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MOLDOVAN TAX REFORM: 25 YEARS OF CHANGES

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Abstract

Since its independence, the Republic of Moldova decided to consolidate its place among the democratic nations and started the economic reform in order to integrate it in the European and international economy as well as in the process of globalization. The reform of the national economy was oriented towards the substitution of the old, outdated and almost collapsed socio-economic system by one capable to ensure the continue progress in the society. This reform could be done through fiscal legitimacy, which may be achieved by a clear and transparent establishment and predictable rules, especially in the statutory and the administrative aspects of the tax system. Unfortunatelly, the concept adopted to be implemneted does not consider the ongoing changes and local particularities. After 20 years of implementation, the tax system is still characterized by oversize, austerity and the state's inability to manage its resources efficiently. Nevertheless, many steps have been made to change things in the last 5 years. This paper aimed to examine the tax reform changes in order to reveal the weaknesses of the Moldovan tax system and to understand its areas of strength.

Key words: *tax reform, fiscal policy, tax administration, tax law, tax system, taxing culture*

INTRODUCTION

Moldova's transition from planned to market economy required a total reconstruction of the tax system structure, particularly: taxes, tax administration and legislation of tax matters. However, in practice, Moldova's tax system wasn't able to solve the multitude of problems that occurred. This system is unfair as it hampers economic growth, applying half measures, and does not ensure state programs and services efficiently. The legal economy was substituted with "shadow one" that gets alarming proportions until present. The tax system, after 20 years, was characterized by oversize, austerity and state's inability to manage efficiently available resources and some steps were taken in the last 5 years. With this paper we aim to examine the tax reform changes in order to reveal the weaknesses of Moldovan tax system and to understand its areas of strength.

MATERIALS AND METHODS

This research is relevant for two groups of addresses: governments and policy makers, and academic stuff and researchers. Firstly, we analyse the Moldovan fiscal policy. Second we distinguish six stages of the Moldovan tax system transformation, including characterization of the main changes of tax reform, highlighting Tax Administration transformation, Tax law amendments and new legal implementations, the administrative-territorial reforms; the Information Technology efforts, etc. The article focuses primarily on the situation faced by Moldova in the last 25 years. A large amount of data provided by IMF, OECD, Mains State Tax Inspectorate, Ministry of Finance information and other sources of technical expertise was collected, synthesized, and analysed.

RESULTS AND DISCUSSIONS

1. Fiscal policy transformation: statistical evidence

Moldovan tax reforms generally correspond to the "flat tax" approach, based on tax simplification and aligning the *de jure* tax burden with the *de facto* capacity of the tax administration. An increase of tax payments in 1990-1995 was obtained, essentially on account of high inflation (up to 77% of the

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companies' benefit were ensured by inflationary pressure) [22]. In 1996 this reserve is exhausted, while reducing GDP and tax evasion continued their pace. Reform introduced after the turn of the millenium reduced tax rates without reducing tax revenue, by broadening the tax base and reducing the number of exemptions. These "flat tax" reforms are widely seen as helping to reduce corruption (Moldova assessed score of public-sector corruption below 3 on a scale of 0 (highly corrupt) to 10 (very clean))[1] and shadow economy (the averaged rate of the shadow economy in Moldova is 44.4% during the analysed period) and accelerate GDP[2] (Table 1). Schneider clearly demonstrates that the increase of tax and social security contribution burdens is by far the most important single contributor to the increase of the shadow economy [6, p. 56].

Table 1. Moldova: Key Macroeconomic Indicators, 1991-2014

	Fiscal Accounts			Real economy					Remittances % of GDP	Corrupt.Percept.Index	Shadow Economy
Year	Expenditures, % GDP	Revenues, % GDP	Gen.Gov. Balance, % GDP	GDP, mil US $)	GDP grow,% change	Imports, % vol. change	Exports, % vol. change	GDP deflator			
1990	-	-	-	3,503	-2.40	-	-	13.5	-	-	-
1991	-	32	-	3,095	-16.00	-	-	139.8	-	-	-
1992	-	20	-	2,319	-29.10	-	-	945.0	-	-	44.25
1993	-	17	-	1,524	-1.20	-26.9	-45.8	860.5	-	-	43.36
1994	22.7	17.0	-5.7	1,424	-30.90	2.8	25.4	276.4	-	-	42.87
1995	46.2	39.4	-6.8	1,400	-1.40	26.5	29.2	38.7	0.06	-	43.11
1996	43.9	35.9	-8.0	1,700	-5.20	31.0	10.7	26.9	5.14	-	43.57
1997	50.0	39.8	-10.2	1,900	1.60	12.3	1.7	12.6	5.93	-	43.80
1998	42.6	37.6	-5.0	1,698	-6.50	-10.4	-26.4	5.6	7.58	-	44.24
1999	36.7	29.5	-6.3	1,171	-3.40	-20.0	2.7	44.9	9.55	2.6	44.87
2000	34.5	31.0	-3.5	1,288	2.10	26.1	10.4	27.3	13.86	2.6	45.35
2001	29.4	29.2	0.3	1,481	6.10	12.0	15.1	12.1	16.43	3.1	45.65
2002	30.4	29.6	-0.8	1,662	7.80	18.0	20.1	9.8	19.48	2.1	45.76
2003	33.3	34.0	0.7	1,981	6.60	28.6	19.0	14.9	24.57	2.4	45.76
2004	34.6	35.4	0.7	2,598	7.41	0.3	8.3	8.0	27.14	2.3	45.61
2005	37.0	38.6	1.7	2,988	7.49	24.6	18.5	9.4	30.62	2.9	45.20
2006	39.8	39.9	0.0	3,408	4.80	10.9	-0.1	13.4	34.50	3.2	44.98
2007	42.0	41.7	-0.2	4,403	3.07	14.6	15.0	15.8	33.88	2.8	44.50
2008	41.6	40.6	-1.0	6,056	7.76	2.9	-0.7	9.3	31.18	2.9	43.94
2009	45.2	38.9	-6.3	5,438	-5,99	-23.6	-12.1	2.2	22.04	3.3	-
2010	40.8	38.3	-2.5	5,813	7.09	14.3	13.7	11.1	23.25	2.9	43.4
2011	39.0	36.6	-2.5	7,016	6.41	19.7	27.4	7.7	22.81	2.9	-
2012	40.1	38.0	-2.1	7,253	-0.70	2.2	1.7	7.9	24.62	3.6	-
2013	38.7	37.0	-1.8	7,985	9.40	4.4	9.6	4.1	24.86	3.5	-
2014	41.4	39.3	-2.2	7,944	4.60	0.4	1.1	5.1	26.11	3.5	-

Source: elaborated by author based on the Moldova STS, World Bank, Transparency International and source [5] data.

The efforts to stimulate economic growth through the tax system during this period resulted in an insignificant result, with large macroeconomic imbalances (e.g. decreases of exports and negative GDP growth), especially in crisis time. Statistics show that Moldova's public finance system remains vulnerable to macro financial and political shocks[3] and dependence of the personal remittances is evident. Remittances in Moldova averaged 892.49 USD Million from 1995 until 2015, reaching an all time high of 2,074.57 USD Million in the 2014, growthing gradually. However, 2008 crisis brought about 10% decrease of remittances in GDP. Thus, we can conclude that tax system does not achieve both financial function, contributing to the destabilization of the financial structure (budget deficit, external debt, etc.), and the regulating function (changing tax laws create undue burdens for taxpayers and tax administration, loss of taxpayers' confidence and ultimately their emigration abroad, etc.). Thus the government of Moldova is losing up to 20% of its revenue due to tax collection effort [2, p.143] and according to the 2004 population census, 25% of the labour force – were working abroad [14, p.3].

The primary objective pursued by the state fiscal policy during all stages of tax system transformation is to identify the balance between the need to increase revenues, as a main source of covering the expenses directed towards the economic and social needs and the need to support the business environment, which is the main factor of economic growth. Thus, since 2000, Moldova's fiscal performance has been commendable, in contrast to its deteriorating performance through most of the 1990s. Over the past 25 years (1990-2014), the share of tax revenue as a percent of GDP has changed, with a volatility from 21.8 to 34.0 percent and never reached its pre-1990 level of 41 percent (Table 2).

The structure of revenue changed too. While social contributions remained a significant source of revenue, the collection of CIP and

[1] Fore more info see: http://cpi.transparency.org

[2] The cumulative decline in GDP of 65% between 1990 and 2000 turned Moldova into the poorest country in Europe, which has lasted until present time.

[3] Moldova has been faced four major crises (The economic, social and political crisis of 1989-1992, The Russian Financial Crisis of 1998, The global economic and financial crisis of 2008 and The Ukrainian and Russian crisis of 2014–present) that revealed the need for fiscal adjustment.

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customs tax revenues declined substantially (e.g. CIT is reduced from 12.3% in 1989 to 2.2% in 2014 and Foreign Trade taxes – from 6.3 to 1.4 respectively).

Table 2. Moldova: Revenue structure by Percent of GDP, 1991-2014

Year	Tax rev. in tot. Revenue, %	Social Fund contrib	Health Fund contrib	Excises	VAT	CIT	PIT	Foreign Trade taxes	Other Taxes	Total tax revenue
1989	-	6.3	-	-	12.0	12.3	4.4	6.3	-	41.0
1990		-	-	-	-	-	-	-	-	-
1991		-	-	-	-	-	-	-	-	-
1992		9.6	-	-	6.7	4.8	1.8	-	-	22.8
1993		7.8	-	-	4.4	4.6	1.6	-	-	31.3
1994	75.4	7.1	-	-	4.3	4.5	1.7	-	-	28.8
1995	81.6	10.2	-	-	7.0	4.9	2.5	-	-	27.4
1996	82.1	9.8	-	-	7.0	4.1	2.5	-	-	29.9
1997	75.3	8.2	-	4.5	10.7	2.4	2.8	-	-	28.3
1998	81.3	8.6	-	4.1	12.3	2.2	2.2	1.2	1.5	21.8
1999	75.2	6.4	-	3.6	7.6	1.9	1.8	1.9	1.6	24.8
2000	75.1	6.3	-	4.1	8.4	1.7	1.7	1.4	1.4	25.0
2001	79.9	6.8	-	3.6	7.9	1.8	1.8	1.2	1.2	24.4
2002	83.3	9.1	-	2.9	9.0	1.9	2.1	1.5	1.2	25.8
2003	80.0	7,3	-	3.2	10.1	2.1	2.3	1.7	0.9	27.5
2004	83.2	7.2	1.0	2.8	10.7	2.4	2.5	1.5	1.0	29.8
2005	80.9	7.8	1.2	3.1	12.3	1.9	2.6	1.8	0.9	31,6
2006	82.5	7.9	1.2	2.4	13.8	2.4	2.5	1.9	0.8	33.3
2007	80.5	8.2	1.6	2.6	14.2	2.6	2.5	1.7	0.7	34.0
2008	83.3	8.6	1.8	2.5	14.5	1.1	2.4	1.8	0.7	33.4
2009	81.5	9.2	2.3	2.5	12.6	0.7	2.4	1.5	0.7	32.0
2010	80.2	8.3	2.1	2.9	12.7	0.7	2.1	1.5	0.6	31.0
2011	83.4	8.0	2.0	3.2	12.7	0.7	2.1	1.4	0.5	30.5
2012	83.8	8.1	2.0	3.3	12.1	2.2	2.3	1.5	0.3	31.8
2013	85.1	7.8	2.0	3.5	12.2	2.1	2.2	1.4	0.3	31.4
2014	85.4	8.1	2.3	3.6	12.5	2.2	2.3	1.4	0.3	32.7

Source: developed by author based on Ministry of Finance and Moldovan Tax Administration data.

As Table 2 shows, the tax revenues are holding the major budget revenues over the period, constituting the higest rate of 85.4 percent in 2014. Of these, 39.7 percent reprezents direct taxes and 45.8 percent represents indirect taxes. The main innovation in response to the 1990-2014 changes was the introduction of VAT. The source of income continue to lead the structure of tax revenues, reaching 32.7 percent of total tax revenues in 2014.

Excessive expenses are the main cause of increasing the budget deficit. The tax reduction to the level at which they can stimulate the production is impossible. In order to decrease the budget deficit, Moldova had to go a long way from consolidation to decentralization of fiscal powers that continue to present time. Intergovernmental fiscal relations should be reformed in a way that is consistent with fiscal discipline and reduces the inefficiencies stemming from small, fragmented local governments.

During the 2001-2009 period, the total public expenditure registered an upward trend. Generally growth is uniform, except expenses for compensation of employees, which increased from 2001 to 2009 by 3.6 percentage points. Nevertheless, it has to be mentioned, that public expenditure growth in this period is based on the increase of public revenues, reaching an all time high of 45.2 percent of GDP in 2009 and to a record low of 29.4 percent in 2001. After 2009, mounting imbalances and the impact of the crisis necessitated sizeable fiscal adjustment. The government undertook tax policy reform and a rationalization of current expenditures. With an already high tax burden and weaknesses in revenue collection, adjustment has mostly been achieved by constraining expenditures (Table 3). As a result, the fiscal deficit of the general government has declined by over 4 percentage points of GDP in the five years since 2009, to 2.2 percent in 2014. Moldova has managed to restrain transfer and public consumption (including the wage bill and purchases of goods and services). Meanwhile, capital expenditures increased to 7.9 percent of GDP in 2014.

Table 3. Moldova: Expenditures structure by Percent of GDP, 1991-2014

Year	Use of goods and services	Other current	Compensation of employees	Social benefits	Capital expenditures	Total expendture
1995	-	-	-	-	-	46.2
1996	-	-	-	-	-	43.9
1997	9.5	13.7	8.9	13.0	4.9	50.0
1998	6.4	13.6	7.1	10.8	5.0	42.6
1999	4.3	14.1	6.1	7.8	2.6	36.7
2000	4.6	8.9	7.7	8.3	5.0	34.5
2001	4.6	6.0	8.1	7.2	3.5	29.4
2002	3.6	3.2	9.5	9.1	5.0	30.4
2003	6.2	4.1	9.6	8.8	4.6	33.3
2004	7.8	4.3	7.8	9.7	5.0	34.6
2005	7.7	4.3	8.0	10.8	6.2	37.0
2006	8.3	3.9	9.2	10.6	7.8	39.8
2007	8.7	5.1	9.1	11.6	7.5	42.0
2008	9.3	2.3	11.6	11.4	7.0	41.6
2009	10.0	4.1	11.7	14.3	5.1	45.2
2010	9.3	2.9	10.3	13.5	4.8	40.8
2011	8.8	2.4	9.5	13.1	5.2	39.0
2012	8.9	2.6	9.6	12.6	6.3	40.1
2013	8.8	2.2	8.3	12.3	7.1	38.7
2014	9.3	2.6	8.7	12.9	7.9	41.4

Source: elaborated by authors based on the Moldova Ministry of Finance, Medium Term Expenditure Framework (MTEF) and World Bank data. There is no data public available for 1990-1994 period.

Following a substantial adjustment in 2010-2014, Moldova's fiscal position is projected to deteriorate significantly, with the budget deficit excluding grants projected to widen from 3.8 percent of GDP in 2013 to 7.1 percent in 2015. According to IMF [18, p.9], this reflects significant 'pre-election increases in wages and pensions, some ad hoc tax benefits, and weaker economic activity. The authorities have also introduced measures to compensate those affected by trade restrictions'. Moreover, Moldova could experience a decline in external assistance, making it important to preserve fiscal sustainability in the long and medium term. In this regard, further expenditure adjustments and improvement in tax collection, by promoting voluntary compliance among taxpayers, and therefore administration are needed.

3.Moldovan Tax Reform

After the breakdown of the Soviet system, Moldova was left with the heritage of a socialist state, including internal distortions and external imbalances. In this regard, Moldova had to recover from a centrally planned economy and move to market-oriented economy. One of the biggest challenges faced was reform of the Moldovan tax system (MTS). In fact, we argue, no tax system existed in the normal sense (Box 1) [20].

Box 1. The state played a dual role in the system as a tax collector and tax payer, owning centralized banking system, which track state owned enterprises (SEs) transactions. Budget revenue were ensured by two primary sources: turnover tax on consumption goods and services that was extremely low or negative (subsidies) on basic products and very high on luxury goods, and SEs profits, classified as deduction of surplus product rather than profit taxes varying from 50 to 100%. However, without strict rules on deductible production costs, total tax liability becomes negotiable. Thus, the state adjusted arbitrarily tax structure and administrative procedures to meet budgetary requirements. Moreover, negotiable tax liabilities allowed state to exclude bankruptcy through SEs tax relief request and generate lack of transparency within the system. Even SE management did not know what others paid in taxes. The population was unaware of tax procedures or even of tax burdens.
There were other taxes also (e.g. Personal Income Tax (PIT), considered undesirable to tax works directly and the payroll tax, designed to increase the effective price of labour) that did not play a significant role in centrally planned economies.

Based on the pace and direction of tax reforms, as well as relative success of reform implementation, we can distinguish six stages of transformation:

I – 1986-1991 – initial stage, defines the configuration of the MTS as an independent state; the stage during which taxation was aimed to perform only the fiscal function of the system. The beginning of this stage coincides with the Soviet Union promotion of economic restructuring measures, by introducing transparency, "perestroika" (reconstruction) and the "acceleration" of economic development by Gorbachev M in early 1986 and the collapse of the Soviet Union in 1991. The first step towards a tax system was taken in 1987-88 by introducing fixed "economic rates". The absolute sums of payments set in financial plans were transformed into fixed percentage rates.

The necessity for tax reform has obviously appeared since 1990. According to the Concept of the tax reform, the tax system must provide a homogeny and fair attitude to all taxpayers, regardless of the type of property and management; ensure a stable basis for financing state programs and development of services. The structure of this system should be organized in such a way that state can guarantee social and economic facilities for some groups of the population and sectors of the economy.

Decision No. 68 of the Council of ministers of MSSR can be motioned as among the first important legislative decisions related to tax matters in this period. According to the decision, a new body was created called the State Tax Inspectorate, including its independent subdivisions within the Ministry of Finance, on 7 March 1990.

II – 1992-1994 – characteristic for the second stage is the achievement of the control function. As a result of the second stage of transformation, the tax system has generated a flux of laws that constituted the legal basis of a recently new independent state, called the Republic of Moldova.

It has to be mentioned that along with the adoption of the Law on the foundations of the state tax system the real tax reform started on 17 November 1992. This act was determined the economical, juridical and organizational establishment of the tax system in Moldova, and provided the types of taxes and taxpayers' obligations, rights, obligations and fiscal authorities' accountability, defending taxpayers' defend and taxation liability for infringements. This law served us for a decade (abolished after entry into force of Title V of the Tax Code in 01.07.2002).

During this phase have been identified the main type of taxes: Value Added Tax (VAT); Excises; Corporate Profit Tax (CPT); Personal Income Tax (PIT); Land tax; Road tax and transit tax.

Among the most important legislative acts related to the tax matters can be mentioned:

-Law on Tax banks and other credit institutions' benefit Nr. 490-XIII/ 1994;

-Law on local taxes and fees Nr.186-XIII/ 1994.

Characteristic of the second phase is the introduction of the national currency on 11.29.1993, which subsequently had an impact on personal income tax rates and adoption of the Constitution on 29.07.1994, which legalized the principles concerning taxation directly and general principles of law. Moreover, it should be noted that in conditions of extremely high inflation rates during that period [12, p.35][4], the promoters of the tax system did not consider offsetting the fixed capital situation of the reproduction, which became extremely alarming. The funds accumulated for the renewal of fixed assets (depreciation) have not covered the companies' needs. Depreciation rules set at levels much lower than in reality led to an artificial increase of profits, and consequently to an excessive CPT paid to the state budget. This process had huge impact on the consumption of productive economic potential, reflecting a particularly negative trend in the reduction of profitable companies (in 1993, only 17% of manufacturing companies were profitable [19, p.94]).

III – 1995-1996 – this stage is characterized by accelerating the pace of development of the tax system. In order to stimulate development of production, the promoters of the tax system transformations designed the fiscal levers' mechanism, particularly by stimulating investment activity.

In this regard, many changes occurred in the direct and indirect taxation:

-A new VAT rate at zero percent starts its application.

As so, the items imported from the former Soviet Union and exported to countries that are not part of the former USSR were exempt from VAT. However, application of two methods on VAT system calculation made it even more complicated. Thus VAT turns into a distorting tax, which admits several times taxation during the collection process.

-The process of granting tax exemption for joint ventures with foreign investment was greatly simplified[5]. Thus there was offered a range of tax facilities related to VAT and customs duties.

-Local enterprises were granted with tax credit[6].

-The progressive method was excluded, by enacting the CIT 32% single rate for all enterprises (except financial institutions (who was paying up to 40% of their taxable income) and enterprises who receive income from running casinos, slot machines, video parlors (who was paying up to 70% of their taxable income).

-Since the end of 1995, taxable profits are reduced by the amounts of actual expenditure incurred for direct investments destined for technical re-equipment and reorganization of production. The only condition provided was the full use of depreciation allowances and other own resources, but not more than 70% of taxable profits[7]. And in 1997, the taxable profit is reduced by the amounts of actual

[4] According to data provided by Marcova Elena, the average annual inflation rate for 1985-1994 period, was 478,1 percent, which was quite higher comparatively to Ukraine -1155,6%; Poland – 113,1%; Romania – 79,0%; Bulgaria – 77,8%; Greece – 16,7%; Spain – 6,2%; Italy – 5,7%; France – 3,1%; Austria – 2,8%; Belgium – 2,6%; Germany -2,4%; the Netherlands – 1,8%.

[5] Law No.197-XIII of 27.07.1994 on amending the Law on Foreign Investment, Arts.35 et seq.37 and 38.

[6] Law regarding the support and protection of small business No.112-XIII of 20.05.1995. Official Gazette of the RM, No.2 of 25.08.1995, Art.7. According to this law, subjects of small businesses dealing with production activities or social services were allowed tax credits under the exemptions from paying CPT and reduced tax rates at the end of granting tax credit period.

[7] Law No.1214-XII, art.6 (1a) of 17.11.1995 on amending the Law on Corporate Profit Tax.

expenditure incurred for jobs' creation, taking as base 10 minimum wages per year for each job[8].

-From 1996, some exemptions were provided on CIT for banks and other credit institutions performing loans in direct investment[9].

Nevertheless, there are some disadvantages of this period that have to be mentioned:

-Tax differentiation of the fiscal regime for imports and exports between former USSR and non-USSR countries as well as different tax regime between the members of the Commonwealth of Independent States.

-Tax discrimination of domestic investors comparatively to foreign investors. Moreover the undiscerning Tax privileges granted have transformed Moldova into an oasis only for fiscal speculations and hidden business, as well as for foreign companies with experience in tax fraud.

-Complication of the tax system. In this regard, the number of legislative, normative and instructive acts currently implemented was very impressive (e.g. the provisions on deductible business expenses demanded knowledge of the entire set of detailed rules. In 1996 there were 41 legislative acts in force regulating taxation of companies' benefits, including 11 laws, one parliamentary decision, three Decrees of the President, 7 Government's Decisions, 17 instructions and practical guides of the Ministry of Finance and Tax Inspectorate, a few instructions of the Department of Statistics, etc.) [4].

At the same time, it has to be mentioned that characteristic for this period is establishment of the budgetary mechanism, by adopting the Law on budget system and budget process and Law on budget classification in 1996.

Even though Moldova achieved certain progress in tax reforms during the first three stages, later, as we will see, many challenges were faced in terms of maintaining good tax policies, completing transformation of the tax system into one similar to that of developed countries, and recovering previous tax revenue levels.

IV – 1997-2005 – this stage is characterized by the practical implementation of the New Fiscal Reform Concept[10], followed by entry of the Tax Code into force, the National Accounting Standards[11], the Government Decision on the tasks of the State Treasury and continuous improvement of the tax management system.

In this regard, the tax legal system was improved by adopting:

-The Tax Code (1997-2001), which establishes rates and bases for taxes;

-The Law on Customs Tariffs No.1380-XIII/1997, and subsequent amendments;

-Law on Entrepreneurial Patent No.93-XIV/1998;

-The Law on State Social Insurance No.489-XIV/1999, defines the scope and coverage of the National Social Insurance Fund;

-Law on Farms No.1353-XIV/2000;

-Law on Entrepreneurial Cooperatives No.73/2001;

-Law on Local Public Finance, No.397-XV/2003;

-Law on e-document and digital signature No.264-XVI/2004);

-Law on Leasing Nr.59-XVI/2005, etc.

It has been recognized that 'gradual implementation of these laws has brought more stability and transparency into the fiscal system' [17, p.8]. This effort was supported by tax administration reform: in 1991 - developing the computerization program of the State Tax Service; 1996 - setting the tax inspectorate offices to an e-mail and unification tax filing system; 1998 - application of the Information System database; 2002 - Tax Code, Title V - Tax Administration, etc.

Moreover the Ministry of Finance has a role to play in this regard and its role has been strengthened through various mechanisms,

[8] Law No.1214-XII, art.6 (1f) of 22.07.1997 on amending the Law on Corporate Profit Tax.

[9] Law No.665-XIII of 23.11.1995 on completion and modification of Art.5, Law No.490-XIII regarding taxation of banks and other credit institutions from 03.08.1995.

[10] Parliament Decision regarding Tax Reform Concept, No.1165-XIII of 24.04.1997.

[11] Transition to the National Accounting Standards took place on 01.01.1998. This transition has ensured strict records of taxable financial results according to the international rules, for the whole period of activity (and not only for the ended activity as was done previously).

including the Medium Term Expenditure Framework (MTEF) starting with two periods: 2003-2005 and 2004-2006. Furthermore the tax legal system transformation was supported by enforcement acts: Criminal Code No.985-XV/2002 and Law on the Declaration and Monitoring of the Income and Assets of State Dignitaries, Judges, Prosecutors, Public Servants and Certain Persons holding Managerial Positions No.1264-XV/2002.

Two administrative-territorial reforms and other changes to local finances have caused considerable uncertainty and reduction (Box 2) weak Moldovan economy from an institutional point of view through contradictory or not logical legislative base.

V – 2006-2010 – characteristic for this stage is improvement of national legislation on tax administration and fiscal reporting, and creation of a favourable investment environment.

Box 2. In the analysed period (1990 - 2014) Moldova had three administrative-territorial reforms: 1994, country's territory was divided in 38 raioane (districts), including five in Transnistria and three in Gagauzia; 1998/1999, the districts were amalgamated in 10 judete (counties), accompanied by a significant administrative reform, with new division of competency and resources, as in Romanian model, returning to the pre-soviet administrative-territorial structures from sub-optimally small local governments, reinforcing self-administration; 2001/2003, new administrative-territorial reform adopted by the Communists, which took effect after the local elections in 2003. The current model of territorial reform was established, with significant reductions in local autonomy and was justified by need to reduce the number of local government employees and to bring services closer to the people.

The main challenges of the period are:

-Law No. 111-XIV/2007 on fiscal amnesty. Thus, "*historic debt*" on taxes was cancelled, as well as other payments, *penalties and fines, imposed on taxpayers.* As a result of the tax amnesties being annulled, the national public budget was in arrears in the amount of 4.3376 billion MDL [3, p.109].

The Tax Code set the CIT rate to zero percent with entry into force on January 1st, 2008. However, this measure has not achieved its purpose, as foreign investors have not rushed to come and the situation of the domestic companies has been double hampered as a result of the increased fines size and inexperience. Although the current CIT rate is 0%, companies must submit a CIT declaration. An incomplete or incorrect CIT declaration is fined by 15% of undeclared or reduced taxable income. Moreover, the cost of credit, corruption, and a lack of an independent court system were considered to be more important obstacles to business development than taxation [16].

-Law No. 111-XIV/ 2007 on capital legalization. Declaring real estate, securities, shares held by individuals and businesses that have not been previously declared or their real value was diminished for tax purposes, could legalized the capital until 30 December 2008. For their legalization the owners should pay a tax of 5% of the positive difference between the declared value at the moment and the previously declared value.

In order to create a favourable investment environment, the Government of Republic of Moldova adopted the Strategy for attracting investment and promoting exports for 2006-2015 [7]. During the given period the following tax and customs facilities were used:

-Exemption from VAT and customs duties for the import of goods worth more than 1000 MDL and with higher operating period of 1 year;

-Enterprises with investments in statutory capital or that make capital investments of over USD 250,000 are entitled to a 50% income tax reduction, effective for a period of five consecutive years [1, pp.117-118].

-Full exemption from corporate income tax is granted to entities with investments of more than USD 2 million, 5 million, 10 million, 20 million or 50 million. The period of exemption depends on the amount, and can be up to seven years if certain conditions are met [10].

-Customs duties levied on goods imported from all countries, except CIS and Romania, with which Moldova has signed agreements on free trade. Thus only part of the total import was subject to customs duties. The exported goods has not been charged customs duties.

Tax Code has been improved by adding:

-New provisions on taxation of non-residents regarding concretization of income sources, forms of activity and mode of benefit of tax facilities and incentives in order to avoid double taxation.

-New Title IX „Road Taxes" of the Tax Code [9].

Significant changes were made to the Law on Securities Market adopted in 2007. The amendments were focused on investor protection; increase in secondary market transactions and disclosure of information provisions.

At the same time, other laws have been adopted and amended:

-Law on State Registration of Legal Entities and Individual Entrepreneurs No.220-XVI/2007 [11].

-Law on Limited Liability Companies (LLC) of 14.06.2007.

-Law on Joint Stock Companies (JSC), which was amended essentially in 2007.

-Contravention Code of the Republic of Moldova, Law nr. 218-XVI/2008.

In 2006, by Government Decision no. 1208 from 20.10.2006 the Strategy for the Development of the State Tax Service for the years 2006-2010 was approved, marking a new development stage, meant to contribute to the tax administration foundation strengthening that was put in place in previous years. According to the STS Development Strategy for 2006-2010, a number of IT systems have been implemented, which allowed achieving significant results in the area of taxpayers' service, such as [21, p.9]:

-An infrastructure that allows submitting tax returns and tax reports electronically. In order to reduce administrative burdens, tax and reporting procedures have been simplified. Thus MTA developed its new portal: www.fisc.md, which allows taxpayers to quickly access needed information: "Download forms", "About the taxpayer", "Fiscal invoices", services of certification and issuance of digital signatures. Herewith, the "electronic counter" was launched which is meant to provide the electronic tax services. Also, the mechanism for taxpayers notification about the term of tax return and tax reports (fiscal calendar) submission was launched, as well as the notification about the receipt of tax return by the State Tax Service and errors in these declarations. An alternative to the paper-based tax return was introduced in 2010. The new automated information system (AIS) "electronic declaration", "Quick declaration" and "Electronic declaration for individuals" was launched. The S.E. "Fiscservinform" and the tax electronic services' portal: www.servicii.fisc.md were created. There were 33 electronic services provided by STS, at the end of 2014.

-Interaction between the State Registration Chamber and the Ministry of Justice based on one-stop shop principle;

-The Tax Cadastre Informational System that track real estate used as housing, commercial or industrial premises;

-Tracking system for tax memory cash registers that allows on-line receiving and analyzing currency exchange offices operations.

It has to be mentioned that tax transformation starts to be influenced most by the EU' Neighbourhood Policy in this period. According to 2005 EU-Moldova European Neighbourhood Partnership Action Plan, Moldova had to advance its efforts on improving the fiscal administration and ensuring stability in collecting budget revenues.

<u>VI – 2011-present</u> - Currently tax transformation continues to be influenced by the EU' Neighbourhood Policy and international cooperation. In this context, "Moldova reformed its tax system, bringing VAT and excise legislation into line with the EU acquis and international requirements. Excise duties on tobacco products, alcohol and energy products were increased, with the aim of gradually reaching the minimum EU rates by 2025. An action plan was launched to implement the tax part of the Association Agreement, covering the period 2014-16. In cooperation with the Ministry of Finance, Moldova's tax authority started preparatory work on introducing the Transfer Pricing regime. The tax authority also launched a comprehensive organizational modernization program and started preparing strategies, aligned with the Association Agreement Action Plan, to develop key business and IT tools" [8, p.13]. Moreover, the core part of the Association Agreement is Deep and Comprehensive Free Trade Area (DCFTA). In this context, Moldova started to reduce and/or eliminate import duties in line with its commitments and adopted implementing provisions to manage the tariff rate quotas on imports of selected EU products in November 2014.

Tax evasion, or aggressive tax avoidance, have prompted contemplation of a more enhanced collective cooperation among states over international tax. Perhaps not surprisingly, therefore, OECD and EU member states have seen a surge of issues associated with significant cross-border transactions rising in recent years. The OECD Base Erosion Profit Shifting Action Plan aims to counteract unacceptable tax avoidance through allocating taxable profits to locations different from those where the actual business activity takes place. Being affected by the international cross-border approach and OECD and EU practices, Moldova started to focus on evasion and avoidance problems by transforming its tax law at the national and international levels. Thus, following the dynamic development of the international tax principles, the Republic of Moldova has joined, on 27 January 2011, the Convention on Mutual Administrative Assistance in Tax Matters. At the same time, substantive tax law started to be improved by provisions concerning tax evasion and taxpayers' control (e.g. art.244 and 244^1 of Moldovan Criminal Code, art.301 of Moldovan Contravention Code, Chapter 11^1 of Tax Code – Indirect Methods of estimation of individuals' taxable income (Law No.267 of 23.12.2011), etc.).

In the hope "to develop into a modern efficient European tax administration" [21, p.15], MTA is entering in more and more cooperative and collaborative relations. Thus cooperation and collaboration agreements were signed with the Swedish Tax Agency, the French General Directorate of Public Finance, the Dutch Tax and Customs Administration, and the Estonian Tax and Customs Board. Moreover, the Moldova Tax Authority initiated negotiations and correspondence cooperation on experience exchange in the field of tax administration with the Ministry of Finance of Azerbaijan and Germany, Israel Tax Agency and others.

Also, the intergovernmental fiscal relations' reform must be mentioned: the on-going fiscal decentralization aims at improving the quality and delivery of public services. According to the National Decentralization Strategy 2012, the specific objective for fiscal decentralization is to improve the current system of local finances "to ensure the financial autonomy of local public authorities, maximizing the efficiency and equity in allocation of resources while maintaining fiscal discipline". In this context, new amendments to the Law on Public Finance and the Tax Code were approved by Parliament in November 2013. They set new rates for sharing national taxes with the two tiers of local government, introduced formulas for transfers to local governments and removed subordination in financial relations between top and bottom-tiers of local government. The new Law is to be fully applied beginning in 2015 [15, p.xii]. In addition, the introduction of a rule-based fiscal framework aims at anchoring medium-term policy decisions.

CONCLUSIONS

Generally, we consider last period as the most relevant to Moldova's necessities of the Taxing Culture Change and results will not hesitate to come. This period is characterized by the following strengths: Budget revenue growth; STS' ability to face up to new challenges; Willingness to collaborate with international and external partners; Reducing bureaucracy by proposing the introduction of simplified administrative procedures, increased number of e-returns and e-services; Initiating inter-institutional collaboration.

Even though the tax reform in Moldova has achieved some important progress to date, significant challenges remain for the coming years.

No one argues that the current set of laws is perfect, even in the most developed countries, and moreover in Moldova. But analyses like this can move us toward a superior situation by revealing the weaknesses of local tax system and understanding its areas of strength.

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