THE PERCENTAGE DESIGNATION MECHANISM IN THE REPUBLIC OF MOLDOVA: CHALLENGES AND RESULTS

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Abstract. *The percentage designation is a mechanism through which the natural person redirects part of the amount related to the state budget to the non-governmental sector. This action is made to a social utility organization or religious cult, selected by the individual. Although it is a relatively new phenomenon in our country, significant progress has been made in increasing the visibility of local organizations, making them more active, while people have started to redirect 2 percent of their income tax to a non-profit organization.*

For a better understanding of the percentage designation mechanism, as a concept, evolution and result in the Republic of Moldova, the author has set the following tasks: to define the concept of percentage designation; to highlight the purpose of the percentage designation mechanism; to examine the evolution of the legislative framework regarding the percentage designation mechanism; to analyze the course of percentage designation in the Republic of Moldova; to emphasize some results obtained by non-commercial organizations since the adoption of the law; and to determine key problems regarding the application of the percentage designation mechanism in the Republic of Moldova; and to propose recommendations by representatives of the associative environment regarding the improvement of the implementation of the percentage designation mechanism.

For a more in-depth analysis, the author examined the annual reports of the State Fiscal Service regarding the percentage designation, legislative acts in the field, press statements of civil society representatives, website pages, articles and other relevant sources regarding the analyzed subject. In this context, it is mentioned that since its implementation the percentage designation mechanism is not perfect neither for its beneficiaries nor for taxpayers. Therefore, the recommendations highlighted in the article should be taken into account especially by the decision-making actors in the Republic of Moldova.

Keywords: *noncommercial organizations, citizens' participation, natural person, percentage designation mechanism, state fiscal service*

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Defining the concept of percentage designation

Through the percentage designation, the natural person redirects a part of the amount from the state budget to the non-governmental sector. This mechanism would rather be a tool of participatory democracy. It is a possibility for citizens to participate in the process of distributing the public budget, which was previously only the state's responsibility. Thus, percentage designation is not only an alternative source of financing for the activities of public associations and religious cults, but also a way of strengthening relations between these organizations and the population of the Republic of Moldova. (Tinerii și desemnarea procentuală, 2020).

In other words, this phenomenon is an absolute benefit for society once they are expected to develop. (Maleca, 2017: p.161). This mechanism aims not only to support organizations, but also to increase their visibility and actions in the community. Because an organization that is not known in the community, which does not work for the benefit of the community, the probability that it will benefit from percentage designation is very small. The organization must conduct a promotional campaign through its activities, through its actions, to explain to the citizen that he has the right to designate this amount and there is already competition to designate this particular amount in favour of this organization. Educating the citizen is also one of the goals of civil society. Thus, through the percentage designation, the citizen is also educated (Decide unde să meargă 2%, 2023).

On July 18, 2014, the Parliament voted the "2% Law" (Legea, 2014). According to the law, between January 1 and April 30, individuals have the opportunity to direct 2% of their income tax to an organization or religious cult of their choice. The legislative framework also stipulates that a person who has two or more sources of income is obliged to file an income tax return. If the person has income from a single source, they are not obliged to file an income tax return, but if the person wants to exercise their right to the percentage designation, they must file a return, i.e. make an extra effort (Cu dreptul, 2022).

The percentage designation (the 2% mechanism) is made to a selected public utility organization or religious cult.

The public utility status (PUS) obtained by a noncomercial organisation is a "special status" that requires the state (government) to recognize that a certain non-commercial organization (private institution, public association or foundation) carries out public utility activities. These are activities that contribute to the development and support of strategic areas of development of the state, for example: education, social protection, creation of new jobs, etc.

Also the organizations must prove that they ensure high standards of organizational management and is transparent to the public. All these these aspects are verified and confirmed by a special commission who issues a certificate. Until 2018, the Certification Commission operated under the Ministry of Justice. Now this responsibility belongs to the Agency for Public Service.

Following the obtaining of the status, non-commercial organizations (NCOs) can benefit from certain facilities in accessing public funds, or in using public property. Although the list of "benefits" of public utility status remains relatively modest, another side effect of holding the status is the differentiation of holders from other organizations in front of potential donors (Macrinici, 2013: p.8).

Public utility status is granted for a period of five years and can be renewed upon request whenever necessary. Until the entry into force of Law No. 86/2020 on non-commercial organizations, public utility status was granted for a period of 3 years. On November 30, 2020, about 100 ONCs held public utility status (Chirtoacă, Gribincea, 2020: p.3-5).

According to the „2% law", beneficiaries of the percentage designation are:

a) public associations, foundations and private institutions that are registered in the Republic of Moldova and carry out public utility activities in accordance with Law No. 86/2020 on non-commercial organizations, provided that they have been operating for at least one year prior to the request for registration and have no debts to the national public budget for previous fiscal periods;

b) *religious cults* that are registered in the Republic of Moldova and carry out social, moral, cultural or charitable activities.

At the initiative of civil society organizations, this law was amended by Parliament on July 21, 2016 (Legea, 2016). The purpose of the amendments was to provide equal conditions of access, use of amounts and reporting for all beneficiaries of the "2% Law", as well as to improve the actual mechanism of percentage designation.

If initially it was intended that legal entities would also have the possibility to direct 2% of their income tax to a public utility organization, however, in the final regulatory act it was accepted that only individuals would benefit from this possibility.

The Ministry of Finance itself vehemently opposed the inclusion of legal entities in offering 2% of their income tax in order to avoid certain conflicts of interest.

On November 30, 2016, the Government adopted the Regulation on Percentage Designation (Hotărârea, 2016), which is also the instrument for implementing the "2% Law". The Regulation establishes the mechanism by which taxpayers – individuals – can direct 2% of their income tax to the beneficiaries of the percentage designation.

A year later, in 2017, the 2% Law was implemented for the first time and individuals who were required to pay taxes were able to direct 2% of their income tax to one of the organizations included in the List of 2% Beneficiaries. However, representatives of the associative environment recommend that the directed amount be divided among several organizations or that the taxpayer be able to choose the option of allocating the money to a budgetary priority. This results in a large variation in the distribution of funds and it would be good if this practice were also taken into account in the Republic of Moldova, as it has already existed for several years in other states.

The history of percentage designation in the Republic of Moldova

Nr.	**Y*ear***	The number of taxpayers who made the percentage designation	Total validated amount	Number of beneficiaries registered in territorial administrative units
1	2017	21204	2 821 243,60	302
2	2018	28388	5 631 042,36	393
3	2019	35937	7 691 666,30	504

4	2020	26776	5 816 737,19	534
5	2021	34805	9 151 236,11	665
6	2022	34955	9 958 023,66	710
7	2023	38651	124855141,46	780
8	2024	35175	14511676,03	914

Source: Raportul statistic, http://sfs.md/ro/pagina/desemneaza-2

The dynamics show that the citizens of the Republic of Moldova are in solidarity and the amounts directed are increasing, except for the pandemic year, 2020. Specifically, in 2020, the 2% mechanism was affected by the COVID-19 pandemic, the state of emergency established by the authorities to stop the spread of the virus, the movement restrictions and the reduced working hours of the State Tax Service offices. Also, the tax reform that capped the income tax at 12% "cut" the amounts directed by taxpayers who were previously required to pay a percentage rate of 18%, these being taxpayers with higher incomes (Macrinici, Chirtoaca, 2021: p.4).

However, from one year to another, there is a positive trend in both the number of beneficiaries of the percentage designation, the number of taxpayers who make the percentage designation, and the amount of percentage designations (SFS a publicat rezultatele desemnării procentuale, 2023).

According to the latest data made public by the Tax Inspectorate, a record was registered in 2024, the amount of money directed to public utility organizations or religious cults increased considerably, as did the number of taxpayers using this mechanism. In 2024, the total validated amount also showed a slight increase, as did the number of beneficiaries compared to 2023. Although the additional resources of noncommercial organizations are often dedicated to solving social problems in local communities, namely non-profit organizations operating at the local level do not accumulate sufficient financial resources from the percentage designation. Few of them are registered in the list of beneficiaries of the percentage designation, or citizens in rural localities are not sufficiently informed about this opportunity. At the same time, the employment gap between rural and urban populations must be taken into account. This also affects the amounts collected for local/community organizations.

The percentage designation is completed and submitted by individuals with their annual income tax return, and 2024 was the eighth year in which tax-paying individuals in the Republic of Moldova had the right to redirect 2% of their income tax to a non-profit organization or religious entity. The revenues obtained by civil society organizations through the percentage designation mechanism amounted to over 14 mln lei (MD) in 2024. This is the highest annual value designated, but the mechanism is far from fulfilling its full potential, especially when it comes to local civil society. Practically only 5-6% of taxpayers know about the existence of this mechanism (Campanie de promovare, 2023).

In 2024, 918 of beneficiaries registered in territorial administrative units obtained a certain amount of money from individuals to perform organization’s actitivies.

Most of the designations with the largest amounts were designated for organizations based in the municipality of Chisinau. Although taxpayers residing in the municipality of Chisinau designated about 50% of the total validated amount, beneficiary organizations in

the municipality of Chisinau received the largest part of the amount – 10,068,693.84 lei (MD), or approximately 69.4% of the total validated amount. Most of the organizations to which 2% was directed are based in the municipality of Chisinau, which represents about 57.3% (524 out of 914 beneficiaries) of the total number of beneficiaries of the percentage designation in 2023, the rest went to organizations registered in the other districts of the country. This phenomenon can be argued by the fact that they are more transparent, known, are more credible to citizens, as well as that they implement activities that have a greater impact on the population. The remaining 43% of the total accumulated amount went to organizations registered in other districts of the country.

In terms of the geographical dimension of the country, the Statistical Report for 2024 shows that in the municipality of Balti, 1602 taxpayers directed 555,632 lei (MD), in the district of Edineț 1164 taxpayers – 288,264 lei (MD), in the municipality of Chisinau 10245 taxpayers offered 7,284,764,307 lei (MD) and, respectively, in Ceadîr – Lunga, 1596 taxpayers directed 316,000 lei (MD).

From the above, we note that representatives of the associative environment from rural communities is still modest in its results and, in order to improve the situation, public associations must intensify their actions to promote a better image among citizens, so that they are more convincing, attractive and credible. Already registered organizations are urged to communicate more actively with potential taxpayers from whom they could benefit from the 2%. It is considered that the organizations that have benefited from significant resources have been active in promoting the activities they carry out. This is what makes the difference between those who benefit from more money and those who benefit from less. Organizations are also urged to improve their transparency, to publish annual activity and financial reports, to include a column on how much money they have benefited from the "2% mechanism" and whether this money was used according to the statutory purposes (Cecirlan, 2022).

To avoid the majority of civil society organizations based in Chisinau getting the largest amount of money from the percentage designation, one recommendation would be for taxpayers in a given region to redistribute 2% of their state tax payments specifically for organizations registered in that area (30% din alocații desemnate prin „mecanismul 2%" ajung la 1% din beneficiary, 2022).

Also, most of the resources are concentrated in four types of organizations. These are social protection organizations, religious cults, followed by sports organizations, and charitable and health organizations. These organizations collect more than 80% of all resources. Accordingly, organizations of other profiles, such as educational ones, have a much smaller margin of resource use. Thus, representatives of the associative environment believe that educational institutions should also be on the list of beneficiaries, they could use the 2% mechanism to supplement the school fund. An option is to register public associations next to their educational institutions.

Small beneficiaries receive up to 6,00 lei (MD) per year through this mechanism, medium-sized ones: from 1000 - 15000 lei, and large ones reach 9,000,00 lei (MD) annually. The problems mentioned by them relate to the administration of funds and the reporting process on the mechanism.

The largest amount received by an organization in 2024 was 943,131.53 lei, which represents approximately 6.5% of the total amount validated. The beneficiary of this

amount is the Public Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova *(Asociaţia Obştească a Veteranilor şi Pensionarilor Ministerului Afacerilor Interne din Republica Moldova).* The organization benefited from the largest designation amount for the eighth consecutive year.

The list is followed by 2 other associations, namely: "ENERGIE" Foundation for the Support of Veterans and Workers of the Energy Sector (Fundația de Susținere a Veteranilor și Lucrătorilor Sectorului Energetic "ENERGIE"), with an amount of 931 205,15 lei (MD) and Public Association Association of Veterans and Pensioners of the Main State Fiscal Inspectorate "UNI-M" (Asociaţia Obştească Asociaţia Veteranilor şi Pensionarilor Inspectoratului Fiscal Principal de Stat "UNI-M") - 347 607,72 lei (MD).

At the end of the list of beneficiaries of the percentage designation is recorded the Religious cult "Church dedicated to St. George" village of Sestaci, district of Soldanesti (Comunitatea religioasă „Biserica cu hramul Sf. Gheorghe" s. Şestaci, r. Şoldăneşti). It received only 6.48 lei (MD).

Based on the above, it is mentioned that a conflict of interest is attested when the organization responsible for distributing the money accumulated through the "2% mechanism" is also an indirect beneficiary. However, many organizations have reported that members of the state structures are administratively "motivated" by their managers to allocate the 2% to the respective organization. Thus, representatives of the associative environment have begun to criticize and come up with some recommendations regarding changing this situation. Some recommend prohibiting CSOs affiliated with public institutions from benefiting from the "2% mechanism", or prohibiting employees of public institutions from making this redistribution to affiliated CSOs and ensuring transparent control (Cecirlan, 2022).

Referring to the number of individual taxpayers who made designations in 2024 by age, the statistical report of the State Tax Service also shows that of those aged 18-30, there were 3484 taxpayers, 31-50 years old, 19387 people, 51-70 years old - 11805 people and respectively, over 70 years old - 499 taxpayers. We also note that the channels through which the declarations were submitted in 2024, electronically - 12673 taxpayers, and on paper 22502 taxpayers.

Regarding the internal situation of non-profit organizations benefiting from the percentage designation, representatives of the associative environment also identified some gaps. They mentioned that in many cases, the costs of administering the budget accumulated through the "2% mechanism" exceed the benefits that it could offer. The proposal is to create a mechanism so that beneficiaries can direct the funds received to other organizations that accumulate larger amounts. Or to extend the reporting period for the accumulated money. Currently, this period is two years. It is also requested that banks offer a free account for the financial means distributed through the "2% mechanism". One recommendation is to simplify the method of reporting income obtained through the mechanism. Currently, the procedure is complicated and is the same for an organization that annually accumulates 900 thousand lei (MD) and one that accumulates 7 lei (MD). For this reason, many organizations would like to give up this mechanism. Another problem would be related to the reporting of the use of funds received from the percentage designation. The reports come in PDF format, data that cannot be disaggregated. It is proposed to change the format. The data should no longer

come on the platforms of public institutions, but all reports should be uploaded on a single platform (30% din alocații desemnate prin „mecanismul 2%" ajung la 1% din beneficiary, 2022).

Given the fact that few organizations are beneficiaries of the percentage designation, if we consider that over 14 thousand civil society organizations are registered in our country, we believe that it is appropriate for organizations that have not registered up to this point to register and benefit from the possibility of attracting these financial sources of income (Cecirlan, 2022).

Although the law was first adopted in 2014 and implemented in 2017, however, in the 8 years of implementation, the percentage designation mechanism is not perfect for either its beneficiaries or taxpayers. Therefore, the recommendations highlighted in the article should be analyzed and taken into account, especially by decision-makers in the Republic of Moldova.

Conclusions

Following the analysis conducted above, we further highlight some conclusions and results regarding the percentage designation in the Republic of Moldova.

Some categories of taxpayers are still excluded from the right to designate by percentage, such as taxpayers practicing professional activities (lawyers, notaries, bailiffs, mediators), although the limitations in the law have generally been excluded. The exclusion from the 2% targeting of persons who have the right to do so according to the law is not justified and negatively influences the ability of the mechanism to constitute an indirect source of financing for the non-commercial sector.

A considerable part of the 2% amounts reach beneficiary organizations that have connections with state institutions – are created by former or current employees of state institutions – and/or that have connections with public and political figures.

From a territorial perspective, the main beneficiary of the 2% mechanism is still the municipality of Chisinau. Although the 2% amounts and the number of 2% beneficiary organizations in the Republic of Moldova are increasing in 2024 compared to previous years, more effort is needed to popularize the 2% mechanism both among non-profit organizations and taxpayers outside the municipality of Chisinau.

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