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INTERIM REPORT ON VAT REFUND PROGRAM IMPLEMENTATION MAY 1 – NOVEMBER 30, 2020

**developed by the Ministry of Finance
within the Tax Administration Modernization Project (TAMP)**

In March 2020 the Government of Moldova began to mobilize a pandemic preparedness response to manage the impact of COVID-19. In order to mitigate the negative effects on the economy's evolution, due to COVID-19, the Government has set a series of tax-related budgetary measures for supporting the business environment and established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate the negative fiscal impact of the COVID-19 pandemic.

The preparedness and response plan was approved by Provision no.16 of April 10, 2020 of the Commission for Exceptional Situations of the Republic of Moldova, the Law no. 60/2020 on establishing measures to support the entrepreneurial activity and amending some normative acts (further - Law no.60/2020) and the Law no. 69/2020 on the establishment of measures during the state of emergency in public health and the amendment of some normative acts (further - Law no.69/2020) the following programs were established:

Programs for direct support of entrepreneurial activity			
	Payroll Subsidy mechanism in case of technical and/or stationary unemployment*	Interest subsidy program	VAT refund program*
Subjects/ Beneficiaries	Enterprises and non-commercial organizations that have established technical and/or stationary unemployment	Enterprises that contracted loans between May 1 and December 31, 2020	Enterprises registered as VAT taxpayers
Subsidy size	<p>100% paid payroll taxes related to allowances granted under technical or stationary unemployment for economic agents whose activity has been suspended by the Provision of the CES</p> <p>60% paid payroll taxes) related to allowances granted under technical or stationary unemployment for economic agents whose activity has not been stopped by the Commission Provision.</p>	The amount of monthly interest paid	<p>The amount of the refund is the minimum amount between:</p> <p>(1) VAT amount intended for the subsequent period in the last fiscal period</p> <p>(2) the amount of payroll taxes related to the month of management</p>
Subsidy limits	The amount of the subsidy per employee will not exceed 100% / 60% of the calculated amount of payroll taxes related to the salary payments of	<p>1. Maximum subsidized annual interest rate:</p> <p>8.76% in national currency and 4.40% in foreign currency</p>	The cumulative amount of the refund for the payment period (May 1, 2020 – December 31, 2020) will not exceed the amount of VAT for the subsequent period, reflected in the

	February 2020 per working day	2. Maximum amount of subsidized credit the amount of the salary fund for the September 2019 - February 2020	VAT return for December 2019
Coverage period	March 17 – May 15, 2020** and extended twice through September 30, 2020	May 1 - December 31, 2020	May 1 - December 31, 2020
Payment term	5 days	5 days	25 days

*Supported by Moldova TAMP Restructuring in 2020

**TAMP covered only those claims related to the period March 17-May 15 (the first period of emergency (See footnote 1 of the [World Bank's Restructuring Paper REPORT NO.: RES41570](#), dated September 14, 2020).

To realize the Government's goal of mitigating the decline of economic activity through supporting business survival, boosting liquidity and sustaining employment levels, the Ministry of Finance, as a borrower and recipient of the Tax Administration Modernization Project (TAMP)¹, requested the World Bank to reallocate TAMP funds to support the implementation of two mentioned above subsidies programs: Payroll Subsidy mechanism in case of technical and/or stationary unemployment, and the VAT refund program.

The VAT refund program was aimed at granting firms, which were not eligible for VAT refund per provisions of the Tax Code, the right to receive subsidies based on the VAT refund mechanism (VAT subsidies), provided the companies are operating after the lifting of the first State of Emergency (May 15, 2020) until December 2020.

This report summarizes interim results of the implementation of the VAT refund program during the period of May 1 – November 30, 2020.

The goal of the VAT Refund Program

The goal of the VAT refund program (mechanism) was to increase the liquidity of enterprises that are registered as VAT taxpayers by providing the right to refund the VAT recorded for deduction in subsequent period.

The program is a part of provisions adopted by the Law no. 60 of 23 April 2020 on establishing measures to support entrepreneurial activity and amending some normative acts.

How was the VAT Refund Mechanism (Program) implemented

Subsidies under the VAT refund program were granted according to the Regulation on VAT refunds of enterprises that are registered as VAT taxpayers and register VAT amounts for deduction in the subsequent period, approved by the Ministry of Finance's Order No.76 of June 16, 2020 (further - Regulation). (https://www.legis.md/cautare/getResults?doc_id=126103&lang=ro#).

The Regulation contains provisions regarding the VAT refund mode, actions that the beneficiary companies and State Tax Service have to take and the procedures of determination of the amount of VAT refund.

¹ TAMP is the World Bank supported project, funded under the Financing Agreement between the Republic of Moldova and the International Development Association (IDA Credit #5829) and the Loan Agreement between the Republic of Moldova and the International Bank for Reconstruction and Development (IBRD Loan #8625) both dated June 28, 2016, as amended.

Beneficiary companies are companies that have accumulated VAT on the account, determined by large purchases with 20% VAT, and sale products at low VAT rates, such as agricultural producers. Until now, these companies did not have the right to refund the corresponding VAT.

The amount of intended VAT for the subsequent period is determined as the difference between the total amount of collected VAT (of VAT on sales, including adjustments and advances) and the VAT deduction (of VAT on purchases, including imports and adjustments, of VAT in the previous period, and refunded VAT).

The request for VAT refund shall be made through application submitted by an applicant using the template provided in the Regulation.

Beneficiary firms that received subsidies were analysed in the light of the following indicators:

- presented the Reports on income tax withholding, compulsory health insurance premiums and calculated compulsory state social insurance contributions (hereinafter form IPC18/IPC21²) for the analysed periods;
- declared in the IPC18/IPC21³ forms indicators related to the remuneration fund calculated for the employed staff, for the analysed periods;
- paid tax obligations related to the budget in full or in part, during the analysed periods;
- complied with the tax reporting method provided by the legislation.

The amount of eligible expenditures was determined taking into account the amount of payroll taxes paid by companies that recorded VAT amounts for the subsequent period.

The refund, for approved applications, was made within 25 working days from the date of application submission. The coverage period for VAT Refund program in this report was May 1 – November 30, 2020.

VAT Refund Program Implementation Results

During May-November 2020 under the VAT refund program, 676 economic agents submitted 1497 applications requesting subsidies for the total amount of 263,837,388.39 lei.

Out of total applications submitted to State Tax Service, 764 applications corresponding to 526 beneficiaries were approved for subsidies' payment in the total amount of 140,440,478.04 lei (see the table below).

Table 1.

Results of VAT Refund Program Implementation (May 1 –November 30, 2020)

Application Submitted			Total number of withdrawn applications			Total notifications sent to taxpayers regarding non-examination of the application			Applications Approved for Payment		
No of applications	No of applicants	VAT refund amount requested, lei	No. of applications	No. of applicants	Total amount requested for withdrawn	No. of notifications	No of applicants	Total amount requested for notificat	No. of applications	No of applicants	VAT refund amount approved for

² Statement on the withholding of income tax, compulsory health insurance premiums and calculated compulsory state social security contributions

³ IPC18/IPC21 is a report regarding the withholding of income tax, mandatory medical insurance contributions and assessed mandatory state social insurance contributions, approved by Order no.126 of October 4, 2017 and Order no.94 of July 30, 2020

					applicati on, lei			ions sent, lei			payment, lei
1497	676	263,837,3 88.39	523	343	78,129,8 74.53	26	20	3,370,0 02.15	764	526	140,440,4 78.04

Following the STS's thematic control, State Tax Service sent 26 of notifications to taxpayers regarding the non-examination of the application⁴ due to the revealed mistakes in submitted information or non-eligibility aspects.

The key reasons of applications' rejection were:

- IPC18/IPC21 report has not been submitted;
- IPC18/IPC21 contains information and untrue data established following the thematic fiscal control;
- the obligations related to the salary payments have not been paid and/or they are paid to the improper accounts;
- the application is not completed properly, etc.

Also, during the VAT refund program implementation from May 1 – until November 30, 2020, 523 applications submitted by 343 applicants in the total amount of 78,129,874.53 lei have been withdrawn by applicants themselves and 184 of applications for 41,9 mln lei have not been executed by State Tax Service till November 30, 2020.

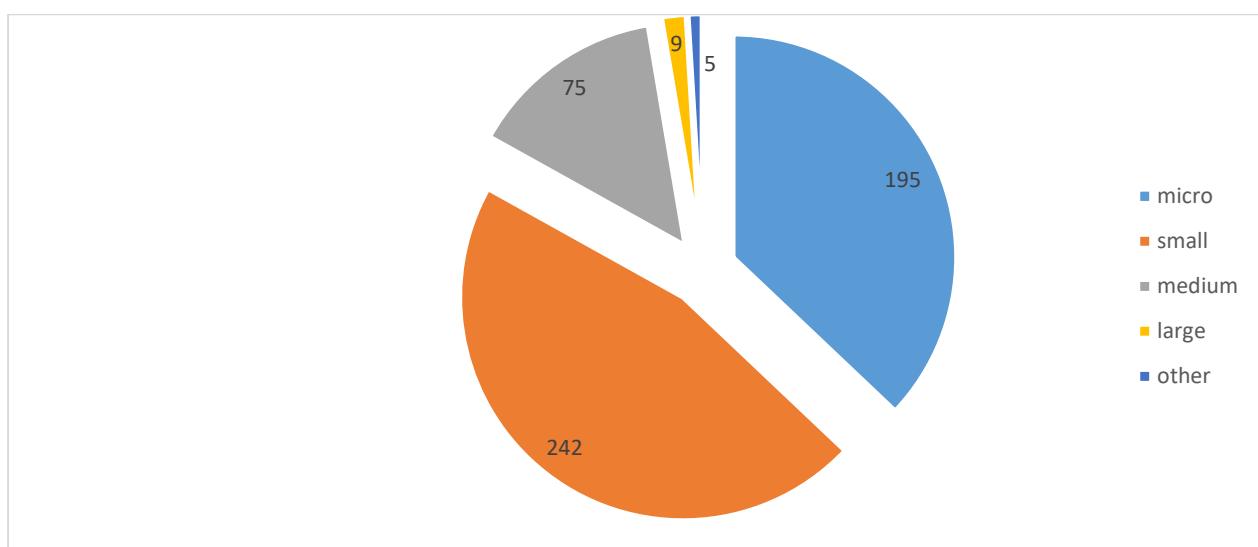
The total subsidies (VAT refund) amount approved for payment was 123,396,910.35 lei less of originally requested.

Overall, 77,8 % of applicants received subsidies and 51% of total received applications were paid in accordance with the eligibility requirements defined by the Order No.76 of June 16, 2020 of the Ministry of Finance.

The micro and small enterprises represent the largest group of beneficiaries in terms of number of firms under the VAT Refund program. At the same time, medium and large enterprises received the largest share of VAT refund paid.

Figure no.1 – VAT Refund Beneficiaries by size of enterprise* (in terms of no. of applicants), May 1- November 30, 2020

⁴ Point 9 from the Regulation on VAT refunds of enterprises that are registered as VAT taxpayers and register VAT amounts for deduction in the subsequent period, approved by the Ministry of Finance's Order No.76 of June 16, 2020



* Classification of enterprises by size is based on Art.5 of the Law on small and medium enterprises no. 179 of 21.07.2016:
 micro enterprise – enterprise with a total of 9 employees;
 small enterprise – enterprise that has from 10 to 49 employees;
 medium-sized enterprise –enterprise that has from 50 to 249 employees;
 large enterprise - enterprise with more than 250 employees.

The more detailed information is presented below in Table no.2

Table no.2

**VAT Refund Beneficiaries by Size of Enterprise* (in terms of no. of applicants),
 May 1 - November 30, 2020**

<i>Size of beneficiary firms</i>	<i>No. of beneficiary firms</i>	<i>Average No. of employees</i>	<i>Total approved amount for refund (lei)</i>
micro	195	1 013	8,526,762.24
small	242	5 100	36,798,852.37
medium	75	6 994	49,367,479.08
large	9	3 257	45,470,979.45
others ⁵	5	0	276,404.90
Total	526	16 364	140,440,478.04

Respectively, from the total number of enterprises 526 (100%) that applied and were confirmed as beneficiaries for a VAT refund, 84 enterprises (15,97%) were represented by medium and large enterprises and 437 enterprises (83,08 %) were represented by micro and small enterprises. Others 5 enterprises (0,95%) were presented by households (farmers) that did not have the employees, but have received the subsidy based on land tax declared.

The economic impact of the crisis caused by Covid-19 varied by economic sectors. Applications for VAT refund program were confirmed for 526 enterprises in 12 economic sectors.

Figure no.2 – VAT Refund Beneficiaries by economic activity (in %), May 1- November 30, 2020

⁵ Other enterprises are households (farmers) affected by natural disasters that requested and received subsidies based on Declaration on completion and presentation the Real Estate Tax Calculation (BIJ 17) to SFS in accordance with conditions stipulated in point 4 of Regulation on VAT refund for the enterprises that are registered as VAT taxpayers and record VAT amounts for the deduction in the subsequent period, approved by Order No.76 of June 16, 2020 of the MoF (modified by Order No.118 of September 22, 2020 of the MoF.)

	prises					employees	employees	number 2020*
C - manufacturing industry	30	11,826,556.40	8.42%	1,784	1,989	+205	+11.5%	30
H - transport and storage	5	18,184,342.29	12.95%	633	652	+19	+3%	5
G - wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles	34	15,384,537.58	10.95%	1,038	1,068	+30	+2.9%	34
D - production and supply of electricity and heat, gas, hot water and air conditioning	1	11,896,784.00	8.47%	269	268	-1	-0,37%	1
I - accommodation and public catering activities	4	131,597.78	0.09%	73	127	+54	+73.9%	4
N- administrative service activities and support service activities	14	2,640,967.13	1.88%	540	529	-11	-2.03%	14
Q - health and social assistance	1	237,875.43	0.17%	33	53	+20	+60,6%	1
Other	9	432,904.47	0.31%	55	71	+16	+29,1%	5
M - professional, scientific and technical activities	3	299,839.54	0.21%	28	47	+19	+67,8%	3
L - real estate transactions	2	32,183.37	0.02%	5	7	+2	+40%	2
F - construction	5	2,400,230.32	1.71%	278	286	+8	+2.88%	5
A - agriculture, forestry and fishing	418	76,972,659.73	54.81%	111,32	100,56	-1076	-9,67%	413
Total	526	140,440,478.04	100%	15868	15153	-715	-4.5%	517

* no of firms still operating in November 2020 vs April 2020

In order to identify the impact of COVID-19 imposed restrictions on business continuity in different economic sectors, a comparative analysis on the number of employees (May-November 2020) in those sectors was carried out.

Figure no.3 - Number of enterprises with changed number of employees by sector during the period May 1 – November 30, 2020



As a result of the comparative analysis, during the VAT refund program implementation from May through November 2020, it was observed:

- 165 enterprises from all affected economic sectors increased the number of employees, by 998 employees.

- 361 economic agents decreased their number, by 1713 employees.

Despite 31.4% of economic agents increased the number of working places, and 68.6% registered a lower number of employees in November 2020 compared to April 2020, the overall decrease was insignificant and employment among VAT refund program beneficiaries maintained at 95% level. This slight decrease is due to the seasonal factor in agricultural sector.

The trend related to the increase in the number of employees was found for economic agents from sector L- real estate transactions, M - professional, scientific and technical activities, Q - health and social assistance but for a small amount.

The higher decrease in the number of employees was found for economic agents from sector A - agriculture, forestry and fishing, G - wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; C - manufacturing industry.

Figure no.4 - Number of employees in beneficiary enterprises by month (April-November 2020)

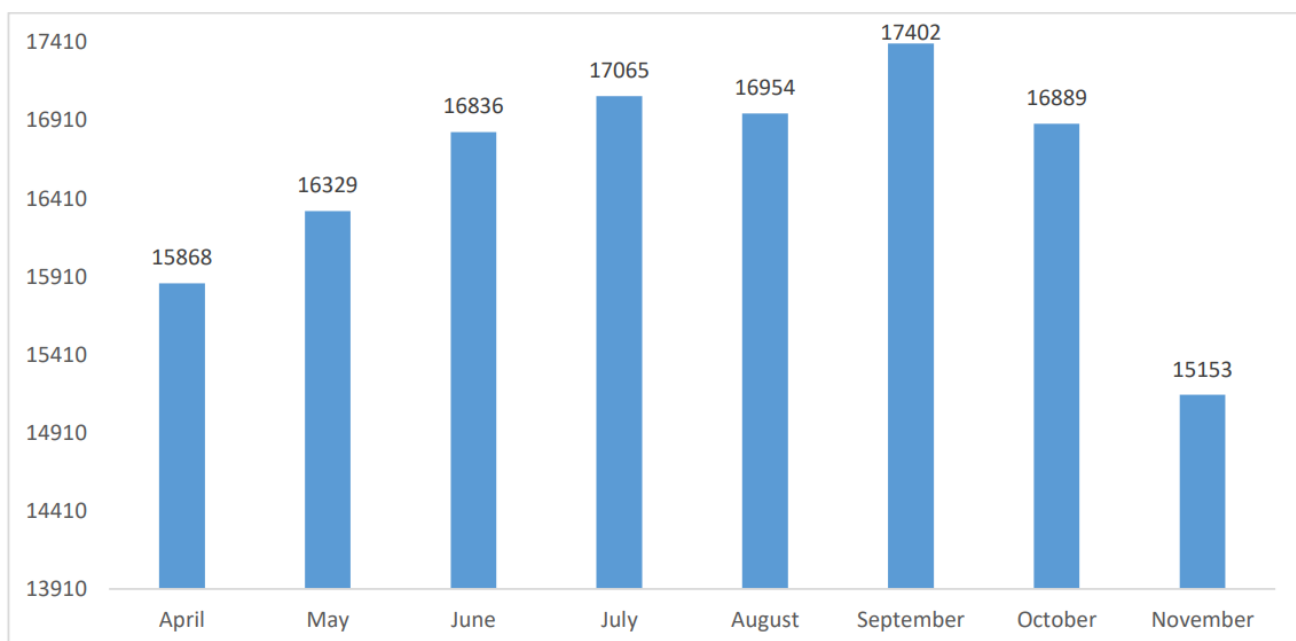


Figure 4 shows steady increase of employment among beneficiaries until September 2020 that followed by a notable decrease in 2,249 employees during next two months, specifically from October-November 2020. Such decrease in employment is explained by the seasonal factor in agricultural sector.

Grievance mechanism

The point 21 of chapter V “Final Provisions” of the *Regulation on VAT refund for the enterprises that are registered as VAT taxpayers and record VAT amounts for the deduction in the subsequent period, approved by Order No.76 of June 16, 2020 of the Ministry of Finance* provides grievance mechanism that has to be applied in case of any disagreements: “The decision issued by the State Tax Service regarding the VAT refund can be challenged within 30 days from the date of communication by the State Tax Service, in accordance with Title V of the Tax Code.”

The Title V of Tax Code includes provisions about appeals that may be submitted to State Tax Service. Also, Chapter 17 of Title V of Tax Code provides a detailed information related to grievance mechanism.

Thus, according to the provisions of art. 268 of the Fiscal Code, the appeal against the decision of the State Fiscal Service or the action of the tax official shall be submitted within 30 days from the date of receipt of the decision or undertaking of the contested action. In case of omission of this term for justified reasons, it may be re-established, at the request of the person concerned in the decision or against which the action was taken, by the State Tax Service.

According to the provisions of art.270 paragraph (2) of the Tax Code, the taxpayer is invited to examine the appeal, in accordance with art.226 paragraph (1), (2) and paragraph (3) letters a) -e), to give explanations, having the right to submit confirmatory documents, and according to par. (3), after the examination, a decision is issued on the appeal, a copy of which is handed over or sent, recommended, to the taxpayer within 3 working days after the issuance of the decision.

In case of disagreement with the issued decision, according to art.274 of the Fiscal Code, the taxpayer is entitled to challenge the decision of the STS and the actions of the fiscal officials, in the manner established by the legislation, in court.

During the May-November 2020, the State Tax Service did not receive and, respectively, did not examine appeals related to the implementation of VAT refund program.

Conclusion

Overall, the implementation period of VAT refund program has succeeded in minimizing the shock on the labor market caused by COVID-19 pandemic. The implementation of the VAT refund program enjoyed success as a support mechanism during the pandemic crisis; it proved to be a viable tool in reducing the state's debt to enterprises registered as VAT taxpayers who had accumulated VAT on account. It also over-achieved its target outcomes of at least 75% of beneficiary firms that received subsidies from May 1 to November 30, 2020 continue to operate in December 2020 and maintain reported employment on at least 60% level compared to April 2020. As of the end of November 2020, 517 firms represented 98,2% of beneficiaries continued to operate through December 2020 and maintained employment at 95,5% in November 2020 compared to April 2020.