

# Moldova: Tax implications of the global economic crisis

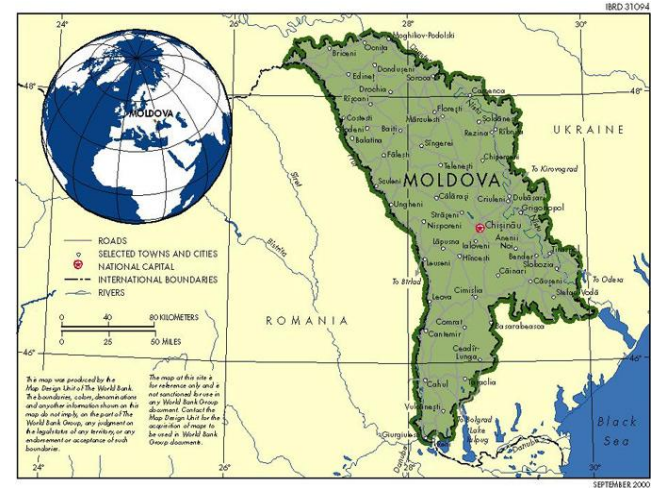
3rd Meeting of the SEE Working Group on Tax Policy Analysis

# Agenda

1. Moldova today
2. Corporate taxation
3. International cooperation
4. Revenue generating tax measures
5. Tax reliefs
6. Tax administration

# Moldova today

- FY09 GDP = - 6.5%
- FY09 inflation = 0.4%
- Q1 FY10 inflation = 5.5%
- Favourable geopolitical position
- Partner Country within EU Neighbourhood Policy
- Member of important international organizations (e.g., WTO, IMF, EBRD, IBRD, IFC, CEFTA)
- Extensive network of free trade arrangements (e.g. CIS, CEFTA, EU - ATP)
- EUR 1.9 billion assistance to be offered to Moldova in the period 2010 – 2013 (i.e. projects related to road improvement, health, sanitation, energy sector, water supply)



# Corporate taxation

- 0% corporate income tax (CIT) rate up to 2012!
- Still, not a tax haven country!
  - CIT compliance requirements
  - 15% fine on the under-reported taxable income
  - 42 operational Double Tax Treaties (DTTs)
  - Moldova accepted the “Exchange of information” article in DTTs
  - Commentaries to the OECD Model Tax Convention on Income and on Capital – applicable guideline
  - No ring fencing policy
- 10% CIT rate expected from 2012

# International cooperation

- DTTs related measures:
  - 5 rather recently ratified DTTs (i.e. Italy, France, Portugal, Belgium, Ireland) – to enter into force
  - Renegotiation of DTTs concluded prior to 2000
  - Initiation of tax treaty negotiations with certain countries - e.g. USA
- Examination of the opportunity to implement TP norms in compliance with the OECD TP Guideline
- Initiative to implement the binding tax ruling concept
- Technical assistance need for reviewing / amending domestic tax law in line with the international practice (i.e. permanent establishment, partnerships, taxation of non-residents)

# 2010 revenue generating tax measures (1/2)

- Increase of domestic WHT rates:
  - on gains from gambling - from 10% to 18%
  - all types of payments to non-residents, except dividend distributions - to 15%
  
- Indirect tax measures:
  - Increase of VAT rate for import / local supply of natural and liquefied gas – from 5% to 6%
  - Increase of excise duty rates (e.g. for alcoholic beverages, cigarettes, gasoline / diesel fuel, perfume, jewellery)
  - Enlargement of the list of excisable goods (e.g. crystal objects, lighting devices)

## 2010 revenue generating tax measures (2/2)

- Indirect tax measures (cont'd):
  - Excise duty compliance rules for businesses supplied with jewellery of precious metals and precious stones, for further sale and with no documents confirming the payment of excise duties
  - Increased focus of customs authorities on origin and customs valuation matters

# 2011 revenue generating tax measures

- Increase of the mandatory VAT registration threshold
- Increase of the VAT rate for import / local supply of sugar produced from sugar beat – from 8% to 20%
- Revision of the due date of VAT on services subject to the reverse charge mechanism
- Increase of excise duty rates, etc.

# Tax reliefs - current

- Personal income tax and social security contributions incentives available up to 2012 for the employees working for IT companies (if certain conditions are met)
- Interest income obtained by individuals on bank deposits – tax exempt until 2015
- Starting with 2010, possibility to offset refundable VAT/excise duty amounts with import duties

# Tax reliefs - 2011

- CIT incentives to be maintained
- VAT refund related measures:
  - Compensation of VAT refundable amounts with future liabilities towards the Moldovan budget
  - VAT refund to non-resident individuals – from 1 October 2011
  - Eventual full refund of VAT related to investments
- Proposed reduction of the fiscal burden by way of a review of the tariff policy
- Implementation / improvement of simplified customs procedures

# Tax administration

- Determination of individuals' tax liabilities by way of indirect sources and methods
- Simplification of tax reporting procedures (e.g. mandatory e-returns for large taxpayers)
- Quarterly publication of the list of Companies subject to planned tax inspections
- Reduction of fiscal fines - 2010 vs. 2009, e.g.:
  - For the under-reported taxable income - from 25% to 15%
  - For inadequate filling in of primary documents – from MDL 500 per case to MDL 200 per case and capped at MDL 5,000
- Reduction of the annual late-payment interest from 21% in 2009 to 10% in 2010