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VAT TAXATION ON AGRICULTURAL PRODUCTS – A CONTROVERSIAL ELEMENT OF FISCAL MANAGEMENT IN THE REPUBLIC OF MOLDOVA

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Abstract

Currently, through VAT, to the national public budget of the Republic of Moldova is collected a part of the taxable supplies made o the teritory of the country, as well as goods or services imported. In 2013 year the share of VAT in the total taxes collected will constitute 79% including also the VAT taken from the domestic supplies - 20%. Simultaneously, it was proceeded to cancel the reduced rate of 8% for agricultural products in their natural state and to implement the standard rate of 20% to recovering the difference of 12% over a period of 30 days. The Executive explains this change by the need to harmonize local regulations with Directive 2006/112 EU from 26 November 2006 of the unification of applied rates, of the creation of equal tax conditions for all sectors of the national economy. In reality is looking for other purposes - to establish tight controls on all parties of local business, to increase budget revenues at all costs, to conceal gaps in fiscal administration and management of agricultural sector, etc. Examining the experience of other countries has shown that the problem can be solved through different ways: by reserving the 12% difference in special bank accounts of households and their strict direction for product development by imposing agricultural product wholesale buyers to transfer the VAT directly to the budget (but not households, as they do now), etc. In our opinion, the first variant is optimal and will lead both to simplifying the fiscal management, as well as the revitalization of the agricultural sector.

Key words**:** *accounting, fiscal management, products, VAT taxation*

INTRODUCTION

VAT's share of 2013 in the structure of tax revenue is planned in quantum of 78.6%, which demonstrates conclusively the importance of the timely completion of taxes for national public budget. Also under the pretext of unification of VAT shares in the real sector of the national economy has canceled the reduced rate with the size of 8% for the supplies of agricultural products and the conditions of passage in the account or in refund of the VAT from the budget and it was again supplemented with excessive demands. Therefore, the possibility of conducting entrepreneurial activity by farmers will be reduced even more, subject to a greater risk to food security of the country. This, in turn, imposes the need for a more efficient mechanism of administration of VAT, which will be more convenient both for households and for the whole society.

MATERIALS AND METHODS

Investigations on the topic have focused primarily on the Fiscal Code and the Civil Code of the Republic of Moldova and the methodological Norms of sheet accounts that target various aspects of facility management and accounting for VAT in the agrarian sector of the country. It also has been generalized the experience in the field for the local farmers as well as the economic subjects from Ukraine. Preference was given to monographic method for describing economic events and social processes by applying the elements of comparison, induction and deduction.

RESULTS AND DISCUSSIONS

Value added tax, which is known to economic agents and to the wide public in various countries under the abbreviation VAT, is a general tax state through which the national public budget is part of the tax collected goods or services supplied by Moldova, as well as imported goods or services. Size of the tax (or current debt to the state budget) in chapter VAT is determined as the product of the total value of taxable and tax rate is set by Article 96 of the Fiscal Code for the respective year. In the meantime the only obligation shall be determined only by subjects of entrepreneurial activity who are registered as VAT payers and have registration certificate duly approved.

VAT shares are expressed as a percentage of the taxable value of supplies or imports made and vary depending on natural (substantial) form of commodity alienated or purchased abroad, socially important goods and services of taxable items or output direction of their destination country and other factors. Currently for most goods and services supplied or imported quota-standard VAT rate is of 20%. Also for some goods (bread and bakery products, milk and dairy products, natural and liquefied gas, drugs) is fixed in VAT share reduced of 8%. An identical rate was applied until 2013 year and has delivered its own manufacturing agricultural products in the country without prior processing, and for sugar content obtained by industrial crops stern (regardless of country's origin). To note that the application of reduced VAT rates is not contrary to international practice is widely prevalent in the Member States of the European Union and aims for pragmatic purposes for one country or another (combating shadow economy, creating new jobs, ensuring fair competition, etc.)

However, in our opinion, the current system for collecting and managing the added value tax is highly sophisticated, unstable and unpredictable. Large masses and external partners are stated continually and strongly the numerous and permanent changes in tax legislation and normative adjacent acts have a reforming and progressive character, as they result from government work programs, different developing strategies and agreements with financial international organizations, that already in the near future this will lead to tangible results not only for the budget or the influx of foreign investment, but also for the welfare of all the people, etc. But paying closer examination of lawmaking and disinterested fiscal is clarified, with all regret, that many so-called reformers actually watch other purposes that are more tangible and more commonplace. They, on the one hand, are trying to be pleasant in the eyes of foreign creditors and donors and to support their own reputation by militants for a national economy prosper and, on the other hand, unconditionally subordinate local business and squeeze the whole of it at all costs with more receivables from budget (even if such actions contradict they common with sense and lead to tense the situation in the country). About bankruptcy and not proper character of such a policy demonstrates conclusively the increasingly frequent failures lately (which are, however, ignored), and that alarming fact that in 2011 for the first time in the history of Moldova and its predecessor in person of MSSR food imports exceeded exports. A similar situation was repeated the following year. This means that in a short time the country has deteriorated itself from an agribusiness state with intensive agriculture in a country of villages with depopulated areas, parcels of raw land and battered roads.

In the continuance of the policy of expansion of imposable base and increase of tax burden, the Moldovan Parliament, at the proposal of the Ministry of Finance, decided to cancel the reduced rate of VAT in the amount of 8% for the supply of agricultural products and own manufacturing products in 2013 to replace it with the standard rate of 20% (or 2.5 times higher than the substituted one) with concurrent entitlement to reimbursement of 60% of the VAT on those supplies which were paid to the budget. Also the repayment is determined by the Government and return time should not exceed 30 days. Proponents of this "innovation" state that the complete budget must contribute equally to all businesses (including farmers), no one deserves to be disadvantaged without reason, that all taxpayers must be in the same fiscal conditions and the unification VAT rates are made by simplifying the tax administration, etc. Of course, such an approach, in fact, is correct and no one contest it. But the real practice of relations between taxpayers and budget row between producers and blanket abject servants of different categories is much tougher and significantly different from the criteria or purposes stated. In addition, it is quite strange that the VAT rate unification policy is associated, exclusively, with their increase, while in developed countries it is found also in certain stages as a reverse evolution.

Besides this fact, the agricultural producers (and, together with them, all the lucid specialists) asks: why to pay to the budget the full amount (i.e. 100,000 lei) so that in a month its decisive part in proportion of 60% (which in this case is equivalent to 60,000 lei) to be returned to the payer? Is not it easier and more logical to pay the budget at the outset only 40% of the calculated duty and the other 60% to remain on bank accounts of enterprises, enabling them to make current payments connected operatively to purchasing diesel, seed, phytosanitary means and other stocks? These and many other questions of the mentioned domain should be discussed only giving one answer: a farmer due to current power tends to fill budget gaps and shortcomings in tax administration. On closer examination of the new mechanism for collecting and VAT refund is found explicitly that it is mainly a masked form of borrowing the cash from households that own form for these shortcomings:

- It does not have a voluntary character and is imposed in a forced (by law) to farmers;
- Completely neglecting the deplorable financial condition and solvency of most households reduced;
- Civil law provisions on loans that have a universal character and can not be denied intentionally replace with some household rules significantly narrower that harm the rights and interests of taxpayers, placing them into a total dependence of omnipotence and needs tax officials national public budget.

Today it can be said with all certainty that the VAT mechanism optimization problem in agriculture is not only a fiscal or accounting problem, but, first and foremost, a political issue that is of major importance for the future of the country and can be solved only with the all political forces who rule the state. Methods for solving this problem are extremely varied and interested parties to discuss asset (but, until, without any visible success). The more so as the amount of subsidies planned for 2013 in order to support local farmers is only 460 million lei (including 60 million - donations under the pilot project within the European program ENPARD), which is totally inadequate and represents only 2% the amount of the state budget or about 20EUR with a report per hectare. For comparison, we can mention that EU agriculture subsidies takes about 45% of the share, and the total size of direct and indirect subsidies exceed 300 EUR per hectare (that is 15 times higher than the level reached in Moldova). Therefore, training mechanism VAT administration in the indirect farm subsidies is appropriate and can really contribute to the sustainable development of them. In addition, the solution of the problem also reduces multiple torrents of documents, living labor costs, payments to the bank and many other bureaucratic procedures, routine, usually lead to abuse of office and corruption.

In practice it is also possible to optimize with another option of the tax mechanism whose essence consists in these things since the amount of VAT to be paid by the household budget is part of receivables wholesale buyers (wine factories, sugar, oil extraction, canned production, etc.) is 1/6 the size of these commitments of payment and need to be paid by buyers of agricultural enterprise, it would be easier to give up this sophisticated, multistage and vicious and bound scheme by Law and the buyers should transfer VAT amounts indicated in the invoices of the farmers not into their bank accounts, but the budget directly mentioning the rural taxpayer whose tax liabilities are extinguished? Later, as the declaration of VAT (VAT form 2012) is to attach them to the list of the invoices issued (VAT form provided), amounts allowed for passage in the account shall be recovered from household budget through commercial banks and in the presence of debts they will be directed to settle these debts. Since such a change mechanism for collecting and managing tax have won farms as well as national public budget, the potential advantages of the amendment lie in the followings:

• for households - reduce the number of banking operations, reduce the dependence on buyers (it remains only in terms of trade relations, but not the tax liabilities); exclude the risk of applying financial sanctions in the form of penalties for delay; avoid the need and disappearance of permanent financial resources from economic to honor their tax obligations, etc.

• for budget - ensure more uniform and faster completion of tax revenues due to higher solvency food industry enterprises, increase significantly the amounts collected monthly from taxpayers from the fact that they (of course, through wholesale buyers) will be transferred by destination full amount of VAT calculated (that is of 20% of the taxable amount of supplies of agricultural products), but only part of it (as it now has in place) determined according to Article 101 (1) of Tax Code which shrinks obviously some liable restitution payments from the budget, whereas the amounts of VAT, usually are lower than the recovery rate amounting to 60% from January 1, 2013 provided in Article 1012 (1) of the same law etc. In addition, it is important to note that changing the tax collection mechanism does not affect all budget size or maturity commitments and wholesale buyers pay no property rights. These buyers, regardless of the fiscal policy of the Moldovan state at one stage or another of development of society, are obliged under Article 753 (1) of the Civil Code to pay the seller (in this case - the farmer) price. And this price, if taxable supplies, including, now, and VAT at the standard rate of 20%. Therefore, wholesale buyers need not be concerned that they are going to pay TVA – to farm or budget. But in both cases it is one and the same sum. But exactly here, in our opinion, is hidden the apple of discord. Representatives of big business and their influential patrons in the government circles assert that such a change perfidy against the international practice, as it undermines the integrity of the local tax system, as its implementation will result in additional costs, etc. The reality, however, is much tougher and has nothing in common with the pseudo arguments mentioned or interests of society as a whole. Just overdue with farms and often for partial or total avoidance of honoring payment from these wholesale buyers practically bears no responsibility. By the time, committing the same violations in relation to the budget can have the most serious consequences. Thus, failure to pay VAT amount in a term of 2 months can result not only in calculating penalties, but with undeniable collection of cash from bank accounts suspended operations in these accounts; withdraw cash from the tellers, the seizure of goods liquids, etc. Obviously such actions do not agree at all true owners of companies collecting, processing and marketing of agricultural products (or food) and their protectors. To solve the problem and changing legislation, requires political will of the Moldovan Parliament, the realization that agriculture is the foundation of the national economy and that it is this branch (but not many companies, firms and intermediaries have occupied the internal agricultural market), require a high bias regime (including VAT taxation chapter).

CONCLUSIONS

1.The current mechanism for collection and refund of VAT on the supply of agricultural products is highly sophisticated and vicious, is associated with increased risks for taxpayers' agriculture and is essentially a disguised form of borrowing cash focused on an erroneous interpretation of the previsions of the Civil Code of Moldova.

2. Optimization problem in terms of VAT tax system is a complex problem that must be solved not only on the basis of statements treacherous, for urgent or narrow group interests, but taking into account the vital

needs of all parties: farmers, wholesale buyers, public budget national, etc.

3. Variant of the most successful management VAT in applied and social plan is one which focuses on the redistribution of tax liabilities between farms and buyers with simultaneous return of the tax budget amounts listed on the account.

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