



MINISTERUL FINANTELOR
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**REPORT
ON VAT REFUND PROGRAM IMPLEMENTATION
MAY 1 – DECEMBER 31, 2020**

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

Introduction

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 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 caused by COVID-19 pandemic 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 Government's tax-related conditional subsidy programs. Specifically, 2020 TAMP Restructuring, supported two mentioned above subsidies programs: i) Payroll Subsidy mechanism in case of technical and/or stationary unemployment, covering the claims related to the first period of emergency (March 17-May 15), and ii) 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 results of the implementation of the VAT refund program during the period May 1 – December 31, 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 was 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. The implementation of VAT refund program covered the period from May 1 through December 31, 2020.

How was the VAT Refund 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

¹ TAMP is the World Bank 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.

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.

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/IPC21 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, of which:

- 20 days from this term are destined for the thematic fiscal control and the adoption of the refund decision
- 3 days are destined for the preparation of payment documents and their transmission to the State Treasury Department, and
- 2 days are intended for effective refund.

The coverage period for VAT Refund program was May 1 – December 31, 2020.

Accordingly, this report reflects the number of applications submitted, approved, and the total amount of payments made during the coverage period.

VAT Refund Program implementation results

During the implementation period of the VAT refund program, 827 economic agents submitted 1965 applications requesting subsidies for the total amount of 325 257 135, 09 lei.

² 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

Out of total applications submitted to State Tax Service, 1092 applications corresponding to 694 beneficiaries were approved for subsidies' payment in the total amount of 195 617 932, 52 lei (60% of requested amount).

Table no.1

Results of VAT Refund Program implementation
(May 1 – December 31, 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 application, lei	No. of notifications	No of applicants	Total amount requested for notifications sent, lei	No. of applications	No of applicants	VAT refund amount approved for payment, lei
1965	827	325,257,135.09	662	408	96,769,274.93	27	21	3,411,607.43	1092	694	195,617,932.52

Following the STS's thematic control, State Tax Service sent 27 of notifications to taxpayers regarding the non-examination of the application³ 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 December 31, 2020, 662 applications submitted by 408 applicants in the total amount of 96,769,274.93 lei have been withdrawn by applicants themselves and 184 of applications have not been executed by State Tax Service till December 31, 2020.

The total subsidies (VAT refund) amount approved for payment was 129,639,202.57 lei less of originally requested.

Overall, 83,9% of applicants received subsidies and 55,5% 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.

Table no.2

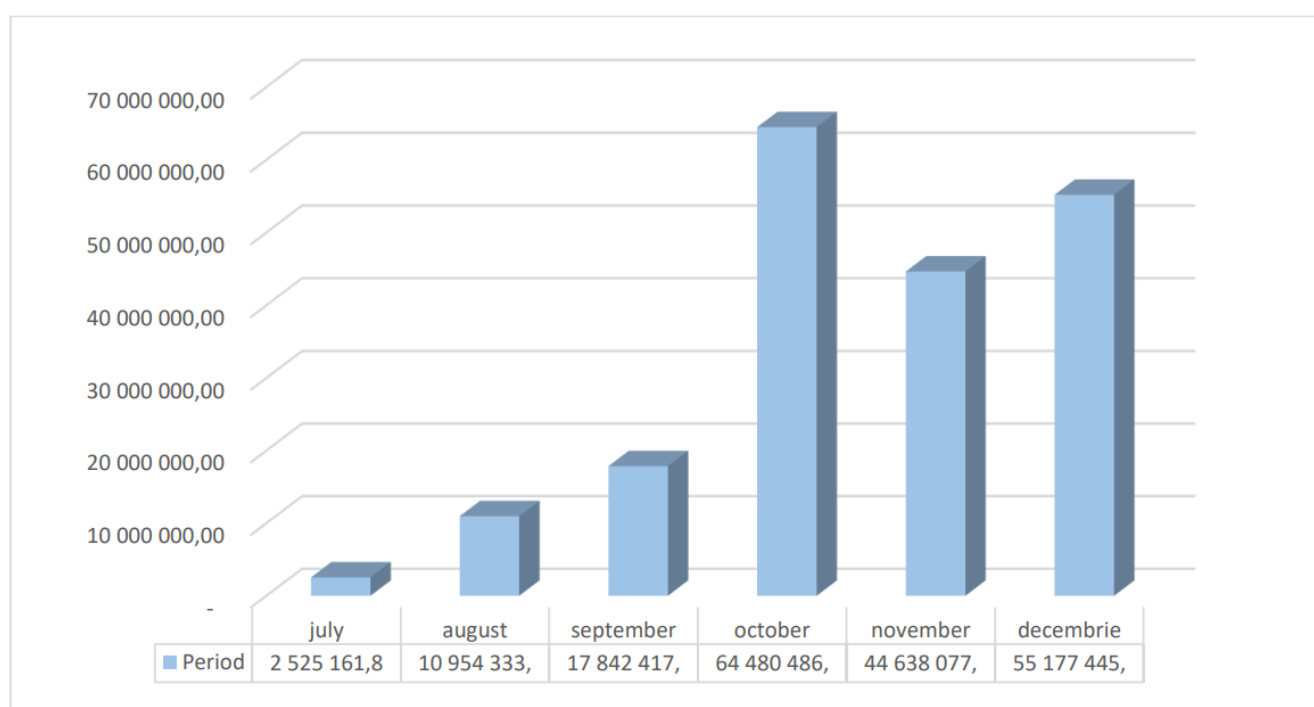
Amount of subsidies approved by month

³ 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

Period	No. of beneficiary firms ⁴	Total approved amount for refund (lei)
July	12	2,525,161.86
August	69	10,954,333.87
September	103	17,842,417.55
October	298	64,480,486.96
November	246	44,638,077.80
December	334	55,177,445.48
Total	1062	195,617,923.52

The largest subsidy amounts were approved in October 2020 in the amount of 64,480,486.96 lei in respect of 298 economic agents.

Figure no.1 - Amount of approved subsidies, by month



Majority of the beneficiary firms (465 or 67%) requested VAT refund only once and received above 30% of total VAT refund amount paid (see Table 3 below). The remaining 229 firms were repetitive beneficiaries. Most of these repetitive beneficiaries (145 firms or 63%) benefitted from the VAT refund twice having received 40% of the total subsidy amount paid. Other 84 companies received VAT refunds from 3 to 6 times during May-December 2020.

Table no.3

Beneficiary firms by number of refunds requested and amounts paid

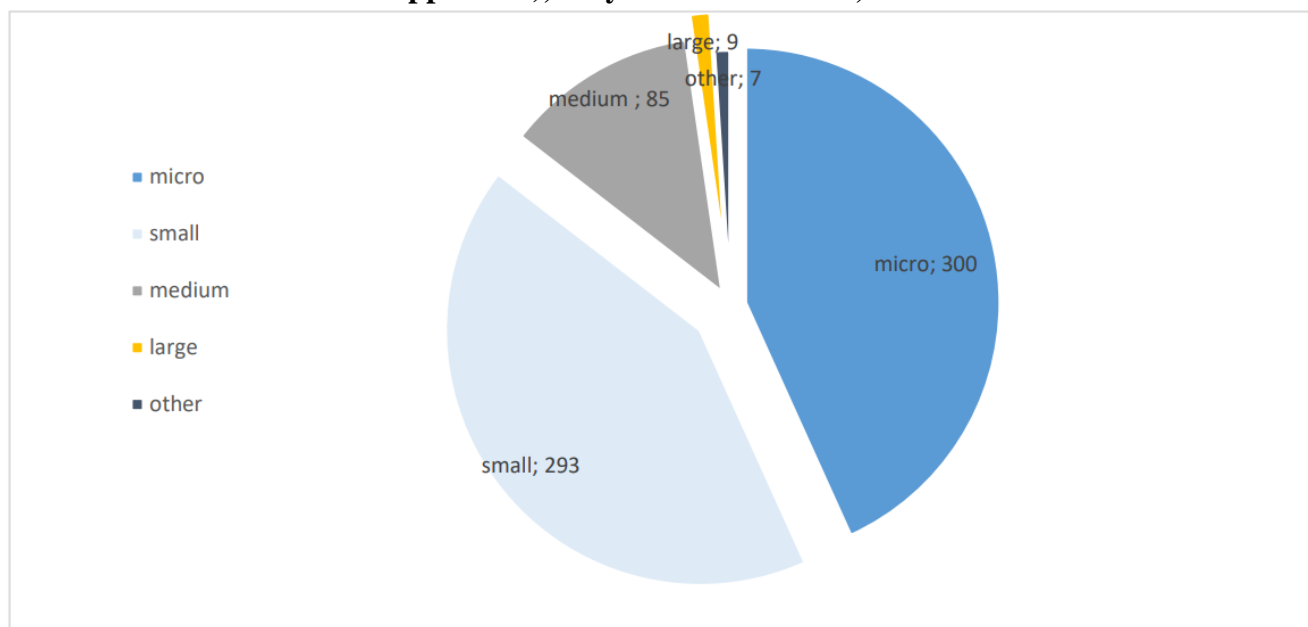
Total number of refunds requested	Total number of beneficiary firms	Total amount of subsidies paid
1	465	65,278,650.09
2	145	79,742,334.30

⁴ This indicator reflects the total number of beneficiary firms including repetitive ones

3	47	16,383,870.17
4	21	18,671,532.37
5	14	14,144,350.35
6	2	1,397,186.24
Total	694	195,617,923.52

Micro and small enterprises represented 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 (65%) of the VAT refund.

Figure no.2 – VAT Refund Beneficiaries by Size of Enterprise* (in terms of no. of applicants), May 1 – December 31, 2020



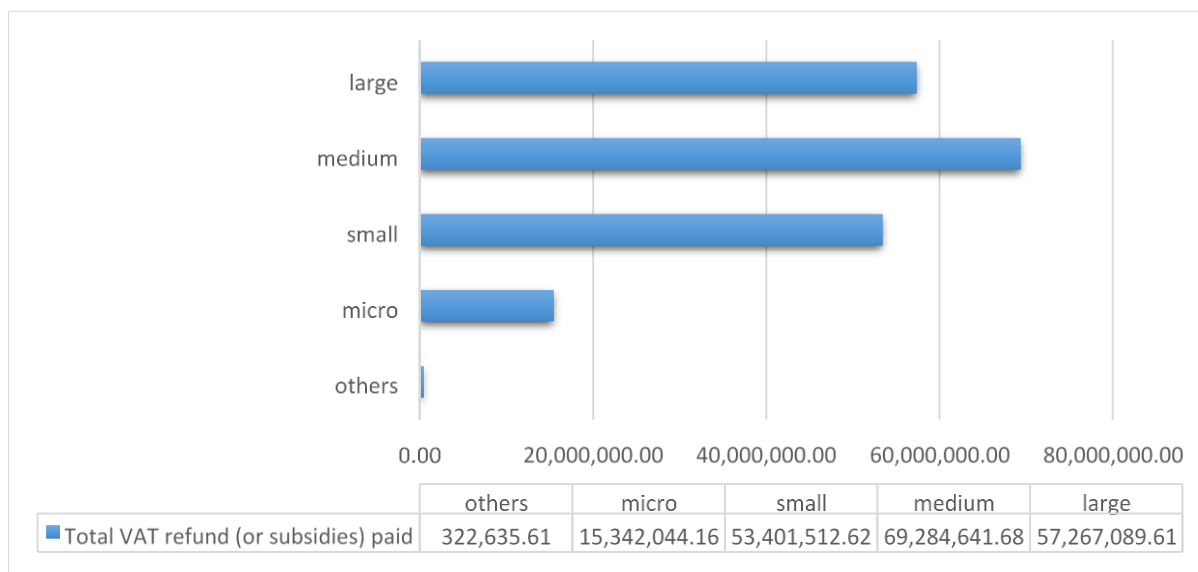
* Classification of enterprises by size is based on Art.5 of the Law on small and medium enterprises no. 179 of 21.07.2016:
micro enterprise – enterprise with a total of 9 employees;
small enterprise – enterprise that has from 10 to 49 employees;
medium-sized enterprise – an enterprise that has from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

From the total number of enterprises (694 economic agents) that applied and were confirmed as beneficiaries for the VAT refund program, 593 enterprises (85,4%) represented micro and small enterprises, 94 enterprises (13,5%) were represented by medium and large enterprises. The other 7 enterprises (1,1%) were presented by households (farmers) that did not have employees, but have received the subsidy based on land tax declared.

It is obvious that in the situation of the deep economic-financial crisis that the Republic of Moldova was facing, the most affected segment was micro, small and medium-sized (SMEs). SMEs enterprises have been more sensitive to economic disturbances, in contrast to large companies that have registered small economic deviations either due to easy adaptation or due to specific activity of the economic sector in which they operate.

In this regard, the value share of the subsidy amount paid to SMEs cumulatively exceeds the amount of subsidies paid to the large segment.

Figure no.3 – Total amount of subsidy paid by type of enterprise



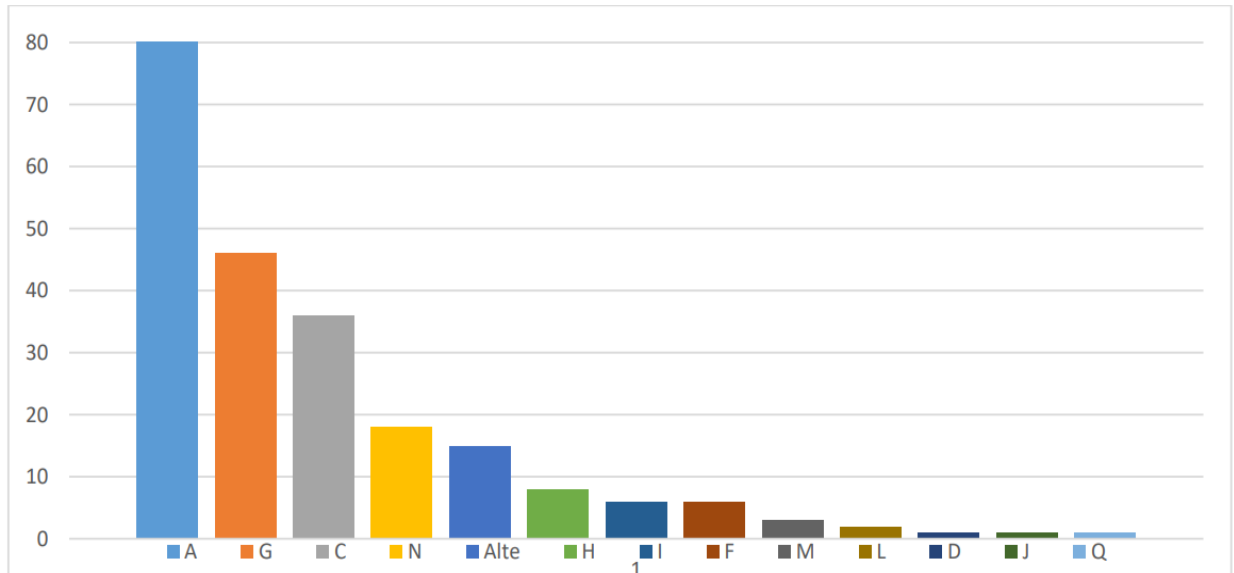
Based on the data presented, it can be seen:

- ✓ for 300 micro enterprises, the amount of 15,342,044.16 lei was paid
- ✓ for 293 small enterprises, the amount of 53,401,512.62 lei was paid
- ✓ for 85 medium enterprises, the amount of 69,284,641.68 lei was paid
- ✓ for 9 large enterprises, the amount of 57,267,089.45 lei was paid
- ✓ for other⁵ enterprises, the amount of 322,635.61 lei was paid

The economic impact of the crisis caused by Covid-19 disasters varied by economic sectors. Applications for VAT refund program were confirmed for 694 enterprises in 13 economic sectors.

**Figure no.4 – VAT refund beneficiaries by economic activity (%),
May 1, 2020 – December 31,2020**

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.)



A - agriculture, forestry and fishing; C - manufacturing industry; D - production and supply of electricity and heat, gas, hot water and air conditioning; E - water distribution; sanitation, waste management, decontamination activities; F - constructions; G - wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; H - transport and storage; I - accommodation and public catering activities; J - information and communications; K - financial and insurance activities; L - real estate transactions; M - professional, scientific and technical activities; N - administrative service activities and support service activities; P - education; Q - health and social assistance; R - art, recreation and leisure activities; S - Other service activities, Other.

Thus, according to the data presented above, the largest share of beneficiaries (79,4% or 551 enterprises) operated in the field of agriculture, forestry and fishing. The amount of 108,921,677.32 lei (55,6% of the total refund paid) was granted to enterprises in the respective sector.

The second place took the wholesale and retail trade with 46 beneficiaries (6,7%) and the third one was for manufacturing industry (36 beneficiaries; 5,2%), where subsidies were granted in the amount of 23,209,323.27 lei (11,9% of the total amount paid) and 14,474,977.26 lei (7,4%) respectively. The smallest number of beneficiaries were from production and supply of electricity and heat, gas, hot water and air conditioning, information and communications, who took advantage of the subsidy program for the first time in December 2020, as well as health and social assistance. One economic agent from information and communication sector received subsidy in the total amount of 2,519,464.73 lei.

Detailed information on the financial support enterprises obtained as a result of their participating in the VAT refund program is presented in Table 4.

Table no.4

**Beneficiaries and VAT refund paid by each sector
(as per Classification of Activities in the Moldovan Economy)**

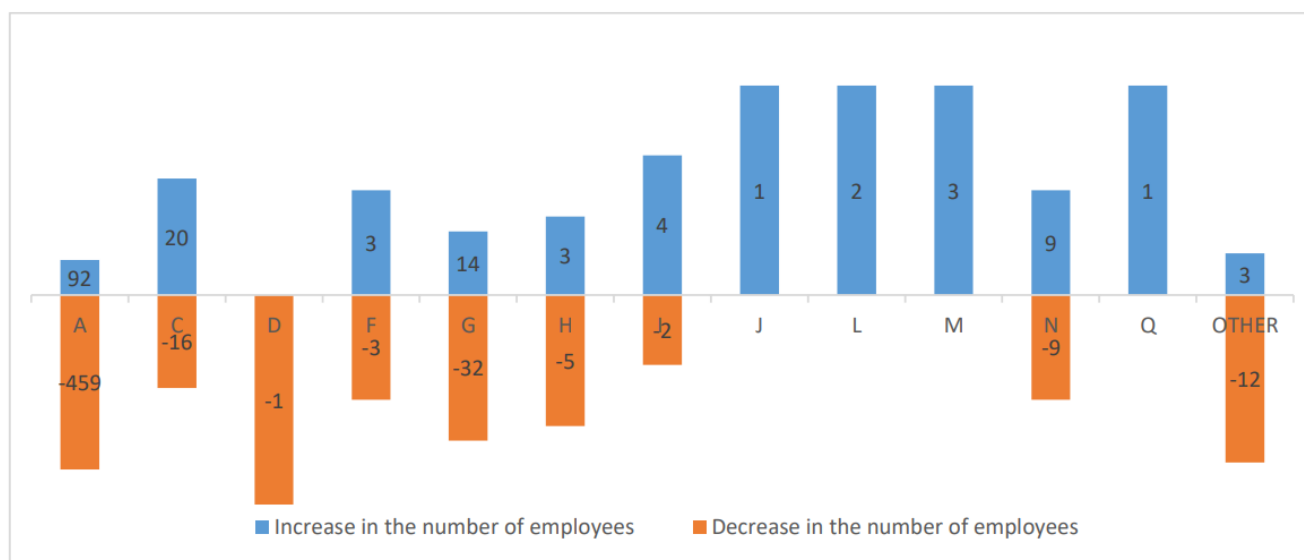
SECTION	No. beneficiary enterprises	Total amount granted (lei)	Percentage of total paid subsidy amount	No. of employees in April 2020	No. of employees in December, 2020	Deviation of the number of employees	Percentage deviation	No. of active enterprises in December 2020*
A	551	108,921,677.32	55.6%					
G	46	23,209,323.27	11.9%					
C	36	14,474,977.26	7.4%					
N	1	2,519,464.73	1.2%					
Alte	1							
H	1							
I	1							
F	1							
M	1							
L	1							
D	1							
J	1							
Q	1							

C - manufacturing industry	36	14,474,977.26	7.4%	1,860	2,056	+196	+10,5%	36
H - transport and sto rage	8	18,387,252.64	9.4%	652	668	+16	+2,45%	8
G - wholesale and retail trade; mainten ance and repair of motor vehicles and mo torcycles	46	23,209,323.27	11.9%	1,126	1,151	+25	+2,2%	46
D - production and supply of electricity and heat, gas, hot water and air conditioning	1	19,676,960.00	10.06%	269	268	-1	-0,37%	1
I - accommodatio n and public catering activities	6	224,951.07	0.11%	75	137	+62	+82,6%	6
N- administrative service activities and support service activities	18	3,537,853.19	1.8%	676	683	+7	+1,03%	18
J – Information and communications	1	2,519,464.73	1.29%	185	249	+64	+34,6%	1
Q - health and social assistance	1	237,875.43	0.12%	33	54	+21	+63,6%	1
Other	15	754,113.41	0.39%	86	99	+13	+15,1%	8
M - professional, scientific and te chnical activities	3	381,780.30	0.19%	28	43	+15	+53,6%	3
L - real estate transactions	2	53,177.55	0.03%	5	7	+2	+40%	2
F - construction	6	3,238,517.35	1.66%	301	260	-41	-13,6 %	6
A - agriculture, forestry and fishing	551	108,921,677.32	55.68%	12,934	9,977	-2,957	-22,8 %	521
Total	694	195,617,923.52	100%	18,230	15,652	-2,578	-14.1%	657

* no of firms still operating in December vs April

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-December 2020) in those sectors was carried out.

Figure no.5 - Number of enterprises with changed number of employees by sector, April 30 – December 31, 2020



As a result of the comparative analysis, during the VAT refund program implementation from May 1 through December 31, 2020, it was observed:

- 155 enterprises from all affected economic sectors increased the number of employees, by 1026 employees.

- 539 economic agents decreased their number, by 3604 employees.

Thus, 22.3% of economic agents increased the number of working places, while 77.7% registered a lower number of employees in December 2020 compared to April 2020. Overall, as the result of VAT refund program implementation, its beneficiaries maintained the employment at about 86% of its level before the program was launched.

The trend related to the increase in the number of employees was found for economic agents from sector L- real estate transactions, J - information and communications, M - professional, scientific and technical activities 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.6 - Number of employees in beneficiary enterprises by month (April-December 2020)

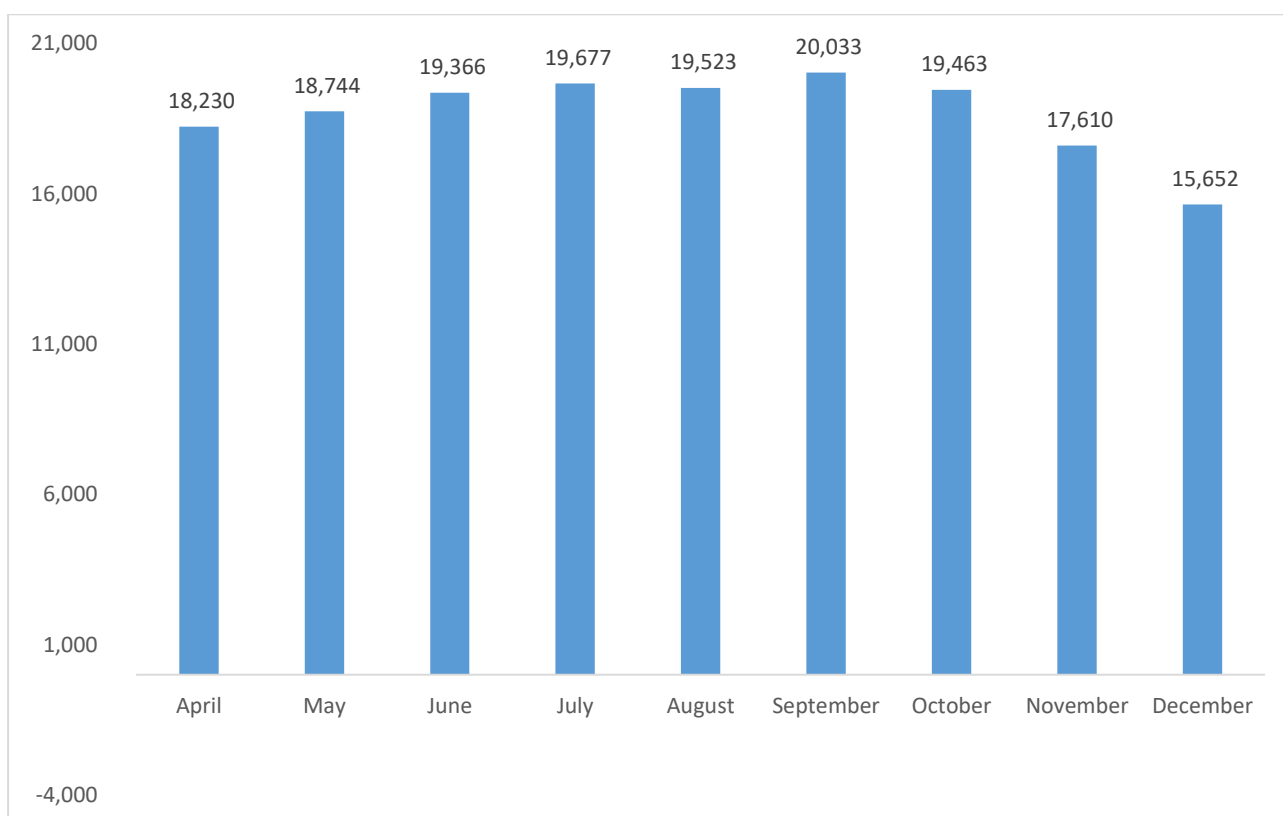


Figure 6 shows steady increase of employment among VAT refund program beneficiaries until September 2020 that followed by a decrease during the last quarter of 2020. This decrease in employment is explained by the seasonal factor in agricultural sector.

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-December 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 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 continue operation and maintain reported employment on at least 60% level compared to April 2020.

As of December 31, 2020, 657 enterprises which represent 94,6% of beneficiaries continued to operate and maintained an employment level of 85,8% in December 2020 compared to April 2020.