MOLDOVAN TAX ADMINISTRATION: 25 YEARS OF EXPERIENCE AND FUTURE CHALLENGES

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The Republic of Moldova, since independence, decided to consolidate its place among the democratic nations and open to reform economy in order to integrate it in european and international circuit. Reform of national economy was oriented towards substitution of an old, outdated and almost collapsed socioeconomic system by one capable to ensure the continued progress in society.

Thus this reform could be done mainly through fiscal legitimacy and enforcement of tax administration, which may best be achieved through establishing clear, transparent, and predictable rules and procedures, especially in the administrative aspects of the tax system. With this paper we aim to examine the tax authority changes for last 25 years. Research methodology is based on the dialectic-conflictual model, whose approaches helped to bring the essence of the debate by applying methods of induction, deduction, observation, analysis and synthesis.

The analysis are based on either qualitative or quantitative indicators. Results reveal the weaknesses of Moldovan tax administration system in order to understand its areas of strength. The research can be used by: taxation and regulatory authorities for elaboration of new legislation and improvement of the existing legislation; investors for evaluation of taxation efficiency in investment projects; didactic personnel in teaching specialty disciplines at economy universities.

Key words: *Tax Reform, Tax Administration, Tax Audit, Integral Tax Information System and Tax Ombudsman.*

De la proclamarea independenței sale, Republica Moldova a decis să-și consolideze locul printre națiunile democratice prin reformarea economiei, cu scopul integrării în circuitul european și internațional. Reforma economiei naționale a fost orientată spre înlocuirea sistemului socio-economic vechi, depășit și incapabil să asigure progresul continuu al societatății.

Astfel, această reformă putea fi realizată doar prin legitimitate și administrare fiscală, capabilă de stabilirea unor reguli și proceduri clare, transparente și previzibile. În această lucrare avem drept scop să examinăm modificările suportate de administrarea fiscală în ultimii 25 de ani. Metodologia de cercetare se bazează pe modelul dialectic-conflictual, abordarea căruia a influențat scopul propus, prin aplicarea metodelor: inducție, deducție, observare, analiză și sinteză, având la bază indicatori calitativi sau cantitativi.

Rezultatele lucrării dezvăluie punctele slabe ale sistemului de administrare fiscală din Republica Moldova, cu scopul de a le înțelege pe cele forte. Cercetarea poate fi utilizată de către: organele fiscale și cele legislative – în procesul de elaborare a legislației noi și de perfecționare a celei existente; companiile în evaluarea eficienței fiscale a proiectelor de investiții; cadrele didactice în cadrul instituțiilor de învățământ economic superior în procesul de studii la disciplinele de specialitate în domeniul fiscal.

Cuvinte-cheie*: reformă fiscală, administrare fiscală, control fiscal, sistem informațional integral fiscal și Ombudsman fiscal.*

С момента обретения независимости, Республика Молдова, решила закрепить свое место среди демократических наций реформируя экономику, с целью интеграции в европейские и международные контуры, а также в процессе глобализации. Реформа национальной экономики была ориентирована на замещение старой, устаревшей и почти разрушенной социально-экономической системы не способной обеспечить дальнейший прогресс общества.

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Эта реформа могла быть достигнута только через налоговое администрирование, которое достигается путем установления четких, прозрачных и предсказуемых правил и процедур. В этой статье мы рассматриваем изменения налоговой администрацией за последние 25 лет. Методология исследования базируется на диалектическо-конфликтной модели, применяя методы дедукции, индукции, наблюдения, анализа и синтеза, основаные либо на количественных или качественных показателей.

Результаты работы раскрывают слабые стороны налоговой администрации в Республике Молдова, с целью понять её сильные стороны. Научные исследования, могут быть использованы: налоговыми и законодательными органами в процессе разработки нового законодательства и совершенствования существующего; компаниями при оценке налоговой эффективности инвестиционных проектов; учебными кадрами высших экономических учебных заведениях в процессе обучения по специализированным предметам в области налогообложения.

***Ключевые слова**: налоговая реформа, налоговая администрация, налоговая информационная система, налоговый аудит и омбудсмен.*

JEL Classification: H0; H25; H32; K34.

Introduction. The tax administration landscape presents daunting challenges for both taxpayer and tax authority. Key challenges include the growing number of taxpayers and growing volume of goods and services, the evolution of the digital economy and of sophisticated financial arrangements and the large amount of potential revenue lost due to aggressive forms of tax avoidance and evasion. Those challenges facilitated the Information Technology modernization efforts, development of the Compliance Risk Model and restructure of Moldovan Tax Administration. A forward-looking country can become effective only through extensive investments in tax compliance[1]. This supports the importance to improve information reporting and tax audits from a high level of confidence and generalization [1, p. 51-110][2], IT modernization efforts and development of a Tax Ombudsman. This paper highlights the necessity for further chalenges in this area.

Firstly, we characterize the structure of Moldovan Tax Administration in order to highlight the main changes in Tax Administration system (Section 2). In this Section we provide statistical information on the evolution of tax administration staff and efficiency of tax audits. Next we identify the Information Technology efforts under which the Integral Tax Information System is possible (Section 3). Peculiarities of ensuring tax law procedures regarding Accounting and tax reporting liability and Tax Ombudsman are provided in Section 4. The article focuses primarily on the situation faced by Moldova in the last 25 years. A large amount of statistical data provided by Mains State Tax Inspectorate, Ministry of Finance information and other sources of technical expertise were collected, synthesized and analyzed.

The structure of the Moldovan tax administration (MTA)

Curently, tax administration activities are based on coherent and comprehensive legislation (even if only now it has a distinct Fiscal Procedure Code under enactment), mainly set in Tax Code, Title V since 2002, with technical structures sufficient to ensure the right collection and control of state revenue.

The remarkable developments of the Moldovan Tax Administration can be summarized in Table 1. Moldovan Tax Administrations represent the activity of government authorities empowered and responsible for ensuring full and duly transferred budgets of all levels of the amounts of tax liabilities, as well as carrying out criminal prosecution actions in case of the existence of circumstances providing tax violations.

[1] *Moldova is spending more than a percent of net tax revenue per year in collecting their taxes.*

[2] *According to Besley and Persson, in the process of administrative infrastructure development the countries are able to move from collecting around 10% of GDP in taxes towards collecting around 40%.*

Table 1

Moldova: Main Changes in Tax Administration system, 1990-2014

1990	Creation of city and district state tax inspectorate
1992	Adoption of the Law on the State Tax Service. Adoption of the Law on the tax system outline
1994	Elaboration and approval of the Laws on VAT and excises
1997	The tax Code entered into force, which, at that moment, included 2 titles: General Provisions and Income Tax
2001	Approval of Title V of the Tax Code: Tax Administration
2003	Tax audit preselecting mechanism
2004	Organization of the first contest at the national level for "The best taxpayer of the year"
2006	Approval of the "Development Strategy of the State Tax Service for the years 2006-2010", and initiation of the entreprenorial patent reform of 2010
2007	Implementation of Computerised Informational System "Tax Cadastre". Adoption of the Law on carrying out tax administration and capital legalization. Tax Amnesty Creation of the Tax Anti-Fraud and Strategic Management Departments. Creation of the Center of Taxpayers' Assistance
2008	Implementation and exploitation of the Computerised Informational System "e-Declaration". Creation of the S.E. "Fiscservinform". Organization of the first edition of the Contest for taxpayers' motivation. Implementation of the Performance Appraisal System for STS staff. Implementation of Information System "BARCOD". Improve penalty system for non-compliance
2009	Approval of the "Development Strategy of the State Tax Service for the years 2011-2015". Implementation of a computerized record keeping STS's actions. Amendment of tax planning controls from annual planning to biannual. The STS information system has been connected with: Customs Service, Information and Security Service, Ministry of Home Affairs, Financial Control and Inspection Service under the Ministry of Finance, Enforcement Department under Ministry of Justice, the Centre for Combating Economic Crimes and Corruption CCECC
2010	Centre for Professional Training of the STS' staff. Implementation of tax electronic services' portal: www.servicii.fisc.md. Development of Integrated Tax Information System Plan
2011	Implementation of a Compliance Risk Model. The standardized forms of primary documents with special regime starts to be printed by taxpayers themselves
2012	Implementation of AIS "Creation and circulation of electronic documents between STS and the financial Institutions". Organization of Tax administration of the wealthy persons
2013	Compliance Program based on "Tax officials - in taxpayer service" approach. New tax services added: Tax calendar, Newsletter of the legislation and Generalized basis of tax practice. Methodical and Practical Guide on tracking tax arrears; AIS "Online ordering of standardized forms"
2014	Single Call Center (nr. tel. 0-8000-1525). AIS "e-Invoice"; Voluntary Compliance program based on "More for more" approach

Source: Elaborated by author based on MSTI annual reports and Ministry of Finance data.

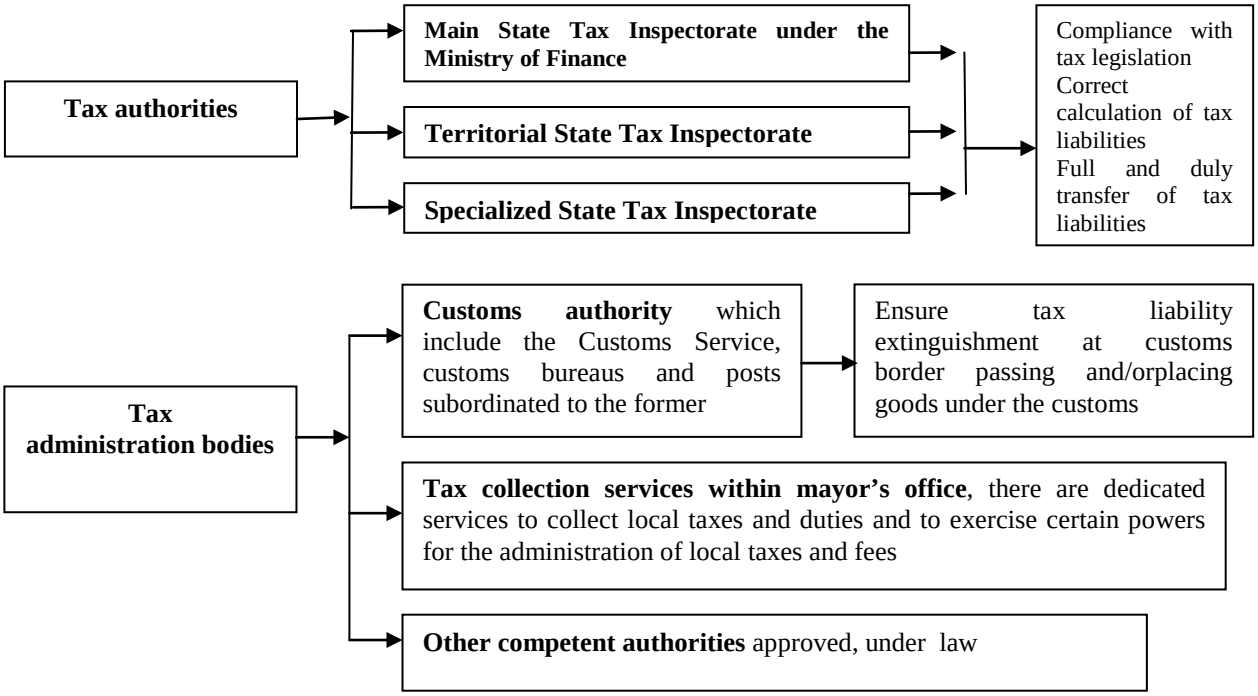


Fig. 1. The structure of Moldovan tax administration system

Source: Elaborated by author.

Main State Tax Inspectorate (MSTI) is the principal tax administration authority. Besides MSTI,the Tax Code states other bodies responsible for tax administration including customs authority, tax collection services within mayor's office and other competent authorities. Figure 1 provides for an overview of the structure of the Moldovan tax administration system and its main tasks.

On efficiency of tax administration, we can make conclusions by analyzing data (below) on fiscal control.

Table 2

Evolution of tax audits in the Republic of Moldova, 1994-2014

Year	No. of businesses registered at the end of the period	Including (thousands)			Results of controls (mill. MDL)	
		No. of audited taxpayers	No. of violations	Detection, %	additional calculated payments (mil MDL)	including penalties
1994	70.536	22.766	7.637	33.55	89.9592	53.8813
1995	96.984	25.211	10.012	39.7	222.872	98.776
2001	-	31.765	20.715	65.23	213.819	112.842
2002	593.1	22.889	11.138	48.66	268.6987	131.061
2003	618.2	24.544	13.362	54.44	367.0833	144.805
2004	641.7	29.830	17.674	59.25	304.4021	85.3547
2005	645.4	43.3	32.5	75.1	321.4	135
2006	659.4	62.0	45.1	82.7	349.1	139.1
2007	674.7	42.1	25.3	60.1	237.7	60.0
2008	679.6	38.4	21.1	54.9	201.1	94.7
2009	683.8	53.5	36.3	67.9	449.5	185.4
2010	686.2	66.8	41.9	62.7	498.0	253.1
2011	702.3	71.9	45.7	63.7	517.0	256.4
2012	688.117	63.527	43.670	68.7	595.96	344.7
2013	289.284	74.029	40.118	54.2	653.0	362.1
2014	689.580	60.523	-	53.0	743.4	457.9

Source: Elaborated by author based on [2], [3] and [4] data.

Fiscal control is a logical consequence of the tax administration tasks, because tax audits allow verification of whether all taxpayers meet their correct, complete and timely tax obligations. The share of annual audited taxpayers out of total number registered shows a decrease from 32 to 10% within 1994-2014 period. In absolute terms it is almost three times more from 22.8 to 61 thousands. Additionally, calculated amounts of taxes, fees and other payments as a result of controls increase also, with more than 9 times from MDL 89.96 million in 1994 to 743.4 million in 2014, mainly because of penalties that are applied on one to one ratio, which means that for each additional calculated EURO is added another EURO as penalty. Improvement and tax audit system development[1] resulted in an increase of outcomes derived from tax audits from 33.55% in 1994 to 53% in 2014 (the highest rate of 83% was registered in 2006). However, this does not demonstrate a positive impact on the share of tax violators and taxpayer compliance. The increase in tax violations is more a result of growing tax evasion and tax avoidance phenomenon, legislative changes, and political and economical instability.

Improvement of the tax law procedure is one of the main tasks of MTA. Thus, with the 2007 fiscal amnesty were observed measures regarding to discipline the taxpayer, increasing the fines and penalities for tax evasion, insistent tracing of tax debts, including the requirements for financial institutions allowing access to the confidential information about their clients[2].

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[1] The tax audit activity was strongly influenced by: reorganization of controlling bodies in 2002 and 2014; implementation of preselection methods based on risk assesment since 2003 and contraposition of tax audits since 2004; implementation of a new method of estimating the taxable income of the wealthiest individuals in 2012. The indirect estimation method provides the Moldovan tax authority with possibilities for gathering information about taxable income of individuals from any sources.

[2] According to the Law on amending and completing some legislative acts No.177-XVI of 20.07.2007, a tougher sanctions system was approved, including pooling a number of fines, while at the same time increasing them and introducing some new (e.g. Art 262[1] and para. 2[1] , Art. 254 of Tax Code).

Along with changing the MTA structure, broadening duties they perform, and clear obligations and responsibilities set by adopted subsequent legislative acts, changing the staff structure which was also absolutely necessary.

Table 3

Evolution of tax administration staff, 1990-2014

Staff	Year
1160	1990
1310	1991
1650	1992
1650	1993
1980	1994
2310	1995
2517	1996
2970	1997
2970	1998
3162	1999
3170	2000
2905	2001
2620	2002
2294	2003
2248	2004
2248	2005
2248	2006
2196	2007
2081	2008
1939	2009
1939	2010
1942	2011
1892	2012
1982	2013
2126	2014

Source: Elaborated by author based on MTA annual reports data.

If we refer to the dynamics of the STS staff changes, the number of staff units gradually increased from 1160 units in 1990 up to 3170 units in 2000. Since 2001 there has been a decrease in the number, reaching 2,126 units in 2014 (Table 3). At first glance, the tax system of Moldova is similar to those used by tax administrations of many other countries around the world.

However, according to the IMF, its main weakness lies in the fact that it consists of a network of 35 regional tax offices with a total of 2,126 employees. In time, the MSTI should seek to merge the current 35 local tax offices into a maximum of six–eight modernized facilities. This measure would result in a set of regional offices large enough to operate effectively across a number of districts. Retaining the current number of rather small tax offices is not only costly, it also imposes a risk to uniformity of the implementation of tax laws throughout Moldova, as it is harder for small offices to develop and maintain all recent knowledge, share experience, and specialize in all aspects of the tax administration.

Information Technology (IT) and Integral Tax Information System (TIS)

Development of an ITIS, from the standpoint of the users, both tax authority and taxpayers, is the core objective of IT modernization efforts of the Molovan STS. The design of the system addresses effective applications for various types of taxes levied in the Republic of Moldova (e.g. income tax, VAT, real estate tax, etc.). In order to help meet the government's critical, and ever increasing needs for sufficient tax revenues, STS's modernization efforts through technological improvements are crucial to meet all major challenges (e.g. replacement of the manual system with the e-tax system, facilitate voluntary compliance by adding new services for the taxpayers).

These efforts were supported by tax administration reform: in 1991 – developing the computerization program of the STS; 1996 – setting the tax inspectorate offices to e-mail and unification tax filing system; 1998 – application Information System database; 2007 – implementation of the Computerized Informational System "Tax Cadastre"; 2008 – implementation of Information System "BARCOD", implementation and exploitation of the Computerized Informational System "e-Declaration" and creation of the S.E. "Fiscservinform", 2010 – implementation of the tax electronic services' portal: www.servicii.fisc.md and development of the Integrated Tax Information System Plan.

Development of an Integral Tax Information System is the main task of MTA, which is performed by State Enterprise "Fiscservinform"[1]. S.E. "Fiscservinform" aims to provide easily accessible tools and services for collaboration and interaction between citizens, and the private sector and public administration in Moldova (Table 4). There were 33 electronic serices provided by STS, at the end of 2014.

Table 4

Public authorities and Taxpayer services

Public authorities	
MSTI internal pages – intern.fisc.md, "Enforcement of tax obligations", "Authorized office's Audit"; "Exchange operations' record keeping", "Record keeping of the standard forms of primary documents with special regime"; "Creation and circulation tax documents between STS and financial institutions", "Case management for STS activities (inspections, appeals, legal review and VAT refund)", "Risk Management Compliance", "Fiscal cadastre", "Authorized entrance", "RSCAPA"	
Legal persons and Individuals	
Electronic reporting tax services	"Electronic Declaration" – including "Request for refund of income tax overpayment" and "Quick Declaration", "Collection information from indirect sources", "General Register of electronic invoices", AIS "e-Invoice" etc.
Online access to the information services	"The current account of the taxpayer", "Checking of cash voucher", "Checking of tax liability", "Checking of invoice (VAT)", "Electronic register of applications and decisions on VAT refund", "Online ordering of standardized forms", "e-Request", "Online audience", "Download forms", "Taxpayer information", "Property record", Tax Auto Calculator, Fiscal calendar, Spreading the message etc.
Additional Services	Certification and issuance of electronic and digital signatures, electronic mailing notices etc.

Source: Elaborated by authors based on tax electronic services' portal: www.servicii.fisc.md.

Succesful implementation of IT services is analyzed in Table 5. Statistics show a growing number of reports processed by the Automatized Information System "Electronic Declaration" from 1,062 in 2009 to 908,618 in 2014 or of total tax reports is 46% in 2014.

Table 5

Evolution of tax reports processed by STS, 2009-2014

Year	**Total documents**		**Manual (paper support)**		**Quick Declaration**		**Electronic Declaration**	
	Users	**Docs.**	**Users**	**Docs.**	**Users**	**Docs.**	**Users**	**Docs.**
2009	204.248	1.848.354	204.203	1.845.304	566	1.988	49	1.062
2010	211.742	1.921.981	208.852	1.845.904	9.101	73.064	789	3.013
2011	222.082	1.944.479	214.579	1.618.592	20.894	279.244	7.593	46.643
2012	235.522	2.095.277	213.900	1.074.672	25.734	256.015	21.487	764.590
2013	252.798	1.991.245	227.008	993.651	20.970	77.324	27.923	920.270
2014	-	1.963.284	-	985.929	-	68.737	-	908.618

Source: Elaborated by author based on MTA 2013 and 2014 annual reports data.

[1] *The company specializes in developing and implementing advanced information technologies, management and processing of fiscal data, facilitating the exchange of information and documents between tax authorities, taxpayers and public authorities, accessing tax information resources.*

The use of IT is not a choice, but a necessity of modern tax administration. However, there are many strong reasons to have an Integral Tax Information System based on modern IT tools (e.g. Strengthen the Organization and its Administration, Control Tax Evasion, Improve Collection of Tax Arrears, Facilitate Voluntary Compliance). In this order, the IT solution "landscape" has the leading role in supporting the functions for an efficient tax administration. Even though, the IT reform of tax administration in Moldova has achieved some important progress to date, significant challenges remain for the coming years.

Peculiarities of ensuring tax law procedures

Accounting and tax reporting liability is provided by Art.8, para. 2, letter c) of the Tax Code. Reporting liability includes other documents besides the tax reports[1]. Reporting obligations also include the tax reports, accounting records and other keeping document. This is done for the purpose of ensuring the integrity of accounting records and to perform control actions for some fiscal periods prior to the due date for both taxpayers and third parties[2]. Submissions can be done based on paper support as well as in electronic format[3]. While the tax burden is below average in the region, the administrative burden is estimated as being huge [5, p. 2][4].

However, it has to be mentioned that there are no systematic legal rules for tax accounting and accounting records in the tax law. There isn't a single legal framework for tax reporting as a basis to account for tax payments. In each of the sections of the Tax Code there are defined accounting requirements not related to each other, which complicates the work of the business [5, p. 5][5].

Currently modifications of the National Accounting Standards (NAS) [6][6] resulted in many inconveniences, by forcing companies to adjust their accounting software, ultimately increasing their administrative and compliance costs. Nevertheless, it has been recognized that the new NAS, which correspond to International Financial Reporting Standards and EU Directives, will bring an undeniable benefit for entities and other stakeholders (founders, state organizations etc.) by keeping consistent accounting and obtaining accurate economic information in the near future.

Tax Ombudsman. There is no specific provision in the Moldovan tax law dealing with the Ombudsman Institution [7][7]. It is suggested that the Republic of Moldova gives serious consideration to the Institution of Tax Ombudsman [8, p. 161]. The establishement of a special office of the Tax Ombudsman will ensure that taxpayer rights are defended, that taxpayers subject to controls or audits know their rights and responsibilities, and to provide a means for the taxpayer to register complaints

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[1] Tax legislation of the Republic of Moldova categorizes as tax reports any declaration, information, calculation, informative note, other document, that are submitted or must be submitted to the tax body, regarding the calculation, payment, deduction of taxes, fees, increases of delay (penalties) and/or fines or other doings related to birth, modification or extinguishment of the tax liability (Tax Code, Art.129, para.9 and 9[1]). The tax report must be submitted by taxpayer for each type of tax or fee within the established term (Tax Code, Art.187, para.1).

[2] Moreover, failure to do so constitutes, according to Art.257, para.5 of the Tax Code, a tax violation.

[3] According to Art.187 of Tax Code, the tax report shall be submitted using the mandatory automatized methods of electronic reporting, starting January 1st, 2013, by all the VAT subjects.

[4] Document turnover for only one transaction involves up to 14 documents, involving much manual work.

[5] There is a complex system of adjustment from financial accounting data to tax accounting data – 16 differences on the revenue side and 40 differences on the expenditure side. For every row of the CIT declaration an accounting note with explanation must be created. Beyond that, there are up to 51 different reports that have to be prepared by economic entities. For most of those reports, the addressees and terms of reporting differ, requiring additional time and costs for report management.

[6] The new National Accounting Standards (NAS) entered into force on January 1st 2014, with mandatory application since January 1st 2015. During 1997-2014, four financial accounting systems have been used in Moldova: Simplified system, single entry accounting, simplified double entry accounting, classical double entry accounting. NAS No.62 "Single entry accounting" approved by order No.104 as for 27.11.2002 of Ministry of Finance; NAS No.4 "Accounting for small business enterprises" aproved by order No.32 as for 03.03.2000 of Ministry of Finance; NAS No.5 "Presentation of Financial Statements" approved by order No.174 as for 25.12.1997 of Ministry of Finance.

[7] The Ombudsman institution has been operating in the Republic of Moldova since April 1998. According to Law No.52 of 2014, the Republic of Moldova switched from previous system, with several Parlamentary Advocates, to the model of one single Ombudsman with general competence and, within the same office, a special – autonomous – Ombudsman for the protection of children's right.

with the MTA, including reporting improper behavior by STI officers. In addition, the role of the Ombudsman should be expanded to include mediation of tax conflicts [9][1] and, if necessary at the conclusion of mediation, an assistance role, such as guiding a taxpayer in applying for a remission of tax, penalty, and interest in difficult cases.

The taxpayer does not have a choice in whether or not to pay taxes, it is compulsory and, at the assessing and collection level, it can be confrontational. This can confuse taxpayers' perception of whether the treatment during an appeal will be fair and impartial. Third party opinion would be particularly valuable to the small and medium taxpayer, since tax officials have access to legal advice and counsel.

Nevertheless, the Ombudsman can be at the assistance of the tax administration also. As a result of any investigation, he can suggest changes in policy, services or procedure.

Conclusions

In the hope "to develop into a modern efficient European tax administration"[2] [10, p. 15.], MTA has to adapt its legal and social environment first. In Moldova this implies amongst others:

- Merging the current 35 local tax offices into a not more than six-eight modernized facilities;
- Establishing clear, transparent and predictable rules, especially in the field of taxes;
- Education of future taxpayers;
- Introduction of efficient incentive-orientated policy measures;
- Development of an Integral Tax Information System;
- Establishement of a special office of the Tax Ombudsman etc.

In this regards, further improvement in tax collection, by promoting voluntary compliance among taxpayers, and therefore administration are needed[3]. No country, including Moldova has a perfect set of laws and only comparative studies might review systems' weaknesses and strengths.

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[1] The tax advantages of mediation have been highlighted following a survey among 1,000 respondents from small and medium business communities carried out with the support of the Netherlands Embassy in Ukraine and Moldova in the MATRA KAP program in 2010.

[2] The key strategic direction of the MTA is "to develop into a modern efficient European tax administration that will provide the most optimal environment for taxpayers, so that they comply with their fiscal obligations in an adequate manner".

[3] It has been recognized that to ensure fiscal discipline and efficient management of public financial resources, the main possibilities for raising revenues should not be by raising taxes, which can reinforce compliance problems, but improving collection and therefore administration.