long-term financial goals.

The purpose of investment income is multifaceted and varies according to the individual or institutional objectives of investors and may be aimed at generating income because for many investors, investment income provides an additional income stream that can be used for current expenses or reinvested to grow their wealth. Investments can grow in value over time, so investment income contributes to capital accumulation and long-term wealth growth.

Another investment objective is to diversify the portfolio so that investment income can come from a variety of sources such as stocks, bonds, and real estate, which helps to diversify risks and stabilise the investment portfolio. Finally, we also refer to inflation protection through investments, which generate income that protects against the erosion of purchasing power due to inflation, especially if the rate of return exceeds the inflation rate.

Investment income can be a key component in long-term financial planning, including providing a stable income for retirement. Investors may also pursue other goals, such as saving for education, buying a home or other personal financial goals, and for some, investment income is a pathway to financial independence, allowing them to be less dependent on active income or work.

If we are to look at it from the state's point of view, investment income performs several essential functions, such as:

- contribute to the tax base as they are often subject to taxation, generating revenue for the state budget;
- capital invested by the population can finance the development of new businesses and technologies, stimulating economic growth;
- the stability of financial markets, which is provided by the investment of the population, which contributes to the liquidity and stability of capital markets, which are vital for the functioning of the economy;
- Investment income can reduce pressure on the state social security budget by providing alternative income for pensioners;
- taxes on investment income provide a predictable source of public revenue, helping long-term budgetary planning, etc.

We have analysed the purpose and objectives of investment income, but further we proposed that we perform a SWOT analysis of the regulation of investment income as a means of administration, and management in obtaining additional revenue to the budget has certain advantages and disadvantages.

Among the ***strengths*** are:

- Regulations can provide clarity and predictability to investors, allowing them to plan for the long term;
- can protect investors' rights and ensure fair treatment of all market participants;
- helps maintain financial stability and prevent fraud and market manipulation;
- certain regulations may offer tax advantages that encourage investment, such as tax breaks or tax credits.

However, there are some ***weaknesses***:

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- Tax regulations can be complex and difficult for individual investors to understand;
- companies and investors can incur significant costs to comply with regulations;
- Strict rules may discourage financial innovation or prevent the introduction of new investment products;
- regulation can act as a barrier to entry for new entrants, limiting competition.

There are also significant ***opportunities***:

- International collaboration to harmonise regulations can open up new markets and facilitate cross-border trade;
- Using technology, such as blockchain, to simplify compliance and reduce costs;
- developing resources to educate investors about regulations and the tax implications of investing;
- regulations can promote investment in sustainable or socially responsible projects.

However, this approach also faces ***threats:***

- changes in policy or tax administration may lead to regulatory changes, affecting investment stability;
- International competition, which arises from the fact that jurisdictions with more favourable tax rules may attract investors, affecting competitiveness;
- The risk of non-compliance or tax evasion increases with the complexity of the regulations;
- Volatile global economic situations can force governments to change tax regulations without notice.

In conclusion, this SWOT analysis is general and may vary depending on the specific context of each country and the dynamics of the capital market. Investment income regulations need to be balanced to protect investors and promote a fair and transparent market while minimising administrative burden and compliance costs.

Next, we will look at the situation in the Republic of Moldova, where investment income is regulated by Law No 1163/1997 on the Tax Code and other legislation.

Thus, according to the provisions of the Tax Code, Title II, Article 14, taxable income for individuals who do not carry out entrepreneurial activity constitutes:

- income from any sources in the Republic of Moldova, including facilities granted by the employer;
- income from any sources outside the Republic of Moldova for activity in the Republic of Moldova;
- ***investment*** and financial ***income from any sources outside the Republic of Moldova***.

The sources of taxable income to be included in gross income are set out in Article 18 of the Tax Code.

According to the provisions of the FC, Title II, Article 12, paragraph 5, ***investment income*** is income from capital investments and investments in financial assets, if the taxpayer's participation in the organisation of this activity is not regular, permanent and substantial.

Also, according to item 14 of the Regulation on the determination of tax obligations related to the income tax of resident individuals citizens of the Republic of Moldova, approved by Annex No. 2 to Government Decision No. 693/2018, the following types of income are included in the ***composition of investment income*** obtained abroad by resident individuals citizens of the Republic of Moldova:

(a) dividend;
b) interest;

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c) rental income (rent, usufruct, lease, etc.);
d) from the disposal of capital assets.

Dividend - income obtained from the distribution of the net profit among the shareholders (associates) per the share of participation deposited in the share capital, except for income obtained in cases of complete liquidation of the economic agent.

Taxation of dividends receives preferential tax treatment in the Republic of Moldova to attract investment in the local economy and is set at a fixed rate of 6%. In addition, the Republic of Moldova has signed more than 50 international treaties for the avoidance of double taxation and the prevention of tax evasion on income and capital taxes, and the dividend tax may be reduced, depending on the treaty provisions with the country of residence of the foreign investor.

Dividends may also be distributed either after the end of the financial year or in advance during the year at the shareholders' discretion [1].

Government securities are financial instruments evidencing the public debt, in the form of treasury bills and government bonds, constituting short- and long-term borrowings of the state in national currency. This category of financial instruments also generates dividends, income which has become taxable since 2020.

Interest, income in the form of interest - any income obtained under claims of any kind (however it is drawn up), including income from money deposits, income obtained under a finance lease.

Rental income - the amount of money a landlord receives from a tenant for the right to use and live in a property. This type of income can come from renting out different types of property, such as apartments, houses, commercial or industrial premises.

For the landlord, rental income is a source of passive income because he can generally continue to receive payments without having to actively work for them once the property is rented out. However, landlords may have management and maintenance responsibilities, which may require effort and cost. Rental income is usually set by the lease and is paid periodically, most often monthly. Depending on the terms of the lease, rental income may also include other payments for services or utilities, if these are set out in the agreement between landlord and tenant.

Rental income is also subject to taxation. Tax rules may vary depending on local or national legislation. Landlords must declare this income and pay the related taxes, which may include income tax and other local taxes such as property tax.

Capital assets represent:
a) shares, bonds, and other titles of ownership in entrepreneurial activity;
b) private property not used for entrepreneurial activity;
c) land;
d) option to purchase or sell capital assets.

The Republic of Moldova has introduced a 12% tax on capital gains obtained by resident and non-resident individuals in the Republic of Moldova. However, the amount of capital gain for tax purposes is equal to 50% of the excess amount of capital gain determined under the provisions of the tax legislation. In other words, only 50% of the profit from a sale will be subject to taxation at the rate of 12% [1].

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Investment or investment income and financial income earned abroad shall be declared through the ***CET18 Income Tax Return***, which shall be submitted by 30 April of the year following the reporting year. These types of income are entered in line 1.9 of the CET18 return. In each case of obtaining income from abroad, the existence of a double taxation agreement between the Republic of Moldova and the respective country will be taken into account.

Table 1 Tax rates on investment and financial income in the Republic of Moldova by 2023

Categories of income	Tax rate	Comments
Dividends distributed to resident individuals	**6 % / 15 %**	Taxable income = gross income
Sales of capital assets (real estate, land, shares, bonds, etc.)	**12 %**	Taxable income = capital gain = 50% of the excess amount of capital gain recognized over the level of any capital losses incurred during the tax period.
Rental income (rent, usufruct, lease, etc.)	**7 %**	Landlord and tenant natural persons
	12 %	Landlord (natural person), tenant (legal person)
	12%	Landlord (legal person), tenant (person physical/legal).
Interest from deposits of resident individuals	**7 %**	Taxable income = gross income

Source: Prepared by the author based on [1]

The tax rates on investment income and financial income in the Republic of Moldova for the year 2023 can be seen in Table 1.

Tax receipts from taxable income sources managed by the State Tax Service are reflected in Table 2, with the focus here on receipts from investment income in the Republic of Moldova in the period 2019-2021.

Analysing the data in Table 2, we notice that in the total income obtained by natural persons citizens, income in the form of salary payments predominates (76.05%), followed by income obtained from dividends (11.12%) and income obtained from the transfer in possession and/or use of real estate and movable property, excluding agricultural land (3.14%).

Table 2 Evolution of tax receipts from investment and financial income in the Republic of Moldova for the years 2019-2021, thousand lei

2019	2020	+/- (%)	2021	+/- (%)	Source of income
53869.85	55964.89	3.89	63359.33	13.21	Salary
699.39	**1406.33**	**101.08**	**2216.64**	**57.62**	**Capital growth**
61.09	57.1	-6.53	82.46	44.41	Income from abroad
35.27	**34.04**	**-3.49**	**35.27**	**3.61**	**Interest**
2180.43	**2189.57**	**0.42**	**2616.41**	**19.49**	**Location**
8446.85	**7758.87**	**-8.14**	**9427.14**	**21.50**	**Resident**
296.91	329.54	10.99	411.98	25.02	Royalty
2420.89	1666.58	-31.16	2351.94	41.12	Delivery of agricultural production
	94.54		210.53	122.69	Gambling winnings
685.8	1814.41	164.57	2831.56	56.06	Other income

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Source: prepared by the author based on the results of the submission of income tax returns for 2019-2021

There is also evidence of a considerable, stable increase in capital growth receipts already, with absolute values reaching a doubling in 2021 compared to the results recorded in 2020, and in 2020 compared to 2019. The other tax receipts related to investment income and financial income likewise show an increasing trend in the Republic of Moldova in the years 2019-2021. At the same time, we would like to mention that the draft law on the implementation of fiscal policy changes for the year 2023 includes adjustments and changes in the taxation of investment and financial revenues. We consider it appropriate to analyse these provisions.

Thus, according to the proposed amendments to Law no.845/1992 on entrepreneurship and enterprises, economic agents will be able to pay individuals cash payments related to the income specified in Article 901 of the Tax Code (income from rent, lease, surface, dividends, royalties) and any other taxable income according to Article 18 of the Tax Code (payments for work performed, capital increase, interest, etc.) which are subject to an amount not exceeding 10 000 lei for each transaction, but not more than 100 000 lei annually.

At the same time, it is proposed to revise/amend Article 15 of the Tax Code and the concept of taxation of income of legal entities related to entrepreneurial activity, namely, non-taxation of undistributed income in the form of dividends. We note that the new concept involves granting a tax holiday, for 3 years, from the payment of income tax from entrepreneurial activity, for enterprises classified as SMEs, according to the provisions of Law no.179/2016 on small and medium-sized enterprises, until the time of distribution of such income for the payment of dividends.

In this respect, for 3 years, the income tax is set at 0% of the undistributed taxable income in the form of dividends. Thus, economic operators will be entitled to apply the 0% income tax rate in the case of non-distribution of dividends, and at the time of distribution of dividends, they will be subject to income tax obligations in the amount of 12% of the income directed to the payment of dividends and will ensure the withholding and payment of a tax of 6% of the amount of dividends distributed. It is estimated that this measure will reduce tax revenues by -1200 million lei.

Another provision of the legislative changes concerns the revision of the taxation of interest income paid to resident individuals. The draft provides for a change in the amount of income tax withheld at source from interest paid to resident individuals by banks, savings and loan associations and issuers of corporate securities by increasing the income tax rate from 3% to 12%. The measure aims to unify the income tax rate on interest paid by banks, savings and loan associations and issuers of corporate securities to ensure a fair and equitable tax regime. At the same time, the proposed measure is to take effect from 1 July 2023 and the budgetary impact of the measure will be + 233.5 million lei.

It is expected that following the implementation of the proposed measures, they will have a neutral impact, with the amount of additional budgetary revenues approximately equal to the number of decreases. At the same time, through the measures increasing the access to liquidity for businesses, economic activities are expected to increase, and the effects of these measures will be felt in the coming years.

3.2.Tax regulation of investment income in Romania

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Romania's economy has made significant progress in recent decades, undergoing a complex transition, and bringing significant changes in its structure. Since the implementation of economic reforms in the 1990s, the country has experienced sustained growth and its GDP has expanded, with important contributions from sectors such as industry, services, and agriculture. However, challenges and opportunities remain, and investment plays a key role in determining the direction the Romanian economy will take in the future. Improving the investment climate and promoting innovation are key to strengthening Romania's position in the European economy.

Creating an investment-friendly environment, legislative reforms and promoting innovation will help strengthen the country's position in the global economic landscape and ensure long-term sustainability and prosperity. Romania must continue to adopt policies that encourage investment and create a framework to support sustainable economic development in the next decades.

Romania's current tax legislation reflects efforts to create an attractive environment for investors, with competitive tax rates and regulations that seek to balance the needs of the state budget with investment incentives. To provide an overview of the current tax legislation on investment income in Romania, we will address some key issues covering income tax and other relevant taxes.

In Romania, taxes and duties are mainly regulated by Law 227/2015 on the Fiscal Code. It establishes the legal framework for taxes and duties that constitute revenue for the state and local budgets and specifies the taxpayers who have to pay these taxes and duties, as well as how they are calculated and paid.

Investment income in Romania is regulated by Title IV Chapter V of the Tax Code. Thus, according to Article 91 of the Tax Code, ***investment income*** is represented by the following categories:

a) dividend income;

b) interest income;

c) gains from the transfer of securities and any other transactions in financial instruments, including derivatives;

d) gains from the transfer of financial gold, defined according to the law;

e) proceeds from the liquidation of a legal person. [2].

In these situations, the taxpayer is the individual and the payer can be either the withholding entity or the individual, as appropriate.

1. Dividends are a distribution in cash or in kind made by a legal entity to a participant as a consequence of holding equity securities in that legal entity[2].

In Romania, *income from dividends* is taxed at source by withholding a tax of **5%** of the amount of the income, the tax being final. At the same time, social security contributions of 10% of gross income are payable on dividends if the total amount of dividends exceeds 12 gross minimum wages per country. In the case of interest income, the amounts received are taken into account, and in the case of dividend income, dividends distributed and received from 2018 onwards are taken into account.

2. Interest is the price to be paid for borrowing, i.e. using, a sum of money over a period of time, i.e. the amount a borrower (debtor) pays a lender (creditor) for the money borrowed[2].

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Interest income is taxed at source, with the payer withholding a tax at the rate of **10%** of the amount of the income, the tax being final. Social security contributions of 10% are also due if the amount exceeds the ceiling of 12 gross minimum wages per country in a tax year.

3. Gains on transfer of securities and any other transactions in financial instruments, including derivatives.

The income from the transfer of securities, issued by Romanian residents, is considered to be obtained in Romania, regardless of whether it is received in Romania or abroad.

Financial instruments are shares issued by companies and their equivalents traded on the capital market, bonds and other debt securities, including government securities, traded on the capital market, and any other commonly traded securities which give the right to acquire those financial instruments by subscription or exchange[2].

In the case of *income from the transfer of securities/financial instruments*, taxpayers determine the annual net taxable gain/loss each year and pay the tax due at the rate of **10% based on** supporting documents. The health insurance contribution is due in the year in which the income is earned if the estimated income exceeds the ceiling of 12 gross minimum wages per country.

4. Financial gold transfer gains

As in the case of income from the transfer *of* securities/financial instruments, taxpayers determine the annual net taxable gain/loss and pay the **10%** tax due based on supporting documents.

Individuals earning such income are liable for social health insurance contributions if they estimate that their cumulative income for the current year is at least equal to 12 gross national minimum wages. The monthly basis for calculating the individual health insurance contribution is the annual earnings determined by the intermediary/income recipient, referred to the 12 months of the year. Gain/loss from financial gold transactions, defined according to the law, is the positive/negative difference between the selling price and the tax value, which includes the costs of the transaction. Non-taxable income is not included in the basis for calculating this contribution.

5. Liquidation of a legal person

The taxable income realised on the liquidation of a legal person is the excess of distributions in cash or in kind over the contribution to the share capital of the beneficiary individual. Income from the liquidation of a legal person shall also be considered as income from the liquidation of a legal person for tax purposes in the event of a reduction in the share capital, other than income received as a result of the return of the share of contributions. Taxable income represents the difference between distributions in cash or in kind, made in excess of the taxable value of securities and is taxed at source, with the payer of the income withholding a tax at the rate of **10%** of the taxable income from liquidation, the tax being final.The rate of the social security contribution is the same as before, i.e. 10%, if the ceiling of 12 gross minimum wages per country is exceeded.

As described above, *income tax and social security contributions* are the taxes due on *investment income*.

In most cases, the 5% (for dividends) or 10% income tax is withholding tax, so the taxpayer has no tax liability and it is calculated and paid by the payer of the income, except for

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income from the transfer of securities/financial instruments and financial gold, where the taxpayer must establish the annual net gain/loss and make the tax payment.
In the case of the 10% health insurance contribution, the taxpayer is obliged to calculate, declare and pay it using the *Single Tax Return on income tax and compulsory social contributions owed by individuals.*

As a rule, the health contribution is payable if income earned in a tax year exceeds the ceiling of 12 gross minimum wages per country. The Tax Code also provides for an exception, i.e. if individuals have a cumulative annual net income of less than 12 gross minimum wages per country and were not employed in the previous tax year and did not fall into the categories of persons exempted from paying the social health insurance contribution provided for in Article 154(1) of the Tax Code. (1), they owe the social health insurance contribution on a calculation basis equivalent to 6 gross minimum wages per country.

The basis for calculating the health insurance contribution is the equivalent of 12 (or 6) gross national minimum wages in force on the deadline for submitting the Single Declaration.

Since investment income is declared through the Single Tax Return, the deadline for declaring it as provided for by the Romanian Tax Code is 15 March.

Following the analysis, however, it should be noted that Romania, being a member of the European Union, is influenced by fiscal developments at the European and global levels. Therefore, tax regulations on investment income must consider these trends and be adapted to ensure compliance with international standards and to promote an attractive investment environment.

Romania must continue to monitor legislative developments at European and global levels and adjust, if necessary, its fiscal framework to remain competitive and encourage investment in the country.

3.3.Tax regulation of investment income in France

The French tax system can be characterised by its complexity, high marginal rates and significant administrative costs. The large diversity of assessment bases and the considerable number of taxes make it difficult to draw up a simple description of the whole system.

Even if there is a set of principles governing the functioning of the system, the presence of many exceptions to the general rules adds a significant degree of complexity. Sometimes the difficulty lies in understanding and applying these exceptions, thus undermining the clarity and predictability of the tax system.
Personal income tax in France, known as "Impôt sur le revenu", has its legal basis in Articles 1-204 of the General Tax Code (Code général des impôts).

Under the provisions of Article 4A of the French General Tax Code, individuals, regardless of nationality, who are resident for tax purposes in France are generally subject to personal income tax (PIT) on worldwide income, unless excluded by a tax treaty. For individuals who are not domiciled in France (non-residents), the tax applies only to income arising in France or, in certain circumstances, to imputed income.

Personal income tax is essentially a comprehensive tax levied on a person's total income in a given tax year. This tax is assessed annually on the taxable income of a tax household in a specific calendar year and is declared in the following year.

In France, several categories of income are subject to personal income tax, including:

- Income from industrial and commercial activities of the business;

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- Non-commercial income;
- Income from agricultural activities;
- Property income;
- Salaries, pensions and annuities;
- Investment income;
- Capital gains. [3].

The 2013 Budget Act brought changes to the tax regime for investment income, such as dividends and similar income, and income from fixed income investments. Until 2018, such income was subject to the progressive income tax grid.

Income from variable-yield securities, such as dividends and similar income, includes gains on shares and other income distributed by legal entities that are subject to corporate income tax or an equivalent tax, or that opt for this type of tax. This income may fluctuate according to the performance of the issuer.

On the other hand, ***income from fixed-income securities*** includes income from bonds, other negotiable debt securities, as well as income from receivables, deposits, guarantees, shareholders' advances, treasury bills and term notes issued by legal entities, whether public or private. Although the rate of return is usually fixed over the investment period, this is not always the case.

Since January 2018, a ***flat rate "flat tax"*** has been introduced on savings interest, dividends and the sale of shares. This measure was implemented to simplify and reduce the level of taxation on capital income. Previously, such income was taxed at the standard rates of income tax, social taxes, and capital gains tax.

In practice, the change brought by the new measure does not seem to have a significant impact on most households. Inevitably, the main beneficiaries of this measure are higher-rate taxpayers - those whose marginal income tax rate is at least 30%.

With these changes, there has also been a change in the imposition of social taxes, affecting expatriate households. The new flat-rate tax is called *Prélèvement Forfaitaire Unique* (PFU) and is often referred to in France (even by the French government) as the "flat-rate tax".

This tax imposes a uniform and fixed rate of 30%, regardless of income level. Unlike income tax, which is progressive, the new system takes a uniform approach. The tax is actually made up of two components:

- ***Income tax at the rate of 12.8% (income tax -12.8%)***
- ***Social charges at the rate of 17.2% (taxe sociale - 17.2%)***

The latter rate is the result of a 1.7% overall increase in the generalised social charge (GSC), leading to an increase in the total level of social taxes on investment income, rents and capital gains from 15.5% to 17.2%.

However, following the reform of social security contributions introduced by the 2019 Finance Act, residents of the *European Economic Area* (EEA), which includes the European Union, Iceland, Norway, Liechtenstein, or Switzerland and who are not affiliated with the French social security system, are now exempt from social security contributions. This exemption applies to all non-residents of the EEA and to residents of France who receive an S1 health certificate.

This change was implemented to bring French legislation into line with European regulations, which prohibit EEA residents from paying social security contributions in two countries.

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From January 2022, the French government has also recognised the right of non-UK residents to exemption from social security contributions, similar to EEA nationals. In an attempt to compensate for the anticipated financial losses as a result of this change, the government has introduced a "solidarity levy" (prélèvement de solidarité) at a rate of 7.5%, which applies to all investment income and capital gains. The revenue from this levy goes to the general budget, not to the Social Security budget.

As a result, those affected by this rule will pay a "social tax" of 7.5% instead of 17.2%. Therefore, EEA expatriates in France who hold an S1 certificate or equivalent pay a combined rate of 20.30%, while residents who do not benefit from social tax exemption pay at a combined rate of 30%.

If the resident's income is exceptionally subject to the *Contribution Exceptionnelle sur les Hauts Revenus* (Exceptional Contribution *on High Income*), the taxpayer will pay a combined total of 33% or 34%.

At the same time, changes have been made to the minimum income tax rate for non-residents, which has been increased from 20% to 30%, but only for those whose French-source income exceeds €27,519.

The combined rate applied to non-residents therefore depends on their country of residence and the level of French taxable income, fluctuating between 27.5% and 47.2%. Under tax treaty rules, many non-residents can claim back any tax deductions in France.

The date of application of the *Prélèvement Forfaitaire Unique* (PFU), also known as the "single flat tax", is from January 2018 for interest and dividends earned, except for those dividends that were not previously subject to withholding tax.

The tax is applied to all bank interest received, whether from France or elsewhere, for anyone resident in France. However, certain regulated bank savings schemes in France, which are currently exempt from income tax or social security contributions, remain exempt.
Interest earned on Livret A, LDDS (formerly LDD), Livret d'épargne populaire (LEP) and Livret Jeune will therefore continue to be tax-free.

Also, the taxation of interest earned on a PEL or CEL remains unchanged, but only if the account was opened before 1 January 2018 and until the 12-year anniversary of the account opening.

Dividend/share sales tax applies to all dividend income and capital gains from the sale of shares. Capital losses incurred in a year are deducted exclusively from capital gains of the same kind in the same year. In the case of a negative balance (total annual loss), such losses are carried forward and deducted under the same conditions in subsequent years up to the 10th year. [3].

The tax does not allow the right to the 40% advance income tax deduction on dividend income or the partial deduction from income tax of the CSG social taxes.

For company owners, using dividend income as a method of remuneration, the single tax applies to this income, with no 40% allowance or social tax deductibility. Where dividends exceed 10% of the company's share capital, self-employed social security contributions are payable at the time of dividend payments.

The tax also eliminates the holding period tax deduction (reduction to 50% or 65%) that was available under the previous tax regime for the sale of shares. Only shares acquired before 2018 continue to benefit from this exemption, but only if one opts for taxation according to income tax rates.

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Otherwise, for all new shares acquired on or after 2018 and for shares acquired before that date when the PFU is elected, no allowance for holding period applies.

It remains possible to tax at income tax rates on shares acquired from 2018 onwards but without any allowance for the holding period. Social taxes continue to apply.

A special provision remains in force until 2022 for retired owners of a company, who benefit from a €500,000 exemption on the sale of their shares, subject to certain conditions [9].

Options for income tax rates:

As it was incurred before 2018 with savings and investment income, a deduction at source (tax deduction) will be made by the bank or financial institution. The previous withholding tax deduction of 24% for interest and 21% for dividends has now been reduced to *12.8% plus social security contributions*.

Thus, if the net taxable income is no more than EUR 25,000 (EUR 50,000 for dividends) for a single person or EUR 50,000 (EUR 75,000 for dividends) for a couple, it is possible to request from the bank/financial institution (in a declaration) exemption from the 12.8% income tax element. However, this must be done before 30 November of the year preceding the payment of the dividend/interest. Therefore, a claim for income in 2022 must be made by 30 November 2021. The claim will be assessed on the taxpayer's 2020 income as notified in the 2021 tax notice.

However, if this option is chosen, it applies to all investment income and capital gains; one cannot choose which income to tax using PFU and which income to tax using income tax bands and rates [10].

The option to use income tax rates applies when the income tax return is made.

The deadline each year by which the tax return must be submitted to the French tax authorities varies by department. Normally, the return is due at the end of May or the beginning of June.

4. CONCLUSIONS

Investment income is subject to various regulations in national and international tax law. Internationally, tax policies have been subject to major reforms, such as the U.S. Tax Cuts and Jobs Act in 2017, which changed the structure of U.S. companies' foreign investment and intellectual property onshoring. In 2021, more than 130 countries have agreed on international tax reform. Specific regulations such as the proposed regulations under Section 48 of the Internal Revenue Code address the U.S. investment tax credit (ITC), highlighting the evolving nature of tax laws related to investment income.

At the national level, countries have laws governing investments made by foreign nationals within their borders, which include protections for foreign investors, tax treatment of investments, dispute settlement procedures, and sometimes limits on foreign ownership in strategic industries. In addition, international tax law, although not a definitive concept, is an aspect of public international law (PIL) and encompasses the international aspects of cross-border activities that may be regulated by domestic law or by tax treaties, either bilateral or regional-multilateral.

These regulations are key in defining how investment income is taxed and protected, reflecting a complex web of national interests, international agreements and ongoing legal developments. Information on specific tax treatments for investment income can be explored

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further in the context of these regulations, each of which will have detailed provisions on the taxation of investment income.

Tax policies that promote competitiveness and attractiveness to investors can boost economic growth, and competitive tax rates and clear regulations can support the development of the investment sector. A clear legislative framework and simplified tax procedures can reduce uncertainty and facilitate the investment process. Transparency of tax regulations is also essential for investor confidence.

In a global context, harmonisation of tax rules can increase consistency and predictability for investors. International efforts to combat tax avoidance and aggressive tax planning can also influence regulation at national level. Double taxation agreements and international directives can influence the way investment income is treated in the global context. Coordination and cooperation between countries can reduce the risk of double taxation and facilitate the movement of capital. Rapid changes in the economy, such as digitalisation and globalisation, require continuous adaptation of tax rules to respond to new challenges and opportunities.

Overall, well thought-out regulation at national and international level is crucial to support investment and contribute to sustainable economic development. In an increasingly interconnected economic landscape, harmonising efforts and promoting a conducive business environment become essential to create investment-friendly conditions and ensure balanced economic growth worldwide.

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