

ABOUT HOUSEHOLDS' WEALTH AND THE EFFECTS OF SOME TAX MEASURES THAT MAY AFFECT IT

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Abstract

The aim of the paper is to analyse the effects of some fiscal measures taken in the current economic context in Romania on the wealth of households. Specifically, we consider additional property taxation, 70% taxation of income without a justified source, and a correlation between a one-unit increase in property taxation, the increase in tax revenue, and the extent to which this increase affects the Gini coefficient (inequality). The methodology used is descriptive and empirical, referring to bibliographic references from specialised literature and statistical data of various national and international fiscal entities. Through regression, we demonstrated a correlation between the Gini coefficient and tax revenue increases by raising property tax revenues by 1 percentage point.

Keywords: properties, population, tax income, tax regulations, financial and non-financial assets

JEL Classification: D31; G51; H24

1. Introduction

Romania's current economic context is mainly characterised by uncertainty and lack of predictability; recently, the authorities announced a series of tax measures aimed at reducing the budget deficit and increasing state budget revenues (the budget deficit for the first ten months of 2023 reached 3.97% of GDP, compared to the deficit of 3.34% of GDP related to the first ten months of 2022).

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In this paper, wealth refers to *non-financial assets* (real estate/property) and financial assets. According to the Financial Stability Report of the National Bank of Romania (NBR, 2023), real estate assets include only real estate, which, in turn, is divided into residential real estate (residential and non-residential buildings), and commercial real estate (buildings, retail buildings, industrial buildings/spaces). Therefore, the wealth we refer to is represented by *real estate* (which, from a tax perspective, is subject to property taxation), and *financial assets* (cash, deposits, including income from work, and wages, subject to income taxation).

In the following, we present some fiscal measures that influence the wealth of households, respectively their properties (the application of a 1% tax for residential properties that cumulatively exceed 500.000 euros, the change in VAT for the purchase of a house in 2024, respectively of 5-9-19 %) and we tried to demonstrate, by regression, a correlation between the 1 pp increase in tax revenues due to the 1 pp increase in property taxation and the GINI coefficient (inequality). The conclusion was that the Gini coefficient also increases by 1 pp, so inequality slightly deepens.

Other aspects to which we have referred are the taxation of illicit assets by 70%, and, indeed, significant revenues can be collected from the State Budget because in the tax havens, the households owned substantial assets; only in Switzerland, they totalled, in 2022, 2,1% of GDP (according to data of Atlas Offshore World, a platform of the EU Tax Observatory).

2. An analysis of the non-financial assets of households in Romania and some fiscal measures with economic effects

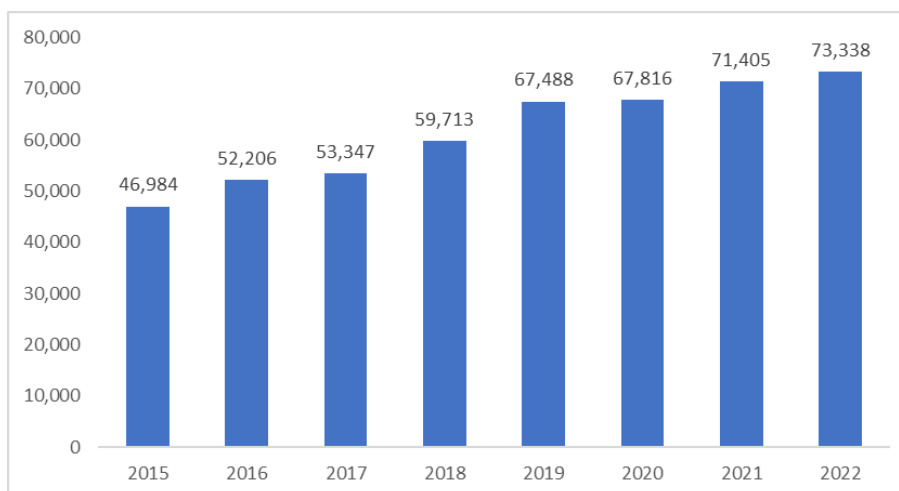
We discuss the non-financial assets of households in Romania, namely their houses/dwellings, in 2022, data provided by the National Institute of Statistics (NIS), as well as the Financial Stability Report of the NBR (NBR 2022), and Eurostat data (the degree of property ownership in Romania).

According to the Eurostat data, Romania has the highest degree of ownership among European Union (EU) countries (over 95%), and 76% of the net wealth of Romanians is represented by personal property or other real estate assets (NBR, 2022). If we refer to the number of owners in the EU countries, in 2021, 70% of the population lived in a household with its own home, while the remaining

30% were in rented accommodation. The highest shares of ownership were observed in Romania (95% of the population lived in a household where they owned their own house), Slovakia (92%, 2020 data), Hungary (92%) and Croatia (91%). Ownership is more common in all Member States except Germany. In Germany, just over 50% of the population is a tenant. Austria (46%) and Denmark (41%) followed.

Regarding Romania's housing industry, the number of completed homes between 2015 and 2022 shows an upward trend. The highest number of homes was completed in 2019, with a 13% increase compared to 2018. In 2022, the number of completed homes increased by 1.56 times compared to 2015. Also, if we refer to the periods before 2015, the stages of the real estate market were characterised by moderate growth between 2000 and 2005, a real estate boom until 2008, and a crisis from 2009 to 2014. Afterwards, there was moderate growth in this market, between 2015 and 2019, followed by a series of events: the pandemic crisis, in 2020, the Post Pandemic year (2021), the outbreak of War in Ukraine (2022), and the War on the border, and Inflation and very high-interest rates, in 2023 (Marcu, 2023a).

Figure 1
Number of finished dwellings in Romania during the current year, in the period 2015-2022



Source: NIS (2023)

If we consider the access of the population to the purchase of a home, according to a recent study published by Deloitte (Deloitte, 2022), the real estate market in Romania is among the most accessible at the European level, with an average of 6.3 gross salaries needed to purchase a residential property with an area of 70 sqm. According to the Financial Stability Report of NBR (NBR, 2022), the number of years it takes to purchase a home is 7.5 years in Bucharest, 7.6 years in Timișoara, 9.5 years in Constanța, 9.8 years in Brașov, and 10.8 years in Cluj-Napoca.

2.1. The application of a 1% tax for residential properties that cumulatively exceed 500.000 euros

There are opinions according to which this measure cannot be applied, there being ambiguities about the taking over of taxable values, the way they are established, or the very definition of the value, respectively the taxable value or the market value (Economedica, 2023); if the taxable value is taken into account, it must be taken into account that the land and the building have different taxable values; if the market value is taken into account, there are currently no transaction databases and an appropriate methodology.

We mention that, in 2021, the total receipts from property taxation in Romania represented 0,6% of GDP, while the EU average is 2,2% of GDP (European Commission, 2023) which denotes the fact that the current property taxation system in Romania, based on areas, is inefficient, generates revenues below potential, while the determination of the taxable value is inequitable and complex (IMF, 2022).

Therefore, it is necessary to reform the property tax system to substantially increase revenues at the local level. Among the potential solutions is property value taxation based on market transactions, so that the tax burden is shifted from people with low incomes and property to those with high incomes and property. However, this method has the disadvantage that it requires implementation over a longer period, as Romania currently adopts property taxation based on real estate valuation, based on area.

2.2. Modification of VAT for the purchase of a house in 2024

We refer to the measure according to which the purchase of a property will have VAT of 5-9-19%, depending on certain conditions. Therefore, if the property is purchased by the end of 2023, with the signing of the sales contract and the delivery of the apartment/house

by December 31, a 5% VAT can be paid if no other purchase has been made that fell within the ceiling of 450.000 – 600.000 lei. The property is finished, according to the law (Marcu, 2023b).

A VAT of 9% will be paid if certain conditions are met, namely, in addition to surface restrictions, the home must be completely finished, according to article 266 of the law, and, at the same time, if he has not purchased another property with 5% VAT, which exceeds the budget of 450.000 lei, for any pre-contracted property starting from January 1, 2024, which falls within the surface and finishing conditions of the law mentioned above. The persons who signed the pre-contract between January 1 and December 31, 2023, are targeted, and the final signing takes place in 2024.

Starting from January 2022, the Register of Natural Persons who purchased homes with a reduced VAT rate of 5%, which falls within the ceiling of 450.000 – 700.000 lei, was established. The register was taken over in 2023 when the threshold was changed to 600.000 lei, and from January 1, 2024, it will be updated according to law 296/2023.

A 19% VAT is paid on the purchase of a real estate property if, in the previous years, a property was purchased with 5% VAT, which exceeded the threshold of 450.000 lei or if the property is larger than 120 usable square meters or if the property is not finished according to the law.

2.3. Correlation of Property Tax Increase vs. Gini Coefficient.

Regression model

We want to investigate whether increasing tax revenues by increasing property taxation by one unit will decrease inequality (the GINI coefficient). We have the following data for Romania, data extracted from Eurostat: total tax revenues (% GDP) at the level of Romania in the period 2013-2022, revenues from the taxation of land and buildings (% GDP), as well as revenues from other current taxes (% GDP), as well as the Gini coefficient, for the period 2013-2022 (these incomes are part of the wealth structure).

We, therefore, want to see how tax revenues are influenced by the increase of one unit in the taxation of buildings, respectively, other current taxes, and whether this increase in tax revenues influences the reduction of inequality, respectively, the Gini coefficient. We use the regression method.

Table 1

Fiscal revenues, revenues from building taxation, other current taxes, in the period 2013-2022, % GDP

year	GINI	Tax revenues	Building taxes	Other taxes
2013	34,6	27,4	0,4	0,4
2014	35,0	27,5	0,6	0,4
2015	37,4	28,0	0,5	0,4
2016	34,7	27,0	0,5	0,4
2017	33,1	25,9	0,3	0,4
2018	35,1	26,5	0,3	0,3
2019	34,8	26,6	0,3	0,3
2020	33,8	26,8	0,3	0,3
2021	34,3	27,1	0,3	0,3
2022	32,0	27,4	0,3	0,3

Source: Eurostat

A) The influence of building and land taxation revenues on total tax revenues and the Gini coefficient

According to regression results displayed in Table 2 (in the Appendix), the following equation was obtained:

$$\text{Tax revenues} = 25.79 + 3.22 * \text{Building_taxes}$$

The coefficient on building taxes is statistically significant at the 90% confidence level. With a 1 pp increase in building taxes, tax revenues increase by 3.22 pp.

As for the correlation with the Gini coefficient, the regression is displayed in Table 3 in the Appendix. The results obtained show that at a 1 pp increase in tax revenues, the Gini index increases by 1.06 pp; that is, from tax revenues of 27,4%, if they increase to 28,4%, then the Gini index increases from 32 to 33, so inequality increases.

B) The influence of a unit change in other current taxes

The results regarding the influence of one unit change of other taxes on tax revenues are displayed in Table 4 (in the Appendix),

The conclusion is that even the increase of other current taxes does not impact inequality because the p-value is below 10% (9,6). Therefore, the increase in tax revenues by 1 pp, as a result of the

increase in property taxation, negatively affects inequality in the sense that it increases directly proportionally, also by 1 pp.

This situation was expected because an unfair tax system prevails in Romania; there are multiple tax exemptions/facilities, incomes are not taxed progressively, and tax compliance is not encouraged.

3. Taxation of unjustified wealth

Starting with July 1, 2024, income from unidentified sources will be subject to a new tax regime. The recent changes in the tax legislation bring an increase in the tax applied to these incomes from 16% to 70%, but there may be other risks following tax controls on individuals.

According to the Fiscal Procedure Code, revenues whose source has not been identified are determined by the fiscal bodies in accordance with the provisions of the normative act (Mihai, 2023). These investigations will take place as part of the verification of the personal fiscal situation, respectively information from various sources - the taxpayer, the transaction partners, various authorities, and state institutions.

In order to avoid the application of a 70% over-taxation, the taxpayer should clearly identify his sources of income, keep a record of the income obtained, archive the supporting documents, and, to the extent that the transactions have a relatively high degree of complexity, have up-to-date tax knowledge or seek specialised assistance in this regard.

Therefore, to avoid having one's income classified as "income from unidentified sources", a natural person should ensure transparency in their operations and conduct them in compliance with legal provisions. Also, it should have a record of the operations carried out, document each operation, properly archive the supporting documents, and declare and pay the due tax obligations on time.

Currently, the standard tax rate for natural persons is 10%, and for certain categories of income, the rates are lower: dividends - 8%, sales of real estate from personal patrimony, transactions with shares - 1% or 3%.

Based on the data provided by the National Agency of Fiscal Administration (NAFA), during the first half of 2023, 318 notifications were issued to high-net-worth individuals as part of the Notification

Program aimed at enhancing their tax compliance. Out of these notifications, 71 were sent by mail without confirmation of receipt, while 247 were sent through the virtual private space (NAFA, 2023a).

In November 2022, the "Development of tools to increase tax compliance" project was completed (financed by the COM Technical Assistance Instrument), within which the "Strategy for increasing voluntary compliance in the field of personal income tax in Romania 2023-2025" was developed. The objectives of the strategy are to reduce the fiscal gap, increase the degree of compliance with the declaration, increase the level of trust of taxpayers in NAFA, and increase the declared income.

To establish the context necessary for the implementation of the objectives, 3 pilot projects were developed regarding the incomes made by individual taxpayers from the transfer of the use of goods, from meditations/educational activities and other forms of education, respectively, from the provision of beautification/maintenance activities.

Table 5
Monitoring the income of individuals with large assets

	2021	2022	Increase (+) / decrease (-) in 2022 compared to 2021
Number of personal tax checks and tax inspections	180	201	+21
The amount of income declared as a result of the notifications sent to taxpayers from the PFAM group (million lei)	70,9	442,8	+371,9
The number of natural persons who are at risk of non-compliance when declaring taxable income, identified by the PFRF segment	241	440	+199

Source: NAFAb (2023)

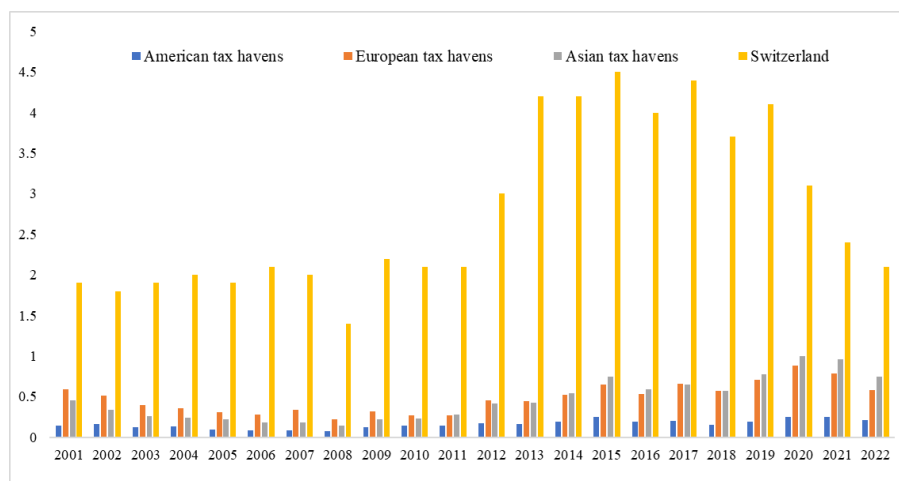
As shown in Table 5, the number of checks of people with high income was 180 in 2021 and 201 in the following year (only 21 more checks); people who present a risk of non-compliance when declaring income increased by 199, compared to 2021 (in 2022, 440 people). We highlight these figures, given that the number of millionaires in Romania with assets exceeding 30 million dollars was 1.828 in 2021,

and the number of people with assets greater than 1 million dollars was 38.000 in 2022 (UBS, 2023).

Next, we will discuss the offshore wealth owned by Romanians and, more precisely, how much of Romanian wealth is in tax havens. The data correspond to the period 2001-2022, expressed as a share of GDP, and the predominant tax havens are those in America, Asia, Europe, including Switzerland. We also analyse how many offshore real estate properties are owned in each of the six cities in the respective tax havens (and for which there are statistical data). We use data and methodology developed by Alstadsæter, Johannesen, and Zucman (2018) for offshore financial wealth, respectively by Alstadsæter et al. (2022) for offshore real estate wealth. This data series measures the amount of offshore financial wealth (stocks, bonds, mutual fund shares and related bank deposits) held abroad by households. The chart below breaks this wealth down by the location of the tax haven where it is held.

We note that the main destination of Romanians' offshore assets is Switzerland, with the highest values in the period after the financial crisis, between 2013 and 2019 (except for 2018), respectively 4-4,4% of GDP. Afterwards, the level is reduced by approx. 2 pp, reaching approx. 2% of GDP in 2021-2022.

Figure 2
Offshore financial wealth held by Romanian households in tax havens (in % GDP)

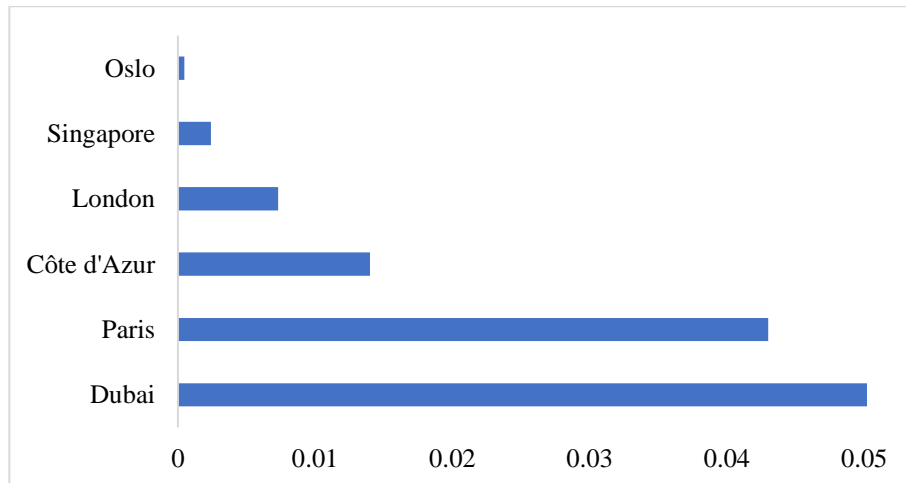


Source: processing data extracted from <https://atlas-offshore.world/country/ROU>.

The figure below (Figure 3) shows how much offshore real estate is owned in each of the six cities and areas covered by the accessible data. Offshore real estate is real estate that is either ultimately owned by an investor in another country or is owned by residents through complex offshore structures that can "implicate" the identity of the beneficial owner. Aggregate values are reported in billions of USD. Values are also scaled by GDP as a share of GDP. Values are shown as a percentage of the total offshore real estate in the city as a share of total real estate.

Figure 3

Offshore real estate products owned as a share of the country's GDP in cities from tax haven, 2022 (%)



Source: processing data extracted from <https://atlas-offshore.world/country/ROU>.

We note that offshore real estate products are more prevalent in Dubai and Paris, accounting for 0.051% and 0.043% of GDP, respectively.

Therefore, we consider that the taxation of unjustified incomes can bring a substantial amount to the country's State Budget, given that wealth exceeding 2% of GDP has been identified in tax havens, only in Switzerland.

4. Conclusions

In this study, some fiscal measures that influence household wealth are presented, respectively their properties - the application of a 1% tax for residential properties that cumulatively exceed 500,000 euros, the change in VAT for the purchase of a home in 2024, respectively 5-9-19%. In this sense, it was aimed to demonstrate, through regression, a correlation between the 1 pp increase in tax revenues due to the 1 pp increase in property taxation and the GINI coefficient (inequality). The conclusion was that the Gini coefficient also increases by 1 pp, so inequality slightly deepens.

Other aspects to which we have referred are the taxation of illicit assets by 70%, and, indeed, significant revenues can be collected from the State Budget because, in the tax havens, the households owned substantial assets; only in Switzerland, they totalled, in 2022, 2,1% of GDP.

In Romania, there is no wealth or inheritance tax. The practised form of wealth taxation is property taxation, in the form of tax on buildings, means of transport and other personal property, land and the transfer of property. Property transfer tax in Romania is specifically regulated as income tax. Property taxes in Romania fall within the scope of local taxes, being a relevant source for them. For land, the tax rate and base are set by the central authorities, while the tax exemptions that apply are set by both the central and local authorities.

We believe that, at present, the imposition of a wealth tax is not an achievable objective, an argument in this sense being, from our perspective, the exact definition of wealth and its assessment. In the paper, wealth denotes the financial and non-financial assets of natural and legal persons; an impediment would be the knowledge, with certainty/monitoring/control by the tax authorities, of the assets of individuals, and this can be achieved through their voluntary tax compliance. So, taxpayers must declare their assets on their own responsibility, thus ensuring total transparency, which, in Romania, is not very feasible, given the high level of tax evasion and the underground economy's share of approximately 29% of GDP (for the year 2022). Also, a special burden falls on the tax authorities to control wealth, so monitoring and collection efforts must be improved.

It must be taken into account that in Romania, the natural persons belonging to the middle class predominate, and wealth means only their own home. Therefore, instead of wealth taxation, actions

should be started to target, on the one hand, the property, but also other taxes with the property, respectively those with the transfer of properties, inheritance/gifts, being well-known that these are not taxed except in certain circumstances (remember, according to the latest data, the newest millionaires appeared precisely because of inheritances, and in our country, they are taxed with only 1% of the transferable value).

In order to monitor large assets, NAFA will need to conduct more checks. According to the Performance Report for 2022 (NAFA, 2023b), there were only 201 checks on individuals with assets over \$30 million in 2021, although 1828 people with assets exceeding that amount (NAFA, 2023b).

Therefore, some solutions for increasing revenues by taxing wealth (property) are:

- the design of sectoral economic policies should be complemented by efforts to improve education and address demographic changes, which can have a positive impact on the components of national wealth (Georgescu et al., 2023).
- the action of the local competent authorities regarding the inclusion in the national wealth of land and buildings (after completion of the cadastre), as well as natural resources (based on their identification and evaluation according to European practice).
- digitisation of public institutions, especially the Ministry of Finance, NAFA and their integration within a system of protection of national wealth against its erosion due to losses caused by subjective factors;
- the legislation and application of the progressive tax on the global incomes and assets of citizens, which will create the possibility of increasing the transparency of individual wealth and the significant reduction of economic and social disparities (IMF, 2022);
- strengthening the discipline of payments in the economy and drastically reducing tax evasion are likely to increase the performance of the real economy, increase state revenues, reduce the budget deficit, slow down the increase in public debt and prevent the erosion of financial assets, increasing their volume and, implicitly, the national wealth of the country (World Bank, 2023).

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The influence of building and land taxation revenues on total tax revenues

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0,61043349							
R Square	0,37262904							
Adjusted R Square	0,29420767							
Standard Error	0,50375743							
Observations	10							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	1,205828	1,205828	4,751626	0,060879			
Residual	8	2,030172	0,253772					
Total	9	3,236						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	25,7948276	0,584191	44,15479	0,00%	24,44768	27,14197	24,44768	27,14197
Building taxes	3,22413793	1,479083	2,179823	6,09%	-0,18663	6,634909	-0,18663	6,634909

Source: author's processing

Correlation with the Gini coefficient

SUMMARY OUTPUT							
<i>Regression Statistics</i>							
Multiple R	0,45125087						
R Square	0,20362734						
Adjusted R Square	0,10408076						
Standard Error	1,33472305						
Observations	10						
ANOVA							
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>		
Regression	1	3,644115	3,644115	2,045548	0,190524		
Residual	8	14,25189	1,781486				
Total	9	17,896					
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>
Intercept	5,80673671	20,0525	0,289577	0,779503	-40,4344	52,04788	-40,4344
Tax revenues	1,06118665	0,741971	1,430227	0,190524	-0,6498	2,772175	-0,6498

Source: author's processing