International Double Taxation.
Content, Consequences and Avoidance
- Part II -

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Abstract

This paper investigates the choice of international double taxation avoidance methods by two different companies engaged in cross border economic relations, in countries that mutually exchange foreign direct investment. We are examining the tolerance of Romanian and French investors to certain levels of tax generated by different scenarios: no Double Taxation Treaty concluded between the two countries; the existence of a Double Taxation Convention adopted by the two countries. The second part of the paper is divided into multiple sections concerning each unilateral method of avoiding the double taxation risk. Even in the presence of an international double taxation agreement, uncertainty is not entirely eliminated, affecting the foreign investment performance. Therefore, double taxation risk control is performed using two methods: exemption method and credit method (as prescribed by the OECD model treaty).

⮑ Data and methodology

By engaging in tax conventions, the contracting parties aim to avoid double taxation of income and capital of the same person, in the same fiscal year, by two different fiscal jurisdictions. The secondary purpose of such treaties is to prevent and eliminate tax evasion.

When negotiating the provisions of a tax convention, the contracting parties form their conclusions based on the OECD and United Nations Model Conventions, which recommend the use of the exemption or credit method as a means to effectively avoid double taxation.

This paper employs a simple theoretical model, which aims to analyze the effect of double taxation avoidance strategies taking into consideration both the size of the tax burden carried by the taxpayer as well as the tax revenue earned by each of the contracting states. The analysis is conducted from the perspective of two countries, France and Romania, that mutually exchange foreign direct investments through subsidiaries of domestic companies. Two multinational companies are concerned, each operating domestically and having a subsidiary in the other contracting state.

In order to benefit from the relief of double taxation in cross border activities, the two countries have the option of choosing either the exemption or the credit method as stated in the OECD and UN Model Conventions. Our aim is to study the option chosen by the contracting states in terms of tax revenue earned and the reason why a method is preferred above the other in double taxation avoidance treaties.

Under this model, we are considering two companies:

1. X Comp, which is conducting its activity under the laws of Romania, as its state of residence, having at the same time a foreign subsidiary in France.

2. Y Comp, which is conducting its activity under the laws of France, as its state of residence, having at the same time a foreign subsidiary in Romania.

As Dickescheid (2004) states in his paper, "corporate taxation is assumed to be non-discriminatory, which is recommended by both the OECD and the UN model treaties. Whereas the parent company is always subject to domestic corporate taxation, the taxation of the foreign subsidiary operating abroad depends on whether the home country uses the exemption or the credit method. The latter is modeled as a limited credit method (i.e., foreign taxes are never refunded domestically), which conforms to common practice of crediting countries.".

We have the following details of the two companies' activity:

✓ The accumulated taxable income of X Comp obtained in year *t*, related to business activities conducted in Romania (state of residence), is worth 400,000 lei, while the taxable income obtained from the foreign activity in France accounts for 25,000 EUR (the taxable income is identical both in terms of nature and tax application rules in both countries).

✓ The accumulated taxable income of Y Comp obtained in year *t*, related to business activities conducted in France (state of residence), is worth 250,000 EUR, while the taxable income obtained from the foreign activity in Romania accounts for 100,000 lei (the taxable income is identical both in terms of nature and tax application rules in both countries).

The fiscal particularities of Romania and France are presented below:

✓ In Romania, the taxation jurisdiction implies a unique corporate income tax of 16% regardless of the annual volume of turnover.

✓ France imposes a 28% corporate income tax for companies with annual turnover less than or equal to 250,000 EUR and a 31% corporate income tax applied to incomes which exceed the threshold of 250,000 EUR.

✓ The exchange rate used to convert EUR into lei is relies upon the lei/EUR ratio from the last day of December 2019, 4.7793 lei per 1 EUR, according to the website of the National Bank of Romania.

The taxation of the income obtained in both states is applied according to the principle of residency and territoriality. Therefore, it is necessary to mention that Article 7 of the OECD Model Convention regarding the taxation of business profits states that: "Profits of an enterprise of a contracting state shall be taxable only in that state unless the enterprise carries on business in the other contracting state through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits that are attributable to the permanent establishment [...] may be taxed in that other state." (OECD – Model Tax Convention on Income and on Capital, Chapter 3, "Taxation of Income", Article 7, "Business Profits", Paragraph 1).

The profits are attributable to a permanent establishment, which acts independently, as a distinct company, engaged in identical or similar conditions with the parent company. According to Article 5 of the OECD Model Convention, the subsidiary through which a company operates in a contracting state constitutes a permanent establishment.

Given the above-mentioned principles, the resident company is subject to corporate income tax for the profits obtained from the permanent establishments in both home and host country, thus appearing the phenomenon of Double Taxation.

➲ Empirical evidence

In a first stage of the study, we are considering a scenario in which the two countries, Romania and France, have not concluded any convention for the elimination of the double taxation phenomenon in order to measure the volume of tax burden on the taxpayers and the volume of tax revenue obtained by the state. In this scenario, the companies X Comp and Y Comp are subject to the following taxes:

1. Tax burden borne by X Comp:

a) Tax amount payed to France for the profits obtained from the permanent establishment's activity:

$$I_{SSX} \times R_{CITF} = CIT_{SSX}$$

where:
I_{SSX} = income obtained by X Comp in the source state (France);
R_{CITF} = corporate income tax rate in France;
CIT_{SSX} = corporate income tax volume payed by X Comp in the source state (France).

25,000 EUR x 28% x 4.7793 lei/EUR = 33,455.1 lei

Corporate income tax rate in France = 28% for profits ≤ 250,000 EUR

b) Tax amount payed to Romania for the profits obtained according to the principle of worldwide income:

$$(I_{RSX} + I_{SSX}) \times R_{CITR} = CIT_{RSX}$$

where:
I_{RSX} = income obtained by X Comp in the state of residence (Romania);
I_{SSX} = income obtained by X Comp in the source state (France);
R_{CITR} = corporate income tax rate in Romania;
CIT_{RSX} = corporate income tax volume payed by X Comp in the state of residence (Romania).

(400,000 lei + 25,000 EUR x 4.7793 lei/EUR) x 16% = 83,117.2 lei

Total tax burden imposed on X Comp when no DTT is concluded = 83,117.2 lei + 33,455.1 lei = 116,572.3 lei

2. Tax burden borne by Y Comp:

a) Tax amount payed to Romania for the profits obtained from the permanent establishment's activity:

$$I_{SSY} \times R_{CITR} = CIT_{SSY}$$

where:
I_{SSY} = income obtained by Y Comp in the source state (Romania);
R_{CITR} = corporate income tax rate in Romania;
CIT_{SSY} = corporate income tax volume payed by Y Comp in the source state (Romania).

100,000 lei x 16% = 16,000 lei

b) Tax amount payed to France for the profits obtained according to the principle of worldwide income:

$$(I_{RSY} + I_{SSY}) \times R_{CITF} = CIT_{RSY}$$

where:
I_{RSY} = income obtained by Y Comp in the state of residence (France);
I_{SSY} = income obtained by Y Comp in the source state (Romania);
R_{CITF} = corporate income tax rate in France;
CIT_{RSY} = corporate income tax volume payed by Y Comp in the state of residence (France).

(250,000 EUR x 4.7793 lei/EUR + 100,000 lei) x 31% = 401,395.75 lei

Corporate income tax rate in France = 28% for profits ≤ 250,000 EUR

Corporate income tax rate in France = 31% for profits > 250,000 EUR

Total tax burden imposed on Y Comp when no DTT is concluded = 401,395.75 lei + 16,000 lei = 417,395.75 lei

Therefore, Table 1 presents the total tax burden borne by each taxpayer and the total tax revenue charged by each state.

Table 1. Total tax burden borne by each taxpayer and total tax revenue
charged by each state under no DTT

- lei -

No DTT concluded	Romania	France	Total tax payed by the taxpayer
Tax burden of X Comp	83,117.20	33,455.10	**116,572.30**
Tax burden of Y Comp	16,000.00	401,395.75	**417,395.75**
Total tax revenue earned by each state	**99,117.20**	**434,850.85**	

Source: Author's computations.

We can observe that the level of the tax burden is high for both companies as the same profit, attributable to the permanent establishment operating in the foreign state, is imposed to taxes by two different jurisdictions, in the same period of time. This phenomenon can result in the decrease of foreign direct investment as the investors are discouraged by the high degree of taxation. In order to diminish the negative effects of double taxation and to boost investments, the countries resort to Double Taxation Conventions.

In the following scenario, we assume that Romania and France engage in a double taxation treaty and, implicitly, each of them choose the method to be applied for eliminating double taxation: total exemption method, progressive exemption method, total credit method and partial credit method.

Thus, considering the corporate income tax in each state, we will determine the size of the tax burden on taxpayers, X Comp and Y Comp, as well as the tax revenue gained by each state, Romania and France, based on the four methods of avoiding international double taxation.

1. The total exemption method

The method assumes that, in the determination of the taxable base subjected to taxes, the state of residence will not take into account the taxable income obtained by the company in the source state nor the income related to a permanent establishment or a fixed base in the source state, disregarding the existence of income from the other contracting state.

1.1. Tax burden borne by X Comp:

a) Tax amount payed to France for the profits obtained from the permanent establishment's activity:

25,000 EUR x 28% x 4.7793 lei/EUR = 33,455.1 lei

b) Tax amount payed to Romania for the profits obtained in the state of residence:

400,000 lei x 16% = 64,000 lei

Total tax burden imposed on X Comp under the total exemption method = 64,000 lei + 33,455.1 lei = 97.455,1 lei

1.2. Tax burden borne by Y Comp:

a) Tax amount payed to Romania for the profits obtained from the permanent establishment's activity:

100,000 lei x 16% = 16,000 lei

b) Tax amount payed to France for the profits obtained in the state of residence:

250,000 EUR x 28% x 4.7793 lei/EUR = 334,551 lei

Total tax burden imposed on Y Comp under the total exemption method = 334,551 lei + 16,000 lei = 350,551 lei

Table 2 presents the volume of tax burden imposed on X Comp and Y Comp and the volume of tax revenue earned by each state under the conditions of a double taxation treaty. In this case, both countries choose to apply the total exemption method as a means of avoiding the negative consequences of double taxation phenomenon.

Table 2. Total tax burden borne by each taxpayer and total tax revenue
charged by each state under a DTT. Total exemption method

- lei -

DTT concluded – Total exemption method	Romania	France	Total tax payed by the taxpayer
Tax burden of X Comp	64,000.00	33,455.10	**97,455.10**
Tax burden of Y Comp	16,000.00	334,551.00	**350,551.00**
Total tax revenue earned by each state	**80,000.00**	**368,006.10**	

Source: Author's computations.

2. The progressive exemption method

The method requires that the taxable income obtained in the source state or in the state where the company has its permanent establishment not to be taxable in the state of residence, but this income to be taken into account when determining the tax rate to be used based on the taxpayer's worldwide income.

Because the Romanian fiscal system imposes a unique rate of corporate income tax, the tax rate does not change regardless of the volume of the worldwide income obtained. Therefore, the application of progressive exemption method has the same result as the total exemption method as far as the tax payed by X Comp is concerned.

2.1. Tax burden borne by X Comp:

Total tax burden imposed on X Comp under the progressive exemption method = 64,000 lei + 33,455.1 lei = 97,455.1 lei

2.2. Tax burden borne by Y Comp:

a) Tax amount payed to Romania for the profits obtained from the permanent establishment's activity:

100,000 lei x 16% = 16,000 lei

b) Tax amount payed to France for the profits obtained based on worldwide income under the progressive exemption method:

Worldwide income = 250,000 EUR + 100,000 lei/4.7793 lei/EUR = 270,923.57 EUR

According to the French jurisdiction, profits ≤ 250,000 EUR are taxed at a 28% rate, while profits which exceed the threshold are taxed at a rate of 31%. Therefore, by complying with the conditions of the progressive exemption method, the corporate income tax to be used in the determination of the tax burden on Y Comp is 31%.

250,000 EUR x 31% x 4.7793 lei/EUR = 370,395.75 lei

Total tax burden imposed on Y Comp under the progressive exemption method = 370,395.75 lei + 16,000 lei = 386,395.75 lei

Table 3 presents the volume of tax burden imposed on X Comp and Y Comp and the volume of tax revenue earned by each state under the conditions of a double taxation treaty. In this case, both countries choose to apply the progressive exemption method as a means of avoiding the negative consequences of the double taxation phenomenon.

Table 3. Total tax burden borne by each taxpayer and total tax revenue
charged by each state under a DTT. Progressive exemption method

- lei -

DTT concluded – Progressive exemption method	Romania	France	Total tax payed by the taxpayer
Tax burden of X Comp	64,000.00	33,455.10	**97,455.10**
Tax burden of Y Comp	16,000.00	370,395.75	**386,395.75**
Total tax revenue earned by each state	**80,000.00**	**403,850.85**	

Source: Author's computations.

3. The total credit method

This method assumes that, in the calculation of the tax owed, the state of residence considers as tax base the worldwide income of the taxable subject (both the taxable income obtained in the source state and the taxable income obtained in the state of residence). However, the integral tax payed in the source state will become a credit (a deduction) granted to the taxpayer, which is subtracted from the payable tax burden in the state of residence. The full deduction is granted even if the tax paid in the other contracting state is higher than the tax level on the same kind of profit in the state of residence.

3.1. Tax burden borne by X Comp:

a) Tax amount payed to France for the profits obtained from the permanent establishment's activity:

25,000 EUR x 28% x 4.7793 lei/EUR = 33,455.1 lei

b) Tax amount payed to Romania for the profits obtained according to the principles of the total credit method:

Worldwide income = 25,000 EUR x 4.7793 lei/EUR + 400,000 lei = 519,482.5 lei

Total tax = 519,482.5 lei x 16% = 83,117.2 lei

Total deduction granted = The tax volume already paid in France = 33,455.1 lei

Tax revenue obtained by Romania = 83,117.2 lei – 33,455.1 lei = 49,662.1 lei

Total tax burden imposed on X Comp under the total credit method = 49,662.1 lei + 33,455.1 lei = 83,117.2 lei

3.2. Tax burden borne by Y Comp:

a) Tax amount payed to Romania for the profits obtained from the permanent establishment's activity:

100,000 lei x 16% = 16,000 lei

b) Tax amount payed to France for the profits obtained according to the principles of the total credit method:

Worldwide income = 250,000 EUR x 4.7793 lei/EUR + 100,000 lei = 1,294,825 lei

Total tax = 1,294,825 lei x 31% = 401,395.75 lei

Total deduction granted = The tax volume already paid in Romania = 16,000 lei

Tax revenue obtained by France = 401,395.75 lei – 16,000 lei = 385,395.75 lei

Total tax burden imposed on Y Comp under the total credit method = 385,395.75 lei + 16,000 lei = 401,395.75 lei

Table 4 presents the volume of tax burden imposed on X Comp and Y Comp and the volume of tax revenue earned by each state under the conditions of a double taxation treaty. In this case, both countries choose to apply the total credit method as a means of avoiding the negative consequences of the double taxation phenomenon.

Table 4. Total tax burden borne by each taxpayer and total tax revenue
charged by each state under a DTT. Total credit method

- lei -

DTT concluded – Total credit method	Romania	France	Total tax payed by the taxpayer
Tax burden of X Comp	49,662.10	33,455.10	**83,117.20**
Tax burden of Y Comp	16,000.00	385,395.75	**401,395.75**
Total tax revenue earned by each state	**65,662.10**	**418,850.85**	

Source: Author's computations.

4. The partial credit method

This method assumes that, in the calculation of the tax owed, the state of residence considers as tax base the worldwide income of the taxable subject (both the taxable income obtained in the source state and the taxable income obtained in the state of residence). However, the tax payed in the source state will partially become a credit (a deduction) granted to the taxpayer, which is subtracted from the payable tax burden in the state of residence. The amount of deduction may be equal to or less than the volume of tax, which would be paid in the state of residence for the same income as the one obtained in the source state.

4.1. Tax burden borne by X Comp:

a) Tax amount payed to France for the profits obtained from the permanent establishment's activity:

25,000 EUR x 28% x 4.7793 lei/EUR = 33,455.1 lei

b) Tax amount payed to Romania for the profits obtained according to the principles of the partial credit method:

Worldwide income = 25,000 EUR x 4.7793 lei/EUR + 400,000 lei = 519,482.5 lei

Total tax = 519,482.5 lei x 16% = 83,117.2 lei

Tax burden of France permanent establishment's income subject to Romanian legislation = 25,000 EUR x 4.7793 lei/EUR x 16% = 19,117.2 lei

Total deduction granted = 19,117.2 lei

Tax revenue obtained by Romania = 83,117.2 lei – 19,117.2 lei = 64,000 lei

Total tax burden imposed on X Comp under the partial credit method = 64,000 lei + 33,455.1 lei = 97,455.1 lei

4.2. Tax burden borne by Y Comp:

a) Tax amount payed to Romania for the profits obtained from the permanents establishment's activity:

100,000 lei x 16% = 16,000 lei

b) Tax amount payed to France for the profits obtained according to the principles of the partial credit method:

Worldwide income = 250,000 EUR x 4.7793 lei/EUR + 100,000 lei = 1,294,825 lei

Total tax = 1,294,825 lei x 31% = 401,395.75 lei

Tax burden of Romanian permanent establishment's income subject to French legislation = 100,000 lei x 28% = 28,000 lei

Total deduction granted = 28,000 lei

Tax revenue obtained by Romania = 401,395.75 lei – 28,000 lei = 373,395.75 lei

Total tax burden imposed on Y Comp under the partial credit method = 373,395.75 lei + 16,000 lei = 389,395.75 lei

Table 5 presents the volume of tax burden imposed on X Comp and Y Comp and the volume of tax revenue earned by each state under the conditions of a double taxation treaty. In this case, both countries choose to apply the partial credit method as a means of avoiding the negative consequences of the double taxation phenomenon.

**Table 5. Total tax burden borne by each taxpayer and total tax revenue
charged by each state under a DTT. Partial credit method**

- lei -

DTT concluded – Partial credit method	Romania	France	Total tax payed by the taxpayer
Tax burden of X Comp	64,000.00	33,455.10	**97,455.10**
Tax burden of Y Comp	16,000.00	373,395.75	**389,395.75**
Total tax revenue earned by each state	**80,000.00**	**406,850.85**	

Source: Author's computations.

The application of double taxation avoidance methods has a significant effect, firstly on the fiscal burden carried by the taxpayers. As previously seen, the taxpayers bare different levels of tax attributable to each method.

In Table 6, the fiscal burden degree on taxpayers is calculated using the ratio between the total tax to be paid in each of the five scenarios and the total volume of income. The latter is composed of the profit earned from the activity of the parent company in Romania, respectively France and the income earned from the activity of the permanent establishment subsidiary located in the other contracting state.

The data presented in the table show that the highest degree of taxation resulted from the scenarios where no double taxation convention is concluded between the two countries: 22% of the total volume of income in Romania and 32% in France. The explanation for the result comes from the double taxation of the same income, both in the state of residence and in the source state, obtained from the activities of the permanent establishment operating in the other contracting state. The high level of tax burden can discourage investors to engage in cross-border operations.

Table 6. Fiscal burden degree on taxpayers X Comp and Y Comp

Method employed	X Comp		Y Comp	
	Total tax (lei)	Tax burden degree (%)	Total tax (lei)	Tax burden degree (%)
No DTT concluded	116,572.30	22	417,395.75	32
Total exemption	97,455.10	19	350,551.00	27
Progressive exemption	97,455.10	19	386,395.75	30
Total credit	83,117.20	16	401,395.75	31
Partial credit	97,455.10	19	389,395.75	30

Source: Author's computations.

Regardless of the chosen method for double taxation relief, the tax burden owed by the permanent establishment subsidiary to the source state is constant, 33,455.1 lei in France and 16,000 lei in Romania. At the same time, irrespective of the chosen method, the total tax burden of the taxpayers in each country is significantly reduced.

From Figure 1 we can draw the conclusion that the X Comp would be better off if the state of residence (Romania) would engage in a double taxation treaty with France by employing the total credit relief method. This strategy would ensure a taxation level of only 16% of the total taxable income. The levels of tax emerging from the use of the total and progressive exemption methods are identical as the fiscal system employs a unique corporate income tax rate, therefore the taxpayer would owe the same tax amount.
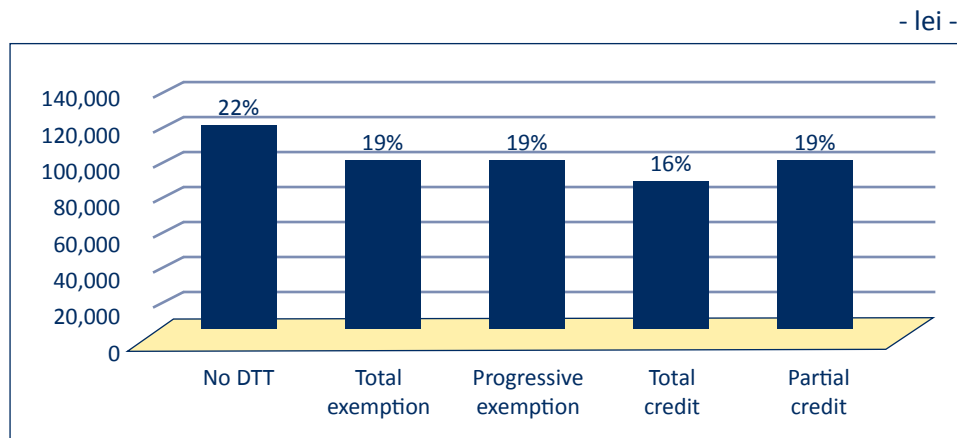

Figure 1. Tax burden of X Comp

Source: Author's computations.

As far as the taxation degree of the taxpayer Y Comp is analyzed (Figure 2), the most favorable outcome would result from the conclusion of a double taxation treaty between France (state of residence) and Romania (source state) using the total exemption method: 27%. The result is different compared to the one of X Comp due to the nature of proportionality of the corporate income tax rate. At the opposite pole, the highest degree of taxation is represented by the total credit method, which yields the highest proportion of tax out of the four double taxation relief methods, 31%.
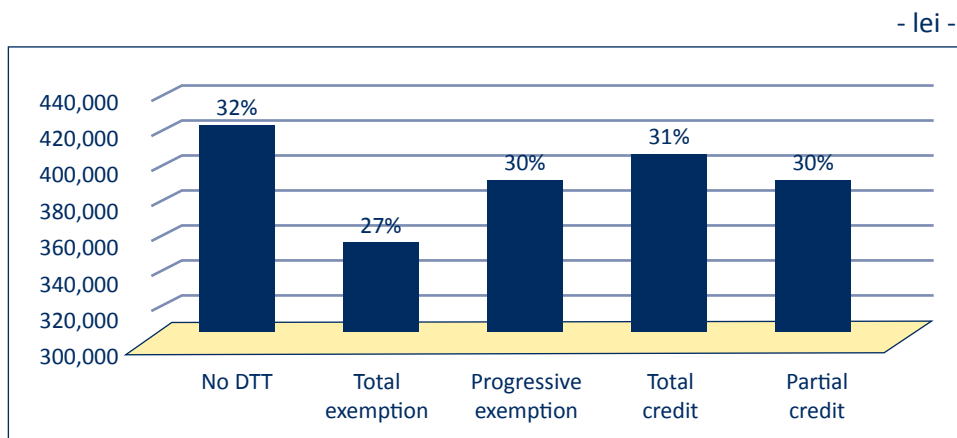

Figure 2. Tax burden of Y Comp

Source: Author's computations.

When analyzing the partial credit method, some observations arise. When the corporate income tax rate in the state of residence is lower than the one imposed in the source state, the tax credit granted to the taxpayer is smaller than the actual tax volume payed in the source state. Thus, we can say that the partial credit method represents a limited strategy of double taxation avoidance. On the other hand, when the corporate income tax rate in the state of residence is higher than the one imposed in the source state, the tax credit granted to the taxpayer is equal to the actual tax volume payed in the source state. This result is identical with the one generated by the total credit method.

In conclusion, from the point of view of the taxpayer, the most favorable methods of double taxation avoidance are the total exemption method, when the tax rate is higher in the state of residence compared to the source state, and the total credit method, when the tax rate is lower in the state of residence compared to the source state.

The following part of the paper focuses on the comparison between the above employed five scenarios from the point of view of the contracting states.

The application of the double taxation relief methods has an opposite effect on the revenues of the state of residence compared to the effect on taxpayers. Therefore, the tax relief measure is a disadvantage for the state who grants it. In Table 7, we have calculated the tax relief volume both in absolute and relative forms by subtracting from the maximum level of taxes the state could earn (the tax amount obtained when no DTT was concluded between the two countries) the level of taxes obtained through each double taxation avoidance method.

Table 7. Tax revenue earned by each state and tax relief extent

Method employed	Romania			France		
	Total tax earned (lei)	Tax relief (lei)	%	Total tax earned (lei)	Tax relief (lei)	%
No DTT concluded	99,117.20	-	0.00	434,850.85	-	0.00
Total exemption	80,000.00	19,117.20	23.90	368,006.10	66,844.75	18.16
Progressive exemption	80,000.00	19,117.20	23.90	403,850.85	31,000.00	7.68
Total credit	65,662.10	33,455.10	50.95	418,850.85	16,000.00	3.82
Partial credit	80,000.00	19,117.20	23.90	406,850.85	28,000.00	6.88

Source: Author's computations.

Engaging in a double taxation relief convention involves mutual tax sacrifices by the signatory states of the convention. Therefore, in the case of France, where the degree of taxation is high, the most advantageous method of double taxation relief is the total credit method, which will generate the highest tax revenue for the state budget. The same does not apply to Romania, where the degree of taxation is much lower. Therefore, except the total credit method, any other strategy would represent an optimal solution for double taxation relief, as the total exemption, progressive exemption and partial credit methods would generate the same level of tax.

When concluding a double taxation treaty, the contracting states should consider not only the level of tax revenue obtained, but also the positive effects of tax relief on investment opportunities and cross-border operations. In general, the contracting states opt for a mutual application of the double taxation relief method, but there are cases when each state opts for the most favorable solution in terms of tax revenue and investment encouragement opportunities.

⮕ Conclusion

The phenomenon of double taxation appears when the same income of a company, which has its residence in two different states, is taxed by different jurisdictions in the same period of time. Thus, an increase in the tax burden borne by taxpayers is registered and in some cases even the decrease of foreign investment and international cooperation, as investors are discouraged by high levels of taxation. The elimination of double taxation is a global necessity and aims to improve economic progression and trade.

Countries avoid the double taxation effect either by granting tax deductions to certain companies, which implies the voluntary decrease of state revenue, or engaging in cross border bilateral conventions with different states, called double taxation avoidance treaties. Using this type of taxation control, the two signatory states harmonize the fiscal rules used to interpret the application of taxes. When the income of a taxpayer is subject to taxes from two states, the home state will deduct the tax burden paid in the other contracting state either by income tax exemption or income tax credit granted to the taxpayer whose income has foreign origins. These two methods are eventually derived into unilateral measures of double taxation avoidance according to the degree of tax base calculation: total exemption, progressive exemption, total credit and partial credit. According to the relief methods, the income realized in the source state is not taxed in the source state as the parties apply the principle that the revenue is taxed in the other contracting state, favouring cross-border transactions.

This paper provides evidence of the double taxation effect and the role of relief methods on the volume of taxes payed by the taxpayer and the total revenue acquired by state authorities. A theoretical study was employed to determine the differences in tax volumes in multiple scenarios: no double taxation treaty applied and DTT concluded between states in cases in which the four acceptable avoidance methods were applied: total exemption, progressive exemption, total credit and partial credit.

From the data presented, we observed that the highest level of taxation is generated when no double taxation agreement is signed between the two countries that exchange foreign direct investments. The result is explained by the double taxation of the same income in both Romania and France. The high level of tax burden can discourage investors to engage in cross-border operations.

Secondly, when choosing one of the relief methods, we can observe a significant decrease in the total taxation burden regardless of the chosen strategy. In terms of taxes owed by X Comp, the most favourable outcome would be for the home state (Romania) to engage in a double taxation treaty with France by employing the total credit method, which would ensure a low level of taxation of only 16%. Analyzing Y Comp, a good result would be generated by the adoption of total exemption method, which would yield a tax level of 27%. The difference in result is caused by the proportionality of the corporate income tax rate and the high degree of taxation in France compared to Romania, which has a unique corporate income tax of 16% on the taxable income.

The application of the double taxation relief methods has an opposite effect on the revenues of the state of residence, which means that the tax relief measure is a disadvantage for the state that grants it. If the application of total credit is the most favorable strategy for double taxation avoidance in France, where the pressure of the fiscal burden is higher, in the case of the other contracting state, Romania, the maximum tax revenue is obtained when the state chooses to apply any other method except the total credit method. The phenomenon is explained by the considerably lower degree of taxation and by the fixed corporate income tax rate.

In conclusion, when concluding a double taxation treaty, the contracting states should consider not only the level of tax revenue obtained, but also the positive effects of tax relief on investment opportunities and cross-border operations. In general, the contracting states opt for a mutual application of double taxation relief method, but there are cases in which each state opts for the most favorable solution in terms of tax revenue and investment encouragement opportunities.

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