

FISCAL POLICY OF THE REPUBLIC OF MOLDOVA: ACHIEVEMENTS OF THE FISCAL CONTROL AND ENTITY BEHAVIOR

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It is an actual theme, determined by achievements of tax control in Moldova and its impact on the behaviour of the entity as important elements of fiscal policy. There are examined different methods for differentiating the problem, supplemented by deduction, induction, synthesis, analysis of defining phenomena of fiscal policy and its elements. The methodology used in this study is based on assessments of the theory, studies and interpretations of specialized literature and analyzes the practical activities specific for taxation at national, European and international levels, depending on which some opinions, conclusions and proposals were founded and formulated, to minimize the impact of tax evasion and fraud.

Keywords: *economy, tax and duties, social contribution, tax burden.*

Actualitatea temei este determinat de realiz rile controlului fiscal din Republica Moldova i impactul acestuia asupra comportamentului entit ții, ca elemente importante ale politicii fiscale. Sunt examinate diferite metode de diferen iere a problematicii, completate de deduc ie, induc ie, sintez , analiza fenomenelor definitorii privind politica fiscal i elementele acesteia. Metodologia utilizat în acest studiu se bazeaz pe evalu ri ale teoriei, studiilor i interpret rilor din literatura de specialitate i analizele din activitatea practic , specific domeniului fiscal la nivel na ional, european i interna ional, în func ie de care s-au fundamentat i formulat unele opinii, concluzii i propuneri proprii, cu impactul minimiz rii evaziunii i fraudei fiscale.

Cuvinte-cheie: *economie, impozite și taxe, contribuții sociale, povara fiscal .*

JEL Classification: E62, F41, G19.

Introduction. In most of EU countries fiscal reforms are different as depth, oscillating between implementing tax policies by increase or reduction of tax burden and implementing some elements of European fiscal policy – in line with EU recommendations or charges, with multiple implications at the level of the taxpayers and the public decision makers. Practice has shown that processes of economic integration determined outsourcing of specific problems of each state within the Union, including fiscal ones, the impact of which can have an effect on other Member countries, or may affect two key factors: ensuring community freedoms, and protection of the single market. Tending to mitigate these effects once "the European single market project" is launched, the explicit emphasis was put on tax harmonization that is based on the rule of Community norms prevalence in relation to national legislation, so that national tax

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rules to be restructured and adapted uniformly as possible, and fiscal relations between the member countries of the Union to rely on fiscal neutrality [2. p.41].

The overall objectives of fiscal policy in the Republic of Moldova in the medium term are based on the following:

- ensure equity, sustainability and fiscal transparency;
- streamline the tax burden;
- systematize the national tax law;
- improve and simplifying tax systems;
- harmonize the national tax legislation, as well as in line with implementation of the Association Agreement between the European Union and the European Atomic Energy Community and its Member States, on the one hand, and the Republic of Moldova, on the other hand [2. p.4].

Fiscal policy measures. In the medium term, in Moldova there is expected a number of fiscal policy measures related to major types of taxes, as follows: harmonization of the VAT legislation with the European Union in accordance with the timetable established under the Association Agreement between the European Union and the European Atomic Energy Community and its Member States, on the one part, and the Republic of Moldova, on the other hand, namely:

- Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax;
- Council Directive 2007/74/EC of 20 December 2007 on the exemption from value added tax and excise duty of goods imported by persons traveling from third countries;
- Thirteenth Council Directive **86/560/EEC** of 17 November 1986 on the harmonization of the laws of the Member States relating to turnover taxes – Arrangements for the refund of VAT to taxable persons not established in the Community [2. p.31].

According of December 31, 2014, in Moldova there were on record a total number of 689,580 taxpayers practicing entrepreneurship, business, retain and pay taxes at the source of payment. Of this number, 122 057 persons constituting legal entities, farms – 507 256 units, individual enterprises – 59 989 units and individuals who practice professional activity – 278 people. Additionally, during 2014, a number of 16007 entrepreneurship patents were issued, and 38, 7 mln. MDL were claimed [5. p.127].

To the situation on 31 December 2014 a number of 15975 patents remained valid. The Republic of Moldova recorded successes in the most popular annual rating on comparing business regulations for local entrepreneurs in 189 economies published by the World Bank Group. Thus, in terms of tax payment, the experts of the study „Doing Business 2015" appreciate the work of tax bodies with plus (+) 35 positions compared to the previous report (position 105 – Doing Business 2014, position 70 – Doing Business 2015). According to the main tax indicators, Doing Business 2015 data is presented in Table 1.

Table 1

Data related to fiscal domain according to Doing Business 2015

Indicators	Moldova DB 2014	Moldova DB 2015	Europe and Central Asia	OECD
Number of payments/year	31,0	21,0	20,5	11,8
Time used (hours/year)	181	185	234,3	175,4
Income taxes (% of revenue)	9,6	9,3	10,4	16,4
Taxes and deductions from salary (% of revenue)	30,6	30,2	21,4	23,0
Other levies/taxes (% of revenue)	0,2	0,2	3,1	1,9
Total tax rate (% of revenue)	40,4	39,7	34,9	41,3

Source: STIM, 2015.

One of the reasons due to which the above mentioned progress was registered is the implementation of E-declarations, online payment of obligations, reduced number of declaration by their merging. During 2014, the Republic of Moldova has made 60,523 tax audits. Compared to the year 2013 (74 029 tax audits), their number decreased by 13,506 or 18%.

Table 2

Dynamics of tax audits conducted during 2010-2014

Indicators	Years				
	2010	2011	2012	2013	2014
Total tax examinations conducted on the spot, including by verification method:	66875	71900	63527	74029	60523
Total (plan and over plan)	5602	4947	3652	2959	3922
<i>themes</i>	25685	28804	24696	29968	24484
<i>repeated</i>	176	118	153	96	88
<i>operative</i>	11621	13401	12500	12519	9315
<i>contraposition</i>	1340	1550	1936	3523	3801
<i>cameral check</i>	18729	19347	17383	19275	16391
<i>other</i>	3722	3733	3207	5689	2522

Source: STIM, 2015.

We find that number of tax audits planned by the method of total checking/plan increased by 431 controls (1087 in 2014 and 656 in 2013). The dynamics of all checks in 2014 compared to the same period of the previous year, is decreasing by 18%. According to information provided by the State Tax Inspectorate of Moldova (STIM), following an overall control additional tax liabilities in the amount of 249,200 MDL were calculated in average per STI. The highest level was obtained by STI Chi in u municipality, STI Edinet, Straseni, Dubasari and the STIM General Directorate for Large Taxpayers Administration. At the same time, a level much lower than the average recorded Nisporeni STI, Soroca, Calarasi, Telenesti, Cahul, Ialoveni, Glodeni, Cimislia, Balti, Gagauzia, Stefan-Voda etc. [2. p.38].

The share of total calculated amount of money paid in addition to the budget (except for amounts calculated using estimates, to operators that are in the process of insolvency, the amounts contested at STS or in court and the reduced amounts under the legal framework) is 87%. Cost-effectiveness analysis shows that per one MDL paid as salary (according to gross salary of the tax inspectors from the control units) about 10 MDL real revenue collected at the budget was obtained. The highest efficiency in terms of expenditures for one MDL cashed after the checks have been done were registered at territorial STI Chisinau, Falesti, Causeni, Briceni, Drochia, STIM General Directorate for Large Taxpayers Administration.

Next, we make a reference to the influence of the external environment on the economic entity's fiscal behavior. It is understood: the size of the entity (micro, small, medium-sized enterprise), seasonal character (work are ongoing, seasonal – winter, summer, occasionally), the region where the company operates, respectively its field of activity. It should be noted that values assigned according the ranges depend on the statistics provided by Moldovan territorial STI (2014/2015 editions). As a sample for analysis, it was used: size, revenue from sales, the economic results of companies in the region, etc. In this sense, we consider coefficient expressing the impact of influence factor (those listed above) on the fiscal behavior of the company, with positive values between 0 and 1 (or 0% – 100%), $\in [0;1]$. We therefore:

$=0$, as the company is not influenced, behavior is correct; $=x$ – value, when that factor has an impact on the company. The value is closer to 1, the company is vulnerable factor, and behavior aims to be incorrect, escapist; $=1$ – escapist behavior, factor has a major impact on the company. We propose the following:

We note $Y = Fb/If$, an impact report, indicating the extent to which fiscal behavior is influenced by these influence factors; Fb – fiscal behavior of the economic entity; If – (external) influence factor. $\in [0;1]$, ...in the ranges [0-0,4]; [0,5-0,7]; [0,8-1]. Also, – is the set of economic entities that fall in that sample. Y means: Y $\in [0-0,4]$ behavior is not affected by the impact of that factor; Y $\in [0,5-0,7]$ behavior is influenced to an acceptable level; Y $\in [0,8-1]$ the impact on behavior is strongly negative.

a) F1 = company size

Table 3

Fiscal behavior depending on the size of the entity			
Y=Fb/size	[0-0,4]	[0,5-0,7]	[0,8-1]
Microenterprises	-	-	xi
Small enterprises	-	xi	-
Medium-sized enterprises	xi	-	-

Source: Based on the STIM territorial statistics, 2015.

According to estimates, the type of micro businesses have the lowest degree of compliance; the opposite is the medium ones that are frequently subject to tax controls.

b) F2 = seasonality

Table 4

Fiscal behavior depending on the seasonal activity			
Y=Fb/seasonality	[0-0,4]	[0,5-0,7]	[0,8-1]
Permanent activity	xi	-	-
Seasonal activity	-	xi	-
Occasional activity	-	-	xi

Source: Based on the STIM territorial statistics, 2015.

We believe that companies with permanent activity are honest, they comply with tax; one reason is the fact that they are included in an evidence at the official level and fiscal control can be performed at any time. Instead, regarding seasonal work it is well known that both during the holiday season and during holidays most businesses do not pay their obligations to the state. Also, economic units with occasional activity have a reduced degree of tax compliance, most often evasion is related to VAT, labor taxes.

c) F3 = region, where the economic entity operates

Table 4

Fiscal behavior depending on development region			
Y=Fb/region	[0-0,4]	[0,5-0,7]	[0,8-1]
Nord	xi	-	-
including Balti municipality	-	-	xi
South	-	xi	-
ATU G g uzia	-	-	xi
Center	-	xi	-
Chi in u municipality	xi	-	-

Source: Based on the STIM territorial statistics, 2015.

In line with mentioned above, in Chisinau and the Northern development region the firms have an honest behavior. A medium fiscal behavior is with entities in the South and the Center. The rest (Gagauzia, Balti), are regions which are developed economically, but often evade taxes [3. p.138].

d) F4 = sphere of activity

Table 5

Fiscal behavior depending on the sphere of activity			
Y=Fb/sphere of activity	[0-0,4]	[0,5-0,7]	[0,8-1]
Agriculture	-	-	xi
Mining industry	-	-	xi
Processing industry	-	xi	-
Production and supply of electricity and thermal energy, gas, warm water	-	-	xi
Water supply, sanitation	-	xi	-
Constructions	-	-	xi
Trade	-	-	xi

Transport and storage	-	xi	-
Hotels and restaurants, catering	-	-	xi
Information and communications	-	xi	-
Financial intermediation and insurance	-	xi	-
Real estate transactions	-	-	xi
Professional, scientific and technical activities	-	xi	-
Public administration	-	xi	-
Education	-	xi	-
Health and social assistance	-	xi	-
Entertainment, recreation and arts activities	-	xi	-
Activities of households	-	-	xi

Source: Based on the STIM territorial statistics, 2015.

According to latest reports (Ministry of Finance, STIM), economic agents tending to avoid taxes are from agricultural sector (grains, vegetables, fruits), those who operate with products subject to excise duty (tobacco, alcohol, energy products), real estate, hotels and restaurants, food industry, constructions and trade. Tax evasion is done mostly in relation to VAT (especially in constructions, hotels and restaurants, where, for example, employees receive their wages "in envelopes"), declaring incorrect number of tourists (tourism), appointment made "to black" etc. According to research, entities meet main development obstacles in:

- drop in domestic demand;
- excessive taxation, bureaucracy;
- late payment of invoices from private firms;
- development of the legislative framework, political changes, etc.

Conclusions. We believe to avoid a decrease in tax compliance of entities, continuous improvement of fiscal policy, adjusted to EU standards and requirements is needed. Thus, major influences will have:

- increase of the efficiency of the control system and labor and taxation evidence system;
- strict application of penalties and sanctions in case of detection of informal activities;
- simplification of taxes, while reducing bureaucracy;
- reduction of certain taxes that hinder work in the formal sector, investments or private initiative, while increasing others that are currently undersized in Moldova, as well as wealth tax or capital and the land tax;
- introduction of a complex deductions and incentives system and its effective application, following the EU model.

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