Tax Expenditures Assessment Report

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Table of Content

[Acronyms 4](#_Toc99298751)

[Executive Summary and Key Findings 5](#_Toc99298752)

[Tax expenditure assessments, future tax policy changes, and cost-benefit analysis 5](#_Toc99298753)

[Complexities with defining a benchmark tax system 5](#_Toc99298754)

[Tax Expenditures and estimation methodologies 6](#_Toc99298755)

[Tax expenditure assessment responsibility 7](#_Toc99298756)

[I. Introduction 9](#_Toc99298757)

[Tax Expenditures reporting and its use in fiscal management 9](#_Toc99298758)

[Forms of tax relief 9](#_Toc99298759)

[Tax relief vs. support defrayed from the budget's expenditure side 9](#_Toc99298760)

[Following global good practice in fiscal transparency 10](#_Toc99298761)

[The steps of the Moldovan TEs assessment 10](#_Toc99298762)

[Tax instrument categories covered 11](#_Toc99298763)

[Comparison with TEs Register 11](#_Toc99298764)

[II. Defining a Benchmark Tax System for Moldova 12](#_Toc99298765)

[General description and definitional issues 12](#_Toc99298766)

[Personal income tax 14](#_Toc99298767)

[Business income tax 18](#_Toc99298768)

[Value-added tax 20](#_Toc99298769)

[III. Inventory of Identified Variations from the Benchmark 26](#_Toc99298770)

[IV. Estimation of the Cost of Tax Expenditures 26](#_Toc99298771)

[Tax Expenditures Methodology for PIT 26](#_Toc99298772)

[Tax Expenditures Methodology for BIT 28](#_Toc99298773)

[Tax Expenditures Methodology for VAT 29](#_Toc99298774)

[Costing of Tax Expenditures, 2018-2021 32](#_Toc99298775)

[V. The Way forward 35](#_Toc99298776)

[References 36](#_Toc99298777)

[Appendix 1: PIT Tax Expenditures Summary Sheets 37](#_Toc99298778)

[Appendix 2: BIT Tax Expenditures Summary Sheets 53](#_Toc99298779)

[Appendix 3: VAT Tax Expenditures Summary Sheets 64](#_Toc99298780)

##

## Acronyms

BIT Business Income Tax or Corporate Income Tax (CIT)

CGT Capital Gains Tax

COA Court of Accounts

GDP Gross Domestic Product

GFS Government Finance Statistics

HBS Household Budget Survey

HS Harmonized (Commodity Description and Coding) System

IMF International Monetary Fund

ITC Input Tax Credit

MCS Moldovan Customs Service

MDL Moldovan Leu

MOF Ministry of Finance

NBS National Bureau of Statistics

PFM Public Finance Management

PIT Personal Income Tax

R&D Research and development

SME Small and Medium Enterprise(s)

SSC Social Security Contribution

STS State Tax Service

SUT Supply-Use Table

TC Tax Code

TCPU Tax and Customs Policy Unit

TE Tax Expenditure

TEAR Tax Expenditure Assessment Report

VAT Value Added Tax

## Executive Summary and Key Findings

The key goal of any tax system is to generate sufficient revenue for government spending. It can be also used to advance certain socioeconomic objectives through targeted tax exemptions, deductions, reduced tax rates, deferrals, or tax credits. Tax expenditures (TEs) are estimates of the total revenue forgone as a result of these preferential tax treatments. This first Moldovan tax expenditure assessment report (TEAR) presents the revenue forgone costs of identified tax expenditures provided for in the Personal Income Tax (PIT), Business Income Tax (BIT), and Value-added Tax (VAT). In the future, this quantitative effort would be expanded to excises, and possibly taxes on immovable property.

An illustrative list of tax expenditures for the income tax system could include interest tax-free for housing loans, reduced tax rate of savings accounts, tax deductions for childcare expenses, reduced tax rates for small and medium enterprises, tax benefits for charitable donations. Similarly, tax expenditures for VAT could include reduced rates, zero rates, and VAT exemptions. The examples of these tax preferences are not necessarily undesirable as they will yield some social benefit. Nevertheless, the cost of such provisions should be estimated and reported, so that their value can be assessed and compared against similar government spending programs.

### Tax expenditure assessments, future tax policy changes, and cost-benefit analysis

Establishing the inventory of TEs, estimating their forgone revenues, monitoring their implementation, and evaluating their cost-effectiveness *ex post*, creates a powerful feedback loop if future revenue-raising options need to be identified. Alternatively, it could inform future base broadening initiatives with accompanying downward tax rate adjustment if revenue neutrality is pursued. Consequently, establishing the practice of regularly publishing a TEAR should improve tax policy design in Moldova.

It is important to flag at the outset the distinction between costing of TEs and evaluating their cost-effectiveness as a policy tool. Reporting on revenue forgone of TEs in a TEAR and TE evaluations are related, but separate exercises with different institutional requirements. Costing TEs and publishing TE revenue losses is an important step in ensuring fiscal transparency and to allow for a comparison of tax measures with direct spending policies (Heady and Mansour, 2019). This is the intended output of this first comprehensive TEAR. Capturing the cost-effectiveness of TEs in pursuing public policy objectives is the next, more ambitious step in policy analysis, which requires special analytical skills. Consequently, cost-benefit analysis—a pragmatic approach to TEs evaluation—will only be considered over the mediu and long term.

### Complexities with defining a benchmark tax system

In the tax literature, tax expenditures are generally defined as deviations from some “benchmark” tax system although the benchmark is rarely well defined. Considerable effort went therefore into the Ministry of Finance’s preparation of the first TEAR to delineate for the three taxes a commonly accepted benchmark regime (or structure) against which variations (or non-structural provisions in the Tax Code) could be defined consistently. These carefully identified variations constitute the tax expenditures. A total of 83 TEs are identified in this TEAR (see Appendices 1 to 3). As to what constitutes the benchmark design for PIT, BIT and VAT, needs an agreeable and consistent resolution with the view to properly costing TEs. For this reason, this TEAR—before discussing different and adopted approaches to the costing of TEs—provides in section II some globally acceptable benchmark delineations for the three taxes.

* **Business income tax:** Under a standard BIT/CIT, the benchmark is based on the prevailing tax on profits with a single rate of tax and no tax relief, other than for usual business expenses. Certain business expenses pose challenges in defining the benchmark. For example, should depreciation allowances be based on economic depreciation or accelerated (tax) depreciation, which provides a timing advantage? Should financing costs, such as interest expenses, be allowed without limit, or should limits on interest deductibility be accounted for as a “negative tax expenditure”? There is no globally uniform approach, but it is important to be consistent, irrespective of the expenses incurred. Moldova shares a stance whereby all timing benefits regarding deductions are TEs, but all provisions against tax avoidance are part of the benchmark.
* **Personal income tax (PIT):** For a comprehensive income tax at progressive rates or the 12 percent single flat rate in Moldova, the benchmark is based on the prevailing system of income tax with the existing statutory tax schedule. However, it excludes any tax relief, other than the basic personal allowance (or tax free income bracket). Under such PIT, any deduction from income -, tax credits, and lower rates on certain income (e.g., on capital gains, dividends) are arguably tax expenditures.
* **Value-added tax (VAT):** The VAT has as a benchmark the broadest measure of final consumption (public and private) at a single tax rate. There are no exemptions in the benchmark system. Low or reduced rates are also excluded from the benchmark, except for the zero rate on exports, which is the mechanism by which VAT system is designed to be destination-based.

### Tax Expenditures and estimation methodologies

This TEAR presents the Ministry of Finance’s first estimates of the budget cost of tax expenditures, as well as a brief discussion of the methodology used to produce these estimates. The tax expenditure estimates are calculated using the “revenue forgone” method. This entails comparing actual revenue collections with the revenue that would have been collected without the tax incentives in place. The revenue forgone approach assumes that taxpayers do not change their behavior in response to a tax expenditure being withdrawn. Hence, the accuracy in forecasting the additional revenues associated with policy changes depends on the extent to which behavioral responses matter for the targeted TEs. In most instances, behavioral responses are relatively small.

The individually estimated TEs are aggregated and summarized by tax instrument in Table 1. The total TEs for PIT, BIT and VAT were estimated at MDL 8,293 billion or 3.6 percent of GDP for 2021. For that year and for those three tax instruments, 83 tax expenditures were identified and the forgone revenues for 48 of them were estimated. The largest size TEs accounted for more than 66 percent of the total in 2021. These include:

* Tax exemption of state security payments and state subsidies (PIT)
* 8% reduced-rate for agricultural products (VAT)
* Zero-rating of electricity for residential customers (VAT)
* Exempting the supply of educational services (VAT)
* Exempting the supply of medical services and associated goods (VAT)
* Tax exemption of income from international grants for research and development, and from special funds and grants approved by the government (BIT)

Most of the personal and business income TEs are estimated based on microsimulation modeling using tax return or administrative data from the State Tax Service (STS).[[1]](#footnote-2) To evaluate VAT TEs, the Ministry of Finance (MoF), together with the IMF, developed a model based on the Supply-Use Tables produced by the National Bureau of Statistics. Section IV of this TEAR discusses the methodology of TEs estimates for PIT, BIT and VAT.

### Tax expenditure assessment responsibility

The MoF, through the Tax and Customs Policy Unit (TCPU), prepared this TEAR as it ensures adequate central coordination over the different agencies involved in TE design, implementation, and administration. Except for the administration of TEs by the STS, all the other TE-related responsibilities are part of the MoF tax policy design functions. The accumulated expertise within the TCPU structure is sufficient to produce this first comprehensive TEAR. The capacity of the TCPU will be further enhanced, including through external technical assistance, to conduct full and regular TEs analysis and reporting. The function of assessing, quantifying, and publishing TEARs creates an important feedback loop to improve tax policy design in Moldova.

 Table 1. Moldova: Tax Expenditure Estimates, 2018 to 2022

|  | **2018** | **2019** | **2020** | **2021** | **2022** |
| --- | --- | --- | --- | --- | --- |
|  |  | *in million MDL* |
| **Personal Income Tax** |
|   | Exemption |  764.5  |  1,390.4  |  1,370.8  |  1,553.9  |  1,708.3  |
|  | Deduction |  -  |  0.7  |  5.6  |  8.9  |  9.8  |
|  | Allowance |  -  |  -  |  191.5 |  216.8 |  238.2 |
|  | Deferral  |  -  |  -  |  -  |  -  |  -  |
|  | Rate reduction |  -  |  -  |  -  |  -  |  -  |
|  | Credit |  -  |  -  |  -  |  -  |  -  |
|  Total Personal Income Tax |  764.5  |  1,391.1  |  1,567.9  |  1,779.6  |  1,956.3 |
| **Business Income Tax** |
|   | Exemption |  525.3  |  526.2  |  502.4  |  580.3  |  645.5 |
|  | Deduction |  2.0 |  2.0  |  1.9  |  2.2  |  2.4 |
|  | Allowance |  13.3  |  13.3  |  12.7  |  14.7 |  16.4 |
|  | Deferral  | - | - | - | - | - |
|  | Rate reduction |  220.7  |  221.0  |  211.1 |  243.6  |  271.3  |
|  | Credit | - | - | - | - | - |
|  Total Business Income Tax |  761.3 |  762.5  |  728.1  |  840.8  |  935.6 |
| **Value Added Tax** |
|   | Zero rated items |  499.4  |  547.3  |  532.2  |  648.3  |  714.3  |
|  | Exempt items |  2,233.1  |  2,456.7  |  2,384.4  |  2,906.0  |  3,209.5  |
|  | Reduced rate items |  1,558.2  |  1,757.0  |  1,669.6  |  2,118.3  |  2,397.2  |
|  |  |  |  |  |  |  |
|  Total Value Added Tax |  4,290.7  |  4,761.0  |  4,586.2  |  5,672.6  |  6,321.0  |
|  |  |  |  |  |  |  |
| **Total Tax Expenditures** |  **5,816.5**  |  **6,914.6**  |  **6,882.2** |  **8,293.0** |  **9,212.9** |
|   | ***as % of GDP*** | ***3.0%*** | ***3.3%*** | ***3.4%*** | ***3.6%*** | ***3.6%*** |

## Introduction

### Tax Expenditures reporting and its use in fiscal management

TEs are reductions in government revenue through preferential tax treatment of specific groups of taxpayers or specific activities.[[2]](#footnote-3) In the literature, TEs are generally defined as deviations from some “benchmark” tax system although the benchmark, as discussed below, is rarely well defined. Many countries, including EU countries, make ample use of TEs with a wide variety of policy objectives including employment creation, higher investment, innovation, education, entrepreneurship, home ownership, regional development, and income redistribution.[[3]](#footnote-4)

### Forms of tax relief

TEs can take different forms—they can be either temporary or permanent—and they can include the policy interventions such as *exemptions* (or exclusions from the tax base); *allowances* (i.e., amounts deducted from the tax base before applying the tax rate(s); *credits* (amounts deducted from tax liability); *rate reliefs* (reduced rates); or tax *deferrals*. They may be included in many laws, such as tax laws, economic zone laws, investment codes, etc.

### Tax relief vs. support defrayed from the budget's expenditure side

The MoF would like to draw your attention to the fact that policy objectives of TEs could also be achieved through direct expenditure programs.But TEs are typically exposed to less scrutiny by governments and their agencies than direct expenditure programs—unless specific provisions are in place for their identification, quantification, and estimation of their economic consequences. The latter is the functional objective of a TEAR. In the context of constrained public finances, it is important to better conceptually integrate the budgetary and economic impact of TEs into the annual budgetary process and accountability framework. The core objective of TEs assessment is, therefore, to *improve transparency and accountability* in public finance, by identifying all budgetary reliefs given through tax reductions, and expose them to the same scrutiny as expenditure programs. This would include an evaluation by the MoF of whether the underlying policy purposes could best be achieved through tax reliefs or direct expenditures. It follows that TEs are not necessarily bad policy measures, and there are situations where they can be preferred to direct expenditure programs.[[4]](#footnote-5)

### Following global good practice in fiscal transparency

With the release of our first comprehensive TEAR, Moldova follows an international trend since the emergence of TEs accounting in the US and Germany in the 1960s. The concept has seen wide acceptance and wider application across a growing number of countries, covering a larger range of taxes. The legal basis for TEs accounting differs across countries, with some countries having a legal requirement to conduct regular—typically annual—TEs assessment, while others, including Moldova, do not have such a legal requirement.

### The steps of the Moldovan TEs assessment

Four different phases in the preparation of Tax Expenditure Reports can clearly be identified (Figure 1).

Figure 1. Steps in the Preparation of Tax Expenditure Reports



Source: Heady and Mansour, “Tax Expenditure Reporting and Its Use in Fiscal Management: a Guide for Developing Economies“, IMF, forthcoming.

* The *first phase* involves definition of the 'benchmark' tax system (see section II of this TEAR). This refers to a description of the core structural elements of Moldova's tax system excluding all special reliefs or provisions that aim at specific groups of taxpayers or activities.
* The *second phase* will identify, tax by tax, all deviations from the described 'benchmark' tax system and thereby produce an inventory of currently provided TEs (section III and Appendices 1 to 3 of this TEAR).
* In a *third phase*, and again tax by tax, data required for the estimation of TEs' will be compiled, and estimation methods developed for the estimation of the costs of all TEs identified (section IV of this TEAR). Estimation methods may be model-based using micro-simulation models, macro-econometric models, or Input-Output models.
* *Fourth*, this comprehensive TEAR is being released by the MoF containing the overall findings on revenues forgone due to the provided tax expenditures. This Report has been published on the MoF website. The MoF intends to update and publish the TEAR annually, and in line with international trends.International experiences in this field point to the need and potential for gradual improvements in coverage and quality of estimations over time.[[5]](#footnote-6)

The general objectives of a TE assessment are many-fold:

* To improve transparency on the budgetary impact of social, industrial and other policies implemented through tax measures, similar to those provided through expenditure programs;
* To identify exactly which tax measures could and should be classified as TEs;
* To present estimates of the loss of tax revenues that may otherwise, and with similar effects, have been provided through expenditure programs;
* To identify the particular group of citizens, companies, and geographical regions that benefit from these tax measures; and
* To attempt to provide the basis for model-based quantifications of the broader macro-economic effects of these tax measures.

### Tax instrument categories covered

This TEAR covers TEs identified in the main tax instruments: PIT, BIT and VAT. Further capacity will need to be developed over time to assess TEs present in the entire tax system, including excise taxes, customs duties, and data permitting, taxes on movable and immovable property. Ongoing capacity development and resources will be committed with the view to properly identifying and assessing quality of data required for TEs costing and estimation methodology and techniques.

### Comparison with TEs Register

This TEAR builds on previous efforts by the Moldovan MoF, which in 2018 prepared a rudimentary TEs register. This is a set of Excel sheets—one for each tax covered—listing identified tax measures (called “tax facilities”), their legal basis, category of beneficiary (individual, group, general/sector wide), priority for monitoring (with values 0 or 1) and responsible agency. For some of the measures, the register also indicates their cost (revenue forgone) in 2016-2018 and, sporadically, data source used.

While the MOF’s TEs register is a valuable source of information, it still has a number of shortfalls: (1) it is not comprehensive enough; (2) the drafting of the TEs register is not informed by an in-depth analysis or discussion of the benchmark, and what a genuine TE is; (3) costing of TEs is limited to data readily available from tax returns and customs declarations. The report used a very rudimentary definition of a benchmark, identified the measures as an explicit variation “from the scope of taxation provided for in the legislation.” This approach resulted both in listing tax measures that are not genuine TEs (e.g., exemption or VAT deferral for import of capital goods, suspension of border taxes for goods imported to Transnistria) and omitting a large number of TEs, especially those related to exemptions (e.g., pensions, inheritances under PIT), non-taxation of certain traditionally excisable products (e.g., certain wines, jet fuel) or reduced income tax rates for agricultural income. Further, the TEs register could only reference a small portion of the revenue forgone costs of identified tax measures. The methodology for assessing the cost was not explained in detail or is uncertain.

This TEAR seeks to address some of the identified gaps. In addition, it seeks to introduce some practical classification that would underpin future evaluation efforts such as what economic objectives were pursued with introduced TEs, and which economic sector was targeted. Further, the intention of this and all subsequent TEARs is not only to provide relevant analysis aiming to inform tax policy decision-making but also, importantly, to make TEs analysis a public document with the key objective of improving the transparency in fiscal management.

## Defining a Benchmark Tax System for Moldova

### General description and definitional issues

The definition of the benchmark tax system is critical in the identification and costing of TEs.[[6]](#footnote-7)For this reason, this TEAR starts by discussing globally acceptable benchmark delineations.[[7]](#footnote-8)

From the perspective of the tax authorities, a TE is a loss in revenue, whereas a taxpayer benefits from a reduction in tax liability. Tax expenditures are also labeled as tax reliefs, tax subsidies and tax aids. However, defining TEs is not straightforward as some tax measures may not be readily classified as part of the benchmark tax system. Generally, fiscal experts concur that structural elements of a tax system should not be recorded as TEs, while “programmatic” or temporary adjustment should be. According to the OECD (2010), the benchmark tax includes: the rate structure, accounting conventions, the deductibility of compulsory payments, provisions to facilitate administration, and provisions relating to international fiscal obligations”. TEs are not actual outlays—they are just notional amounts spent. The forgone revenue cost is based on assumptions and estimates as to how taxpayers would behave under particular conditions.

Consequently, the benchmark tax system serves as a basis for identifying TEs. A standard benchmark tax system should be based on the principles of neutrality, efficiency, and equity. The benchmark framework should be limited to the key features of the main taxes, including the general personal and business income tax rates, a simple and modern consumption tax (such as a single-rate VAT), excise taxes consistent with the objectives of addressing externalities, tariffs, and other more minor taxes such as immovable and movable property taxes. Benchmark tax systems typically include such aspects as the actual rate structure of taxes and the concept of income or spending that is used in the actual law. However, some countries and analysts use a different type of benchmark that corresponds to a theoretical tax system, such as a comprehensive income tax.[[8]](#footnote-9) The numbers of tax benefits in that case can be markedly different from those for a benchmark closer to the actual tax system.

The benchmark tax system should be chosen to exclude tax provisions that favor (or disfavor) particular / narrow groups of people (such as homeowners) or business activities (such as profits from exports). Excluding such narrow provision from the benchmark tax system will ensure that the cost of such provisions is calculated and included in decisions on budgetary priorities. Ideally, the benchmark should also exclude tax features designed to promote particular actions by taxpayers, even if such actions are in the public interest. For example, many countries provide tax relief to encourage saving for retirement, but this should not be included in the benchmark, because by including it into the benchmark would prevent its cost from being reported to the legislature—which is necessary to evaluate whether it provides good value for money.

An illustrative list of TEs for the income tax system could include the following:interest deductions for housing loans, tax-free savings accounts, tax deductions for childcare expenses, reduced tax rates for small and medium enterprises, tax benefits for charitable donations, tax benefits for energy-saving measures, and tax advantages for employer-funded benefits. Similarly, TEs for VAT could include VAT rates below the standard rate, including zero rates (other than on exports); VAT exemptions for goods and services destined for final consumption; sectoral exemptions (for example, agriculture); and size-related exemptions, such as for small businesses.[[9]](#footnote-10)

Of course, the examples of tax relief measures as set out above are not necessarily undesirable. For example, a partial exemption for saving can be effective to support retirement saving. More generally, most specific tax provisions will yield some kind of social benefit. Nevertheless, the cost of such provisions should be estimated and reported, so that their value can be assessed and compared with similar government programs delivered by outlay expenditures (or compared with other kinds of tax relief, such as through a general rate cut).

Using a benchmark that is close to the actual tax system in Moldova would defeat the purpose of producing TE estimates. For example, reduced rates of VAT could be included in the benchmark, justified by a need to help households with low incomes,[[10]](#footnote-11) who spend a higher proportion of their incomes on basic goods and services. An obvious alternative to these reduced rates is cash transfers for people with low incomes. These transfers would be clearly identified in the outlay expenditure budget, but the reduced VAT would not be included in the TEs estimates if they are part of the benchmark. This situation makes it difficult for the government and the legislature to properly compare the relative advantages and disadvantages of these alternative methods of helping the poor, and it limits the policy tools and options available to achieve society’s objectives.

Against this background, this TEAR has followed the adoption of a relatively simple benchmark regime descriptions for Moldova’s PIT, BIT and VAT. In the final instance, the benchmark is therefore best understood as the tax treatment applied to standard taxpayers, with TEs being a deliberate policy deviation from that standard treatment, applied to a smaller subgroup of taxpayers.

### Personal income tax

#### Common approach

For a comprehensive income tax[[11]](#footnote-12) at either progressive or a single flat rate the benchmark should be based on the prevailing system of income tax with the existing statutory tax schedule. However, it should exclude any tax relief, other than the basic allowance (or the zero-tax income bracket). Under such PIT, any deduction from income—other than genuine business expenses when the person has income from a business activity, tax credits, and lower rates on certain income, for example, on capital gains, interest, dividends, are arguably TEs.

Income taxes can also be schedular or dual.In such cases, there is no single PIT rate structure; each income source or group of income sources has its own rate and base rules—for example, wage income and all other forms of capital income under the Nordic dual income tax systems. In this case, it is reasonable to have a benchmark tax system that separates the tax on wages from the tax on capital income. The benchmark for the wage tax can mirror that of a standard PIT, and the benchmark for capital income taxes can be a flat rate on all forms of income from capital.

Sole proprietors are sometimes treated differently, with a simplified tax on income expressed as a notional return to turnover, or a tax on turnover. In this case, it is reasonable to consider a lighter tax burden on income (relative to the standard PIT), as a TE, but estimating income subject to tax could present problems if reporting requirements are truncated.

#### Moldovan PIT design

The most significant feature of the Moldovan PIT system is that practically all types of income are subject to tax at low flat rates (Art 15 of the TC). Moldova imposes a schedular PIT; individuals are subject to tax based on their worldwide income. Until October 2018, there was a two-rate progressive structure of the personal income tax. A 7 percent tax rate applied to income up to MDL 33,000 and any excess income was taxed at a rate of 18 percent. With effect from 1 October 2018, a standard flat tax of 12 percent is applied to salaries and capital gains. It is combined with a basic personal allowance of MDL 27,000, which is considered to be part of the benchmark as it applies to every taxpayer. The system also includes spouse and dependents allowances, which are considered to be explicit or non-structural TEs, benefiting a smaller subgroup of taxpayers.

Investment income of natural persons is subject to withholding taxes, with a rate of 6 percent in case of dividends and a rate of 12 percent in case of interest and royalties. For these sources of income, none of the above-mentioned allowances apply. Business income is taxed separately under a standard 12 percent tax rate and no personal, spouse or dependent allowances can be used against it. Moreover, there are several presumptive tax regimes within business income taxation. Table 2 presents a summary of all PIT regimes applying to income except from business activity.

There are many approaches to defining a benchmark PIT. One is a conceptual approach based on the Schanz-Haig-Simons comprehensive concept of income. According to it, the taxable income is defined broadly as obtained from all sources regardless of whether they are regular or not and includes net increase in wealth. Whereas the Schanz-Haig-Simons concept is based on sound neutrality arguments, it is complex and plagued with several practical problems. The second approach—simpler and more pragmatic—is based on the prevailing system of income taxation. It defines the benchmark as the current PIT system without provisions favoring certain categories of income or subgroups of taxpayers. This approach is followed in the first TEAR.

Thus, two benchmarks are required for the Moldovan PIT.The distinction is based on the categories of income the personal allowance applies to. One benchmark is defined for active income and capital gains, against which the personal allowance can be claimed, implying mildly progressive taxation. The second benchmark is identified for investment income which is taxed separately, with no applicable personal allowance (Table 2). This schedular approach to taxation of incomes of individuals (as opposed to comprehensive taxation of corporate income) is in itself a part of the benchmark. Each of the benchmarks – in line with theory and best international practice for TEs reporting – includes the following elements: unit of taxation, taxation period, description of the tax base and rate structure.

Table 2. Main Income Categories Subject to PIT in Moldova

|  |
| --- |
| **Personal Allowance applies to:** |
| Employment income | Including directors’ remuneration | Subject to flat rate of 12 percent. The basic personal allowance is of MDL 27,000.Standard tax return CET18. |
| Capital gains | Capital gains from private property | Taxable amount of capital gains is equal to 50 percent of the amount of capital gains (50 percent inclusion rate) over any capital losses incurred during a tax year. Standard tax return CET18. |
| Gains from disposal of basic housing | Exempt provided a taxpayer lived in the housing for at least 3 years, otherwise 50 percent of the realized capital gains subject to tax (50 percent inclusion rate). Standard tax return CET18. |
| **No personal allowance applies to:** |
| Investment income | Dividends | 6 percent withholding on gross amount (15 percent for dividends, including stock, dividends, paid out of profits derived between 2008 and 2011). |
| Interest | 12 percent withholding on gross amount.  |
| Royalties | 12 percent withholding on gross amount.  |
| Rental income | For legal entities, 10 percent withholding tax on gross amount from rent, lease, usufruct of movable and immovable property, except for the lease of agricultural land. A 7 percent rate applies to individuals. |

*Employment Income and Capital Gains*

*Unit of taxation:* The benchmark unit of taxation is a single individual resident in Moldova.

*Taxation period*: The benchmark tax period is the calendar year.

*Tax base:* The benchmark taxable base consists of worldwide income from different sources, including:

Employment income including directors’ remuneration, pensions (regardless of their source), government transfers, compensations, scholarships, alimonies etc., inheritances, donations (gifts), capital gains. Investment income and business income are excluded from this tax base.

*Tax rate structure and benchmark:*The benchmark is a flat tax rate of 12 percent applied to the tax base as defined above less social security and health contributions and the basic amount of personal allowance (MDL 27,000). The latter is considered a part of the rate structure, inducing a degree of progressivity, akin to treating it as the first bracket and applying a zero rate (the personal allowance can be used as long as the annual taxable income of an individual does not exceed MDL 360,000).

*TEs are:* The excess amount of personal allowance available to those with illness, disability, or injury (MDL 30,000 in total, an increment of MDL 6,000) does not constitute a benchmark for PIT, neither does the annual spouse allowance (MDL 11,280 or MDL 18,000 in case of illness, disability or injury). The Moldovan PIT also provides for dependent allowances. However, both of these should not be included it in the benchmark as they represent a form of income subsidy (social assistance) for families with children and non-working spouses.

*The following specific rules are part of the benchmark for employment income and capital gains:*

* Deductibility of social security contributions and health care contributions. It has to be noted that the state pensions are also exempt from taxation in Moldova, resulting in double exemption. In line with a benchmark system of taxation of pensions (EET) the 2020 mission was of the view that social security contributions belong to the benchmark, but old age pensions and other social benefits do not. For details of the current levels of social security and health care contribution see Table 3 below.
* Deductibility of contributions made to non-state pensions funds, both domestic and foreign. Contrary to state pensions, pensions received from non-state pension funds (domestic and foreign) are taxable. However, according to the authorities, the group of taxpayers who obtain income from that source is negligible.
* Measures that provide relief for international double taxation. According to art. 82 of the Tax Code, an ordinary credit is granted to income taxes paid abroad (which is benchmark).

 **Table 3. Social Security Contributions and Medical Contributions, 2022**

|  |  |
| --- | --- |
| **Social Security Contribution** | **Contribution Amount** |
| *(rates applicable to gross wage)* | Employer | Employee | State |
| Employees with individual employment contract‐ In private sector‐ In public sector | 24 percent29 percent |  |  |
| Employees in the agriculture sector | 18 percent |  | 6 percent |
| Individuals, self-employed persons |  | MDL 12,838 |  |
| Farming households |  | MDL 12,838 |  |
| Voluntary insurance |  | MDL 12,838 |  |
| Residents of information technology parks |  | 54.7 percent from a reduced unified tax rate of 7 percent. |  |
| **Medical contributions** |  |  |  |
| Employees with individual employment contract |  | 9 percent |  |

**al Security Contributions Contribution amount**

*Investment Income*

*Unit of taxation:* The benchmark unit of taxation is a single individual that is a resident in Moldova.

*Taxation period:* The benchmark tax period is the calendar year.

*Tax base:* Amounts received domestically in the following forms: dividends, Interest, royalties, rental income.

*Tax rate structure:*various withholding tax rates are applied to different types of income:

* Dividends paid out to individuals who are residents of Moldova are taxed at a 6 percent tax rate. That can be understood as an alleviation (relief) of economic double taxation – the withholding tax is final, which implies that the dividends are not subject to the standard tax rate of 12 percent.
* A higher withholding tax of 15 percent applies to dividends related to the non-distributed profit obtained during the fiscal periods 2008-2011. While the latter provides an example of a negative TE (the tax levied on dividend payouts exceeds the standard PIT rate), this rule is currently of limited importance.
* Interest and royalty income are taxed at 12 percent tax rate.
* Rental income is taxed at a rate of 10 percent (in case of rental to legal entities) and 7 percent (rental to natural persons).

*The following specific rule may be regarded as benchmark for investment income:*double taxation relief for the final withholding tax on dividends in form of the reduced tax rate of 6 percent.

### Business income tax

#### Common approach

Under a standard CIT, the benchmark should be based on the prevailing tax on profits with a single rate of tax and no tax relief, other than for usual business expenses. However, if a higher corporate tax rate (or rates) applies on some sectors because of location-specific rent (for example, for extractive industries), this should be disregarded when identifying the highest rate for defining the benchmark applied to sectors without location-specific rent.[[12]](#footnote-13) Certain business expenses pose challenges in defining the benchmark. For example, should depreciation allowances be based on economic depreciation or accelerated (tax) depreciation, which provides a timing advantage? Should financing costs, such as interest expenses, be allowed without limit, or should limits on interest deductibility be accounted for as a “negative TE”?[[13]](#footnote-14) There is no globally uniform approach, but it is important to be consistent, irrespective of the expenses incurred. Moldova favors a reasonable decision whereby we consider all timing issues as TEs, but all provisions against tax avoidance or base erosion as part of the benchmark.

#### Moldovan BIT design

In Moldova, business income regardless of the legal form is subject to a single income tax, referred to in this report as the business income tax, or BIT. Individuals carrying out business activity in different legal forms as well as companies are subject to BIT and file the same tax form (VEN12). It applies to various categories of taxpayers: legal entities (limited liability and joint stock companies), individual enterprises (VAT taxpayers), farming households (VAT taxpayers), and natural persons carrying out professional activities, including those provided in legal area.

In line with the approach proposed for PIT, the benchmark tax system for BIT is defined as the current tax system without provisions favoring certain categories of income, activities, or groups of businesses. The elements of the benchmark also include unit of taxation, taxation period, the tax base and tax rates.

*Unit of taxation*: The following entities fall under the BIT: single natural person carrying out business activity (sole proprietorship) single natural person carrying out independent (trade) activity; single natural person carrying out professional activity (in different areas); farming household (homestead): partnership (transparent entity – profit shares from a partnership); corporation (legal entity – limited liability company, joint stock company).

*Taxation period*:The benchmark tax period is a calendar year. A qualifying taxpayer is eligible to apply any other twelve-month period as a tax period.

*Tax base*:Worldwide income from entrepreneurial activity defined as revenues minus business expenses incurred to earn these revenues. Capital gains are included in taxable income upon realization, without indexing for inflation.

*The following specific rules are part of the benchmark for business income:*

* Straight-line depreciation of fixed and intangible assets. Conceptually, depreciation based on an asset’s useful life should be considered a benchmark and any deviations from it would be a TE. An accelerated depreciation (accelerated vis-à-vis the current depreciation rates) should be, however, considered a TE, had Moldova decided to introduce it. Differently put, Moldova has not introduced accelerated depreciation and, hence, in this respect no TEs exists. Also, the immediate expensing of low-value assets, when value does not exceed MDL 6,000 and the period of exploitation is no longer than one year, is part of the benchmark.
* Tax loss carry-forward provisions. Business losses can be carried forward up to five consecutive years without any limits regarding the amount which can be deducted each year. There is no immediate refund of losses in periods when losses are incurred. No adjustment for inflation or discount rate for losses carried forward are provided.
* Measures that eliminate double taxation of dividends paid between resident companies. The income tax levied on dividends paid out is credited against the business income tax on the receiving company (tax form VEN12 and annexes).
* Measures that provide relief for international double taxation (ordinary credit granted to income taxes paid abroad).
* Measures against tax avoidance. There are no typical thin-capitalization or earnings stripping rules which would limit the deductibility of interest expenses based on a fixed debt-to-equity ratio or on firm’s profitability. However, interest expenses are deductible for business income tax only up to the limit of the average weighted interest rate set by the National Bank of Moldova. There are neither controlled foreign-company provisions nor specific transfer pricing regulations in Moldova although the arm’s length principle should be applied to transactions with related parties.

*Presumptive tax regimes for independent trade activities performed by natural persons and for small and medium sized enterprises (SMEs).* Under both regimes, turnover is subject to taxation, rather than profits. Business expenses are not deductible, and a reduced tax rate is applied. Typically, if the intention behind such presumptive tax regimes is to reduce the compliance burden of smaller entities they are included in the benchmark. However, this is disputable in the case of Moldova. Only limited liability companies are eligible for the SMEs regime, and they are already subject to standard accounting rules (hence compliance argument does not seem to apply). Moreover, not all taxpayers automatically benefit from a lower tax rate if it is applied to their turnover. Rather, the tax burden depends on firm’s margin benefiting sectors with higher margins and fewer inputs. Another factor affecting the tax burden is to what extent the taxpayers are given the right to elect that regime which is most beneficial to them and thus are given the possibility for tax arbitrage.

*Tax rate structure.* The benchmark business income tax rate is a single tax rate of 12 percent applied to the tax base as defined above. Thus, income obtained by farming households (homesteads) which is subject to a 7 percent tax rate is a TE. Conversely, income from professional activity performed in legal area is taxed at 18 percent and thus represents a negative TE.

### Value-added tax[[14]](#footnote-15)

#### Common approach

To analyze a benchmark VAT system, one needs to be reminded about the elements of a broad-based modern VAT that consists of four components—taxable, zero-rated, and exempt supplies, and taxed purchases potentially subject to credit in determining tax liability. The VAT is charged at each stage of the production chain and businesses that subsequently sell their commodity or service can claim an input tax credit for the VAT they paid on the inputs they purchased. After deducting the VAT paid on their purchases from the VAT collected on their supplies, businesses remit the difference to the government, or they register an excess credit position that potentially qualifies for a VAT refund.

* *Zero-rated supplies* have a VAT rate of 0 percent, which means businesses do not charge VAT on their output and can claim input tax credits on all their inputs. The total amount of VAT collected by the government on zero-rated commodities (like exports) across all taxpayers in the supply chain, in zero.
* *Exempt supplies* of goods or services also have no VAT charged by businesses; however, they cannot claim input tax credits for tax paid on purchases that were used to produce the exempt supplies. In these instances, the government’s net revenue along the entire supply chain is the amount of VAT paid by the business on its purchases.
* The effect of a *VAT exemption on imports* (a common policy for certain imports in many countries) is different, as no input tax credits are available. In the case of imported goods or services, VAT relief at customs is forgone revenue when the goods are being directly supplied to final consumers; in other instances, VAT relief at Customs is equivalent to an input tax credit.

A best practice VAT includes all goods and services in the base and covers all stages of production and distribution. It operates as a multi-stage transaction tax with offsetting of tax paid on inputs against output tax through a credit and refund mechanism. If applied at a single rate to all goods and services, it does not change relative prices. It does not burden savings and investment and is neutral in its impact on economic growth. It operates on a destination basis, taxing imports and domestic transactions but relieving exports from tax, thus also preserving neutrality in international trade. It does not violate *horizontal equity* as individuals with similar levels of consumption expenditures bear the same tax burden. VAT does not, however, deal with *vertical equity*. The VAT is a good revenue raising tool and not the right instrument for dealing with major equity concerns. It eliminates cascading by granting taxable firms a full and immediate tax credit or deduction for the tax paid on purchases (inputs) from other taxable firms against the tax payable on sales.

One of the simplest taxes from a design perspective, the VAT should have as a benchmark the broadest measure of final consumption (public and private) at a single tax rate.[[15]](#footnote-16) There should be no exemptions in the benchmark system. Low or reduced rates should also be excluded from the benchmark, except for the zero rate on exports, which is intended to neutralize the effect of the VAT on exports—it is the mechanism by which VATs are designed to be destination-based. In systems with VAT rates higher than the standard rate, which are used as substitutes for excise taxes, these should not be scored as negative TEs. However, other forms of negative TEs, such as revenue arising from exemptions or taxation of inputs, should be considered carefully and further discussion in the future will be needed.

#### Moldovan VAT design

*Reduced rates.* Some countries consider low or reduced VAT rates as part of the benchmark on social objectives grounds—believing that the low rates benefit low-income individuals and lessen the regressivity (relative to revenue) of the VAT. Moldova does not intend to follow this approach and treats reduced rates as genuine/indisputable tax relief as the cost of such policies must be properly reported; otherwise, the TE accounting exercise becomes meaningless. This position is informed by leaning towards a modern VAT design, whereby tax benefits granted through multiple lower rates should be scored as TEs. Multiple rates affect the structure of production, the allocation of resources and reduce economic efficiency. The benefit from a lower rate does not always reach its target as vendors may not pass on the price reduction (e.g., when foodstuffs are taxed at a lower rate); or the rich may turn out to benefit more (e.g., they spend more on food in absolute terms than the poor).[[16]](#footnote-17)

Also, multiple rates increase risk of non-compliance and tax evasion and may require a higher standard rate. First, a reduced rate increases the risk of misclassification and thus raises the cost of administration and compliance. For a reduced rate to relieve the tax burden on the consumer for particular items, it must apply at the retail level. If for instance, food items are subject to a reduced rate, supplies of such items would be subject to the reduced rate throughout the supply chain up to and including the retail stage. However, the risk of misclassification and the associated administration and compliance burden are more acute at the retail level. Retailers are also more likely to be small businesses, which generally have lower levels of compliance and are more difficult to administer. Secondly and importantly, traders with output taxed at the lower rate but with inputs taxed at the higher standard rate are more likely to be in an excess credit position, leading to more refund claims.

*Exemption for capital and intermediate inputs.* Several developing economies frequently use VAT exemptions for capital and intermediate inputs, as an alternative policy to providing input tax credit or refunds. These should not be considered TEs, to the extent that they do not produce tax cascading along the value chain. For instance, an exemption for an imported machine used directly by a mining company (which is also the importer of the machine) should not be counted as a TE.

*Basic foods, goods and services consumed by low-income households.* As in Moldova, often consumption of these goods receives preferential treatment under the VAT, in consideration of the burden of the taxation of these purchases on lower-income households. However, recent research across numerous countries has shown that measures of this form are very poorly targeted since the bulk of the income transfer in fact accrues to higher-income households, which makes these measures a very inefficient means to assist poorer families. For this reason, full taxation of these commodities is included in the benchmark, so that any preferential treatments under the tax are considered TEs.

*Utility services (electricity, water, telecommunication, transportation).* The taxation of as many supplies by *public utilities* as possible promotes simplicity, accountability, transparency, and the workings of the VAT—hence, being part of the benchmark. Public utilities fall under the definition of enterprise. Important public utilities include the supply of water, electricity, passenger transport, postal services, telecommunications, and radio and television broadcasts. In a modern VAT, these utilities must register for VAT purposes and are deemed to supply a taxable service for grants or subsidies received from public authorities, which is taxed at the standard rate. Delineation issues regarding taxable versus non-taxable activities become redundant and the VAT chain remains intact through to the consumer level. Taxing these services at the standard rate reduces distortions of input and outsourcing choices and so are administrative costs because the VAT on taxable purchases does not have to be allocated between taxable and exempt supplies. Hence, any deviation from that model is reported as TEs.

Supplies of *electricity and water* should attract VAT, irrespective of whether supplied by state-owned enterprises or private operators.Exempting electricity and water would lead to tax cascading and over-taxation of business users. The income elasticity of electricity demand is high—as incomes rise, electricity consumption grows. Taxing electricity and water at the standard rate thus reduces VAT regressivity since high-income households consume more power and water.

Demand for *telecommunications services* is also associated with high income elasticity. Taxing these services at the standard VAT rate improves the distributional fairness, whether supplied by privately or publicly owned operators.

Taxing *domestic transport of passengers* is the first best option, irrespective of whether it is provided by public or private operators. However, many countries exempt mass transport mainly used by low-income households. It is common practice, however, to zero-rate international passenger transport (=this is benchmark treatment), and in particular air transport. Taxi services should be taxed, while individually owned and operated taxis (and taxi motor bikes) are often subjected to a flat license fee in lieu of VAT. Domestic transportation of goods and storage should be fully taxed and is therefore the benchmark. Incoming and outgoing international transport of goods is commonly zero-rated, whether by air, sea, or road. Outgoing international transport is treated as export while the value of inbound international transport is already taxed as part of the CIF value of the goods at import. Trucks and other commercial vehicles should be fully taxable, and business users should be allowed input tax credits to the extent they are used for making taxable supplies.

*Vehicles* As to passenger vehicles, the full VAT taxation of vehicles is included in the benchmark, as there is no compelling case to exclude them. Excise taxes (which can be included in the benchmark as a supplemental tax, in particular as a mechanism to account for environmental and other impacts of vehicle usage) are not a substitute. Vehicles that are used by businesses will receive an input tax credit. See above the VAT treatment of commercial vehicle as the benchmark—deviations are therefore scored as TEs in this TEAR.

*Financial services.* Fee-based financial services are considered part of the benchmark VAT base since they are in principle easily taxable under the standard invoice-credit VAT mechanism. On the other hand, margin-based financial services are exempted under many VATs. However value-added for financial services could be measured by the sum of payroll plus profits generated by financial businesses. This “addition method” under VAT as an approximation to the value-added is not common. Because this approach is well defined, and the data should be available, VAT on financial services is included in the definition of the benchmark tax base. For property and casualty insurance (including term life insurance), the net margin can be measured and taxed, and so it is also included in the benchmark tax base. Whole life insurance is primarily a mechanism for long-term saving and estate planning rather than a good or service that is consumed, and an exemption for this type of life insurance is part of the VAT benchmark tax base.[[17]](#footnote-18)

*Gaming.* Gambling is structurally similar to property and casualty insurance and should be included in the benchmark tax base. The TE can be estimated using the margin method, with data available from regulators, taxation authorities, and financial records of businesses in the sector.

*Buildings and land.* The benchmark VAT tax base includes tax paid on the entire purchase price of newly constructed buildings and land by consumers for their own use (thus the asset value is taxed, rather than the flow of services from the asset, similar to the tax treatment of consumer durables). To the extent that the purchase of buildings and land is for use in a business activity, any VAT paid would be eligible for input tax credit and therefore does not form part of the benchmark VAT tax base. In the case of mixed-use property, for example a working farm that includes a personal residence, the portion intended for personal use is final consumption that forms part of the benchmark, while any VAT paid on the portion intended for business use would be eligible for input tax credits and therefore does not form part of the benchmark VAT base.

*Treatment of tourism.* From an economic perspective goods and services consumed by visitors to Moldova are exported (and in fact tourism is so considered in the balance of payments). Accordingly, these supplies should in principle be zero-rated under the VAT. A problem arises however when, as is often the case, the consumption would not be taxed when “imported” into the visitor’s home country. Rather than having this consumption go completely untaxed, it is common to tax tourist purchases (although a number of countries also zero-rate some purchases by tourists, in particular hotel bills). For this reason, supplies to tourists are included in the benchmark tax base for VAT.

*Government and non-government organizations (NGOs).* If government as supplier and purchaser of goods and services were fully VAT-able or taxable under the VAT regime it is entitled to input tax credits for its purchases while all goods and services, it supplies are taxable. Such a “pure” VAT treatment of government is only operated by New Zealand as it requires appropriate and complex government accounting systems, and all government subdivisions must be registered for VAT. A common “second best” approach is then to exclude “pure” government activities from VAT (being benchmark) so that government becomes “input taxed” on its imports and purchases. Of course, the government collects that input tax again in the form of tax revenue paid over to itself by its suppliers. If, however, government engages in activities that are or can also be carried out by private businesses (i.e., public sector enterprises), it should be fully subject to VAT.

Many VAT systems provide for the concessionary treatment of charities and other non-profits on equity and practical grounds.[[18]](#footnote-19) While VAT does not generally distinguish between “for profit” and “charitable” activities, many VAT systems award some form of concessionary VAT treatment to supplies of qualifying charities ranging from exemption to zero-rating. Some VATs include charitable activities into the VAT base to allow input credits and refunds (e.g., New Zealand) while others exempt charities but operate a VAT compensation or rebate scheme to compensate charities for input tax (e.g., Denmark, Canada). A jurisdiction with lower capacity and weaker institutions, VAT exemption may be a second-best option.Concessionary treatment in the form of zero-rating and VAT compensation or rebate schemes are administratively complex to manage and add risk. In a weak institutional environment with very little VAT experience, the exemption approach is likely to be the best alternative.

*Issues arising from the failure to pay refunds in a timely manner*

In some cases, preferential tax treatment that generates a TE can also place the taxpayer in a persistent excess credit position that requires the payment of VAT refunds in a timely manner. In Moldova in many cases some businesses have high levels of excess credits accumulated over time for which no VAT refunds have been paid. In a sense this is a “negative” TE, since it reduces the true TE generated. However, unpaid refunds should not be included in the TE assessment as a negative TE. Rather, failure to pay refunds undermines the credibility of the VAT, and the practice imposes effectively random and capricious tax burdens on commodities and taxpayers. In addition, large stocks of excess credits held by businesses provide incentives for horizontal and vertical integration of businesses and can place domestic firms at a competitive disadvantage relative to imports (which effectively receive refunds from the country of production when earned). The appropriate policy is to pay verifiable refund claims in a timely manner, and the benchmark tax system should recognize that as the practice.

## Inventory of Identified Variations from the Benchmark

In order to report on the range of tax relief measures under each tax instrument, the TEAR records an inventory of TEs, as comprehensively as possible. This is accomplished by comparing the actual provisions of Moldovan tax system against the established benchmark. For each identified TE arising from this comparison, a standardized template—a TE summary sheet—is prepared to enable a consistent analysis of TEs.

Each TE summary includes—in line with good international practice—a description of the key features:

1. how the TE functions;
2. why the measure is a deviation from the benchmark;
3. who benefits from the measure;
4. what policy objectives are being pursued;
5. the legislative reference providing for the TE;
6. when was the TE introduced, whether it has changed over time, and whether there is a stipulated sunset or expiry date;
7. the number of recorded beneficiaries; and
8. information on data sources and the applied estimation method(s).

This TEAR contains TE summary sheets for the PIT, BIT and VAT systems, included in Appendices 1-3. Over time the contained information on TEs will be further enriched and modified to enhance the transparency of TE reporting and to facilitate an intelligent evaluation and record of important lessons about previously introduced TEs.

## Estimation of the Cost of Tax Expenditures

### Tax Expenditures Methodology for PIT

#### Data Sources

Personal income tax at a benchmark rate of 12 percent is applied for employment income and income from other sources. All deviations from the benchmark, including non-taxation of pensions, inheritances and other incomes, children’s allowances, and reduced income tax rates for capital income are treated as TEs.

Estimation of the PIT TEs was based on data from the following tax forms:

* IALS18—The information note regarding the salary and other payments made by the employer in favor of employees, as well as the payments paid to the residents from other sources of income than the salary and the income tax withheld from these payments;
* CET18—Personal income tax return

In addition, the actual expenditures of the national public budget were analyzed. It is important to note that the analysis was based on the available data, and so the accuracy of the estimates is limited by the data’s coverage and quality. The models were built in Microsoft Excel.

#### Estimation methodology

The TEs are estimated using the revenue forgone method. Using this method, we calculate the difference between the revenue raised with and without the individual tax expenditure. The estimates do not reflect the actual amount of revenues that would be raised if an individual tax expenditure were repealed as it does not take into account interactions with other tax expenditures nor behavioural effects. The microsimulation model hence provides revenue impact estimates at the individual level in a static setting while assuming zero behavioural responses.

#### Calculations

The analysis is based on the following data:

* Wage income
* Personal allowance
* Major personal allowance
* Spouse major allowance
* Allowance for child and other dependent
* Major allowance for a child and other dependent
* State social contributions
* Medical insurance contributions

This data is contained in an Excel spreadsheet where each row corresponds to an individual’s return and the columns correspond with the fields such as income by source/type (in our estimation we used wage income), personal allowances, allowances for dependents, social and medical contributions and other various deductions and allowances. Estimation is done by multiplying the effective expenditures by the benchmark rate of 12% rate while accounting for the personal allowance.

#### Interpretation of Estimates

The methods of estimation combine exogenous data from tax returns/budget execution report with endogenous environmental parameters from tax code to determine tax obligations under current system and simulate tax obligations under the benchmark system.

31 income tax measures for individuals were identified. Almost all of them are contained in articles 20, 33–35 of Tax Code.

Using data from tax returns alone, however, generally fails to yield a complete representation of income tax expenditures. There are frequently other data elements relevant to estimating income tax expenditures not included in standard tax returns or even not collected in tax data. For example, in the Moldovan legislation, individual-level tax returns do not report data on income from inheritances or from pensions. In order to address this gap, one must incorporate data from alternative sources that can be matched to the tax return data.

In cases where the data could not be derived from tax returns—like the exemption of pension income—it was not possible to accurately determine the magnitude of revenues forgone because the standard pension is below the personal allowance, which is part of the benchmark. Since the recipients could not be matched to a tax return, it was not possible to identify if they earned other income that would push them above the personal allowance threshold.

### Tax Expenditures Methodology for BIT

Tax expenditures estimates based on the revenues forgone approach are estimates of the additional revenues that would be raised in the absence of each tax expenditure without accounting for behavioral responses. BIT tax expenditures are generally estimated using microsimulations, which is the simulation of each tax return under alternative assumptions. Removing a tax expenditure—like a deduction or an allowance—in a microsimulation model provides an estimate of the BIT revenues in the absence of that policy, which is consistent with the above definition of revenues forgone.

#### Data Sources

Overall, four microsimulation models were built using BIT tax microdata from the following tax forms:

* IU17—IT parks
* ONG17—non-commercial organizations
* UNIF18—individual entrepreneurs and farmers
* VEN12—standard BIT return

In general, microsimulation models simulate all cells on the tax forms, including all accompanying annexes and schedules. This lets analysts simulate any change in policy possible given the information available on the tax forms. In this case, cursory data analysis identified issues in the underlying data. In particular, there were many instances where the underlying data did not match the equations described in the tax forms. This is indicative of either data errors, or of other inputs into those cells that are not fully described by the tax forms. To mitigate these issues, simulations in the models are limited to the cells required to properly estimate the tax expenditures identified in the tax expenditure assessment report.

#### Estimation Methodology

Microsimulation models simulate the calculations on each tax form using alternative assumptions. To estimate a tax expenditure, the value in a cell where the tax expenditure is introduced is changed and all cells on the rest of the tax return are recalculated to estimate the change in net tax. To obtain the appropriate estimate, a number of adjustments need to be made relative to the standard forms, including:

* **Previous year loss and loss carryforward**: should be disabled to ensure the analysis captures the tax base from only one fiscal year. Negative net income and net tax is allowed in lieu of the loss carryforward to capture the impact of tax expenditures on taxpayers in a loss position. By replacing the loss carryforward with negative income in the current fiscal year, it is important to also disable the previous year loss to avoid underestimating the overall tax base.
* **Tax rate**: should be calculated using the tax paid relative to taxable income, or imputed at either the benchmark rate, or a reduced rate if one is known to apply (e.g., the 7 percent reduced BIT rate for farmers based on the industry code).
* **Reference values**: reference values must be derived and used as a comparison reference when calculating tax expenditures instead of the net tax from the data, because differences arise due to data error, as well as the adjustments described above.

Once a model is constructed using the tax microdata as inputs, while accounting for the adjustments described above in the calculations, the TEs can be estimated by toggling them on and off in the simulation.

### Tax Expenditures Methodology for VAT

#### Data Sources

In most cases, vendors of commodities are not required to determine whether their goods and services were sold to firms eligible for input tax credits or consumers who cannot claim VAT relief. Consequently, determining the tax expenditure (TE) requires detailed knowledge as to whether the commodities are consumed by businesses that are eligible for input tax credits (ITCs), or final consumers. The only data source that can be used to disentangle purchases on which firms can claim ITCs or final consumers in Moldova is the Supply-Use Tables (SUTs) produced by the National Bureau of Statistics (NBS) as illustrated in Figure 2. These tables are the core data used in the Moldovan VAT TE model. The model complements the SUT data with other statistical and administrative data such as national accounts and VAT declarations data.

Figure 2. Illustrative Supply-Use Table (Input-Output Table)



The SUTs used to develop the models are summary 2014 tables that contain 51 commodities and activities (commonly called industries or sectors). The final demand portion of the “Use” matrix provides the model with data on final consumption from households, government, and NGOs which can be used to compute tax revenues from taxable commodities. The “Supply” matrix lets the model determine the share of each “activity’s” (or sector’s) output that is exempt. The shares are then used along with the intermediate use portion of the “Use” matrix to compute tax revenues from exempt commodities.

#### Estimation Methodology

Core calculations are performed twice: benchmark and simulation. In the benchmark, tax revenues are calculated under the assumption of the benchmark tax system which includes no relief apart from the zero-rating of exports. In the simulation, tax revenues are calculated under the assumptions that match the current set of TEs. Revenues forgone from TEs are estimated by removing the TE from the simulation, such that revenues increase in the simulation relative to the calibrated scenario (for positive TEs). The change in revenues are the estimates of revenues forgone.

Calculations

Simulated tax from final consumption and from intermediate inputs are estimated separately. The model assumes that final consumption is taxed at the average weighted VAT rate based on the share of each commodity that is fully taxable—at 20 percent—subject to a reduced rate—6, 8 or 12 percent—and not taxed—i.e., exempt and zero-rated commodities.

Tax on intermediate inputs is calculated by applying VAT on intermediate inputs used into the production of exempt commodities at the average weighted VAT rate of the inputs used.

1. First, the share of industry output that is exempt is calculated by weighing the share of each commodity that is exempt—from the dashboard—by the relative output of each commodity in each activity.[[19]](#footnote-20)
2. The share of each industry’s output that is exported is brought in to gross down the exempt share as commodities that are normally exempt are zero-rated when exported.
3. The share of each activity’s inputs that are not eligible for input tax credits are calculated by multiplying the exempt share by the share of domestic production that is not exported.
4. The share of each activity’s inputs that are not eligible for input tax credits is multiplied by the average VAT rate — weighted using the taxable and reduced rate shares — of the inputs used.[[20]](#footnote-21)
5. Finally, the effective VAT rate on intermediate inputs, is multiplied by the use matrix in net purchaser price to calculate VAT revenues from intermediate inputs.

Interpretation of Estimates

The VAT TEs are estimates of revenues forgone. They are hence estimates of the additional revenues that would be raised from removing the TEs in the absence of behavioral response. Their accuracy in forecasting the additional revenues associated with policy changes depends on the extent to which behavioral responses matter for the targeted commodity. In most instances, behavioral responses are relatively small for VAT policy changes, particularly for small policy changes.

Interaction effects are important to keep in mind when interpreting estimates. Policies interact with one another, and so changes to multiple policies together will not generally lead to total revenues forgone equal to the sum of the individual revenues forgone estimates. The model used to compute the VAT TEs accounts for interaction effects, and can be used to estimate the revenues forgone associated with multiple policies.

Projection of Estimates

The core statistical SUTs provide the model with the structure of the economy as of 2014. The model estimates TEs for the years 2015 to 2020 by adjusting the simulation for the VAT policies in each of those years and growing the economy using aggregate final consumption expenditure. The TEs are projected forward in 2021 and 2022 using the announced VAT policies — e.g., the 6 percent reduced-rate for hotels and restaurants — as well as the IMF (2022) projections of GDP and aggregate VAT revenues.

### Costing of Tax Expenditures, 2018-2021

Based of methodologies discussed above, Table 4 presents the TEs estimates for PIT, BIT and VAT.

Table 4. Tax Expenditure estimates: PIT, BIT and VAT

| **Title of tax expenditure** | **Estimated costs** |
| --- | --- |
| **2018** | **2019** | **2020** | **2021** | **2022** |
| **Personal Income Tax** | **Million MDL** |
| Million Tax exemption of received state pension | - | 397.3 | 388.0 | 439.1 | 482.7 |
| Tax exemption of state security payments and state subsidies | 652.3 | 705.3 | 688.7 | 779.5 | 856.9 |
| Non-taxable state subsidy to first-time homeowners under “First Home” state program | - | 1.01 | 2.96 | 6.2 | 6.8 |
| All fringe benefit payments by an employer such as meals etc. are tax exempt  | - | - | - | - | - |
| Tax exemption of scholarships for pupils, students, and postgraduate students | 112.1 | 247.2 | 252.2 | 285.4 | 313.8 |
| Tax exemption of received patrimony received as a donation or inheritance | - | - | - | - | - |
| Tax exemption of gratuitous transfers of property, including cash, from Government or competent authorities  | - | - | - | - | - |
| Tax exemption of amounts received by blood donors from state healthcare institutions | - | - | - | - | - |
| Winnings and awards from games of chance | - | - | - | - | - |
| Tax exemption of material assistance received by natural persons from the reserve funds of the Moldovan Government | - | - | - | - | - |
| Tax exemption for financial assistance received by sportsmen from the International Olympic Committee | - | - | - | - | - |
| Tax exemptions of rewards received from the Republic of Moldova | 0.12 | 0.12 | 0.36 | 0.084 | 0.1 |
| Tax exemption of remuneration granted to households for participating in survey by the statistic bodies | - | - | - | - | - |
| Tax exemption for income generated from the delivery of secondary raw materials | - | - | - | - | - |
| Tax exemption of income generated from the sale of natural plant, horticultural production, and animal husbandry | - | - | - | - | - |
| Tax exemption of incomes received by individuals for the delivery of milk | - | - | - | - | - |
| Tax exemption of cash allowances to the military | - | - | - | - | - |
| Tax exemption of royalties for individuals aged 60 and over in the area of art, science, and literature | - | - | - | - | - |
| Tax exemptions for received allowances as compensation for work performed during election day | - | - | - | - | - |
| Tax exemption of payments borne by the beneficiaries of works for food  | - | - | - | - | - |
| Deduction to encourage the development of software (IT programs) | - | - | - | - | - |
| Tax exemption of income from the disposal of primary residence | - | - | - | - | - |
| CGT with 50 percent inclusion rate of gains realized by natural persons | - | - | - | - | - |
| Tax exemption of benefits in kind: food stamps | - | 39.5 | 38.6 | 43.7 | 48.0 |
| Rental income earned by natural persons taxed at a reduced rate | - | - | - | - | - |
| Interest earned by natural persons taxed at a reduced rate | - | - | - | - | - |
| Personal deduction of 2 percent of annual income tax liability | - | 0.7 | 5.6 | 8.9 | 9.8 |
| Major lifelong personal allowance in case of illness or disability | - | - | 31.2 | 35.3 | 38.8` |
| Spouse major allowance | - | - | 11.9 | 13.5 | 14.8 |
| Allowance for a child and other dependent | - | - | 131.8 | 149.2 | 163.9 |
| Allowance for a child and other dependent with disabilities | - | - | 16.6 | 18.8 | 20.7 |
| Total Revenue Forgone from Personal Income Tax | 764.5 | 1,391.1 | 1,567.9 | 1,779.6 | 1,956.3 |
| Total Revenue Forgone from Personal Income Tax as a % of GDP | 0.4% | 0.7% | 0.7% | 0.8% | 0.8% |
| **Business Income Tax** | **Million MDL** |
| Tax exemption of private education authorities | 33.1 | 33.1 | 31.6 | 36.5 | 40.7 |
| Tax exemption of the administration of a Free Economic Zone (FEZ) | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 |
| Tax exemption of the administration of IT parks | - | - | - | - | - |
| Tax exemption of non-commercial organizations (NCOs)  | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 |
| Tax exemption of religious organizations | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Tax exemption of income generated by societies of blind, deaf and people with disabilities | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Tax exemption for savings and loan associations | 8.7 | 8.8 | 8.4 | 9.7 | 10.8 |
| Tax incentive for participation in non-state pension funds | 2.0 | 2.0 | 1.9 | 2.2 | 2.4 |
| Tax exemption for trade unions and employers’ associations | 1.0 | 1.0 | 0.9 | 1.1 | 1.2 |
| Allowance for encouraging businesses to grow their payroll | 2.1 | 2.1 | 2.0 | 2.3 | 2.6 |
| Allowance for charitable and sponsorship donations | 11.2 | 11.2 | 10.7 | 12.4 | 13.8 |
| Reduced BIT rate of 7% for farmers | 14.1 | 14.1 | 13.5 | 15.5 | 17.3 |
| 5.2 | 5.2 | 5.0 | 5.8 | 6.4 |
| Reduced BIT rate of 7% for IT parks | 182.5 | 182.8 | 174.6 | 201.5 | 224.5 |
| 50% reduced BIT rate for income earned on exports in Free Economic Zones (FEZs) | 10.0 | 10.0 | 9.5 | 11.0 | 12.2 |
| 25% reduced BIT rate for income earned on domestic sales in Free Economic Zones (FEZs) | 1.5 | 1.5 | 1.4 | 1.6 | 1.8 |
| 3-year tax holiday for US$1M+ investments in Free Economic Zones (FEZs) | 2.0 | 2.0 | 1.9 | 2.2 | 2.5 |
| 5-year tax holiday for US$5M+ investments in Free Economic Zones (FEZs) | 5.4 | 5.4 | 5.2 | 6.0 | 6.6 |
| Additional 1, 3 or 5-year tax holiday for additional US$1, 3 or 5M+ investments in Free Economic Zones (FEZs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax exemption of income from international grants for research and development, and from special funds and grants approved by the government | 480.9 | 481.7 | 459.9 | 531.2 | 590.8 |
| Tax exemption of donations to homes providing foster care | - | - | - | - | - |
| Tax exemption of aid received from charitable organizations | - | - | - | - | - |
| Tax exemption of financial assistance received from the National Olympic and Sports Committee | - | - | - | - |  |
| Total Revenue Forgone from Business Income Tax | 761.3 | 762.5 | 728.1 | 840.8 | 935.6 |
| **Value Added Tax** | **Million MDL** |
| Reduced VAT rate applies to services and food supplied by hotels and restaurants | 27.3 | 79.7 | 38.7 | 134.6 | 218.4 |
| Goods and Services supplied at Reduced Rate of 8 percent: bakery and dairy | 258.1 | 282.8 | 275.0 | 335.0 | 369.1 |
| Goods and Services supplied at Reduced Rate of 8 percent: pharmaceutical | 27.7 | 30.1 | 29.2 | 33.0 | 36.3 |
| Natural and liquified natural gas (LNG) supplied at Reduced Rate of 8 percent | 222.6 | 244.0 | 237.2 | 289.0 | 318.4 |
| Moldovan crop, horticulture, and livestock production supplied at Reduced Rate of 8 % | 1,017.4 | 1,114.9 | 1,084.2 | 1,320.7 | 1,455.0 |
| Reduced Rate for beet sugar produced, imported, and supplied in Moldova | 5.1 | 5.5 | 5.3 | 6.0 | 6.6 |
| Reduced VAT rate of 8% applies for solid biofuel used in the production of electricity | - | - | - | - | - |
| The supplies of zero-rated goods and services—i.e., electricity to residential customers | 499.4 | 547.3 | 532.2 | 648.3 | 714.3 |
| Zero-rating of supplies of goods and services consumed by foreign diplomatic mission and representative offices of international organizations | - | - | - | - | - |
| Zero-rating the supply of goods and services destined for technical and investment assistance projects conducted in the territory of Moldova | - | - | - | - | - |
| Exempting the supply of residential buildings, land and the lease of such buildings, land, and land plots | 233.3 | 257.1 | 249.3 | 304.2 | 336.3 |
| Exempting the supply of baby food and non-food baby products | 20.4 | 22.2 | 21.5 | 24.3 | 26.8 |
| Exempting the supply of educational services | 912.9 | 1,004.1 | 974.7 | 1,188.6 | 1,312.4 |
| Exempting services and goods used for the care of the sick and elderly | - | - | - | - | - |
| Exempting the supply of medical services and associated goods  | 787.6 | 864.0 | 839.8 | 1,023.3 | 1,128.1 |
| Exempting the supply of goods and services in canteens of educational and healthcare institutions | - | - | - | - | - |
| VAT exemption of fee-based [and margin-based] financial services | -2.2 | -2.0 | -2.1 | -2.5 | -2.4 |
| VAT exemption of postal services | 20.3 | 22.3 | 21.6 | 26.4 | 29.2 |
| VAT exemption of gaming and gambling services | 41.5 | 48.0 | 45.5 | 56.3 | 64.1 |
| VAT exemption for burial and crematorium services of human and animal bodies | 5.5 | 6.1 | 5.9 | 7.2 | 8.0 |
| VAT exemption for utilities for the general public, rental of dwelling, water supply, sewage, heating, sanitation, elevators | 113.3 | 124.7 | 121.0 | 147.6 | 163.0 |
| Exempting the supply of editorial services of books and periodicals as well as publishing services, copyright services and other related rights used in the editing of books and periodicals | 98.9 | 108.4 | 105.4 | 128.4 | 141.6 |
| Exempting the supply of fixed assets used as contributions to the owner’s equity of a company | - | - | - | - | - |
| Exempting the supply of services performed by entities operating in the field of science and innovation technologies | 1.6 | 1.8 | 1.8 | 2.2 | 2.4 |
| Exempting the supply of aircraft, helicopters and trains for passenger transportation, and related leasing services | - | - | - | - | - |
| Exempting the supply of air medical services | - | - | - | - | - |
| Exempting the supply (and importation) of samples the value of which does not exceed MDL22,000 | - | - | - | - | - |
| Exempting the supply (and importation) of tractors and other agricultural machinery, provided that these are not rented or leased during 3 years from the date of importation or acquisition | - | - | - | - | - |
| Exempting the supply of goods and services for no consideration for the promotion of trade in the amount of 0.5% of sales return for the previous year | - | - | - | - | - |
| Exempting property transferred as a result of a company reorganization | - | - | - | - | - |
| Total Revenue Forgone from Value Added Tax | 4,290.7 | 4,761.0 | 4,586.2 | 5,672.6 | 6,321.0 |
| Total Revenue Forgone from Value Added Tax as a % of GDP | 2.2% | 2.3% | 2.2% | 2.4% | 2.5% |
| Memorandum Item: |  |  |  |  |  |
| GDP (million LCU)  | 192,509 | 210,378 | 205,432 | 232,500 | 255,600 |
| GDP Growth | - | 9.3% | -2.4% | 13.2% | 9.9% |

Note:

(1) Estimated costs in million MDL

(2) Projections based on GDP growth are shaded.

## The Way forward

As experience and capacity for assessing and reporting on TEs develops, TEs evaluation of other key tax instruments will be advanced by the MoF. Over the short to medium term, the TEs assessment will be broadened to include excise taxes, customs duties, and data permitting, taxes on movable and immovable property. In addition, the estimation methods for BIT, PIT and VAT will be refined, attempting more granular analysis such as which economic sectors benefit most from tax relief measures. Tax return data permitting, future analysis will also seek to analyze the important distributional effects of tax expenditures.

One of the key objectives of TE reporting is to improve the transparency in fiscal management and provide relevant analysis to inform decision making and legislation. Another benefit of regularly estimating TEs is that it implicitly creates a catalog of potential measures that can be used to raise revenues when needed. For these reasons, the MoF will commit itself to ensuring the integrity of the estimates. It is important that the MoF will be responsible for delineating or defining the variations of tax measures vis-à-vis the benchmark regime as defined in the TEAR. Furthermore, data availability is key for the exercise and data organization and provision from key agencies and ministries should be well documented and legally binding. The MoF should continue to have oversight over legislation that involves the introduction of TEs. A well-administered system of TEs with careful oversight plays an important role in promoting fiscal transparency and financial control by the government.

As to costing of forgone revenues future analytical work may also entail the adoption of a more granular approach to the reporting of forgone revenues per individual TEs—tax returns may need further refinement to capture such difficult to estimate TEs. The TEAR may include in future a ranking of costings of individual TEs. Moving towards some basic evaluation of TEs, it may be useful over the medium term for purposes of the STS to start capturing qualitatively and quantitatively TE administrative and compliance costs, especially where the STS is challenged with respect to resources and capacity in monitoring and administering the qualifying incentive criteria—this could assist in the design of future TEs in order to reduce the risk of tax leakage.

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## Appendix 1: PIT Tax Expenditures Summary Sheets

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| --- |
| **1. Tax exemption of received state pension** |
| **Description** | Non-taxable sources of income are an annuity received as social security rights from the state social insurances budget and social assistance rights paid from the state budget, including the payments received on the international treaties bases to which the Republic of Moldova is a party; insurance amounts and compensations received under insurance and co-insurance contracts. Contrary to state pensions, pensions received from non‐state pension funds (domestic and foreign) are taxable. Contributions made to state pension funds are deductible (TC, Art. 36) akin to contributions made to non-state pensions funds, both domestic and foreign (TC, Art. 66‐67). |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | PIT payers receiving public pension payouts |
| **Type of Measure** | Legislated personal income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | *State social security budget.* Pension received by a former employee from the state social security budget is tax exempt. Pension contributions made to the state social security budget are fully deductible. It is a structural tax exemption, benefiting the subgroup of recipients of state pensions. |
| **Legal Reference** | Tax Code (TC), Art 20(a) |
| **Implementation Objectives, and History** |  |
| Introduced in year: 2006 | Expiry date: |
| **Source of Data** | Public institutions paying out transfers |
| **Estimation Method** | Estimating budget expenditures  |
| **Number of Beneficiaries** | Total number of beneficiaries – 672 122 beneficiariesTotal number of beneficiaries that are still working – 174 757 beneficiariesBeneficiaries that received pension less than MDL 2 000 – 610 191 beneficiariesBeneficiaries that received pension less than MDL 2 000 but are still working – 158 654 beneficiariesBeneficiaries that received pension more than MDL 2 000 – 61 931 beneficiariesBeneficiaries that received pension more than MDL 2 000 but are still working – 16 103 beneficiaries |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | 397.3 | *388.0* | *439.1* | *482.7* |

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| **2. Tax exemption of state security payments and state subsidies** |
| **Description** | Exempting from income tax are transfer payments to compensate for incapacity to work, and for being insufficiently insured and socially vulnerable. As a rule, annuities, except social security benefits, and state subsidies are regarded as taxable income for PIT purposes. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | PIT payers receiving compensation for being work-incapacitated or being insufficiently insured, and being socially vulnerable. |
| **Type of Measure** | Legislated income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | It is a structural exemption or tax expenditure, benefiting the subgroup of recipients of compensations for being unable to work or being insufficiently insured and therefore being socially vulnerable. |
| **Legal Reference** | TC, Art. 20 b), c) and h) |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: b) – 2005 c) – 1998 h) - 1998 | Expiry date: |
| **Source of Data** | Public institutions paying out transfers |
| **Estimation Method** | Budgetary statements on social subsidies to socially vulnerable groups |
| **Number of Beneficiaries** | In 2019 total amount of beneficiaries is - 906 592 beneficiariesAverage amount of compensation is MDL 726, total amount of compensation MDL 7 904.8MThus, considering that the amounts are small and do not exceed the size of the personal allowance, which is a benchmark, respectively it is not an impact on the budget |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 652.3 | 705.3 | *688.7* | *779.5* | *856.9* |

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| **3. Non-taxable state subsidy to first-time homeowners under “First Home” state program** |
| **Description** | First-time homeowners receive a state subsidy from the state budget as beneficiaries of the “First Home” state program, as established by the Government. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | First-time homeowners |
| **Type of Measure** | Legislated tax exemption of a state subsidy or grant |
| **Reason why this Measure is not part of the Benchmark Tax System** | All subsidies or grants paid from the state budget constitute income in the hands of the grantee and under the comprehensive income concept should attract PIT at the flat rate of 12%, and if the combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(d5) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2018 | Expiry date: |
| **Source of Data** | Budget data on total grants paid to qualifying recipients |
| **Estimation Method** | Estimating budget expenditures |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | 1.01 | 2.96 | 6.2 | *6.8* |

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| **4. All fringe benefit payments by an employer such as meals etc. are tax exempt** |
| **Description** | All payments incurred by an employer to the benefit of his employees in accordance with Art. 24 (19) to (20), constituting part of the salary package of an employee are tax exempt. These include benefits such as employee’s transport, food, professional studies, technical training programs.  |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Employees benefiting from the above fringe benefits paid by employers |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | All fringe benefits constitute income in the hands of the employee under the comprehensive income concept. They should attract PIT at the flat rate of 12% if the combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. Also, since employers can deduct these transfers to their employees as expenses the symmetry principle holds that it should be taxed in the hands of the receiving party. |
| **Legal Reference** | Art. 24(d6) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2018 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **5. Tax exemption of scholarships for pupils, students, and postgraduate students** |
| **Description** | All scholarships for pupils, students and post-graduate students or post-graduate specialized education are tax exempt. This applies for state or private education institutions according to the education legislation, as established by these education institutions, as well as scholarships granted by charitable organizations, except for the payments for teaching or research activity, single allowances granted to young specialists employed in the rural areas according to their assignment. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipients of scholarships as defined above. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | All transfer payments constitute income in the hands of the bursary beneficiaries under the comprehensive income concept. They should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(e) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | State budget data |
| **Estimation Method** | Estimating budget expenditures |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 112. 1 | 247. 2 | 252. 2 | *285.4* | *313.8* |

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| **6. Tax exemption of received patrimony received as a donation or inheritance** |
| **Description** | Exempt from PIT are patrimony received by the natural persons citizens of the Republic of Moldova as a donation or inheritance, except for the donations made according to Article 90¹ para (3¹); |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipient of patrimony |
| **Type of Measure** | Tax Exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, these transfers//payments constitute income in the hands of the persons receiving the patrimony. They should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(i) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **7. Tax exemption of gratuitous transfers of property, including cash, from Government or competent authorities**  |
| **Description** | There is a tax exemption of incomes from gratuitous transfer of property, including cash means, according to the decision of the Government or competent authorities of the local public administration. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Beneficiaries of gratuitous transfer payments  |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, these transfers/payments constitute income in the hands of the persons receiving the transfers. They should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20 (j) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2007 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **8. Tax exemption of amounts received by blood donors from state healthcare institutions** |
| **Description** | Amounts received by the blood donors from the state healthcare institutions are tax exempt. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Blood donors |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of a consideration for donated blood constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(o) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **9. Winnings and awards from games of chance** |
| **Description** | Exempting from income tax amounts* winnings from lotteries and / or sports bets in the part where the value of each win does not exceed 1% of the personal exemption established in Article 33 paragraph (1);
* gains from promotional campaigns in the part in which the value of each gain does not exceed the amount of the personal exemption set out in Article 33 para. (1).
 |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Participants receiving winnings |
| **Type of Measure** | Tax Exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | It is a non-structural tax exemption |
| **Legal Reference** | Art. 20 (p1) (p2) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: p1 – 2006 P2 - 2018 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **10. Tax exemption of material assistance received by natural persons from the reserve funds of the Moldovan Government.** |
| **Description** | Includes tax exemption of material assistance received by natural persons from the reserve funds of the Government, of the local public administration authorities, from the Social Support Fund and from the trade unions in accordance with the regulations providing for the granting of such aid. In the case of material aid granted by trade unions, the non-taxable limit represents an average monthly salary in the economy, forecasted and annually approved by the Government, per employee per year, except for the aid granted in case of death and/or sickness of the employee or their relatives and/or first-degree in-laws. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipient of material assistance |
| **Type of Measure** | Legislated tax exemption. |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, these “material assistance” transfers/payments constitute income in the hands of the persons receiving the material aid transfers. They should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20 (r) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2001 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **11. Tax exemption for financial assistance received by sportsmen from the International Olympic Committee** |
| **Description** | There is a tax exemption for financial assistance received by sportsmen and coaches from the International Olympic Committee, prizes obtained by sportsmen, coaches and technicians at international sport competitions, sports scholarships and allowances awarded to national lots for getting prepared and participate to the official international competitions. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Sportsmen and coaches in the categories listed above. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, the “financial assistance” transfers/payments constitute income in the hands of the persons receiving these transfers. They should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20 (s) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2001 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

|  |
| --- |
| **12. Tax exemptions of rewards received from the Republic of Moldova** |
| **Description** | There is a tax exemption for the receipt of the national award of the Republic of Moldova in literature, art, architecture, science, and technology, as well as awards to pupils and animating teachers, paid in the amounts established by the current regulatory acts, for outstanding results achieved at district, city, municipal, zonal, republican, regional and international Olympiads, and contests. The amount of reward is 100 000 lei (Government Decision nr. 504/2018) |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipients of the National Awards |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, the financial value of the national awards constitute income in the hands of persons receiving the national award. It should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20 (u) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2001 | Expiry date: |
| **Source of Data** | State Budget data |
| **Estimation Method** | Estimation of budget expenditures  |
| **Number of Beneficiaries** | 2018 – 10 beneficiaries2019 – 10 beneficiaries2020 – 30 beneficiaries2021 – 7 beneficiaries |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.12 | 0.12 | 0.36 | 0.084 | *0.1* |

|  |
| --- |
| **13. Tax exemption of remuneration granted to households for participating in survey by the statistic bodies** |
| **Description** | There is a tax exemption for remuneration granted to members of households (families) for participation in selective surveys carried out by the statistics bodies. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Households participating in selective surveys |
| **Type of Measure** | Legislated tax exemption  |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, the paid remuneration for statistical survey work constitute income in the hands of the survey-participating households/taxpayers. It should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(w) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2002 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **14. Tax exemption for income generated from the delivery of secondary raw materials** |
| **Description** | There is a tax exemption for incomes received by natural persons, excluding individual entrepreneurs and farming household (farm), from the delivery of secondary raw materials, including waste and scrap of paper and paperboard, rubber, plastic, and glass waste (shard of glass), of ferrous and non-ferrous metals, of industrial waste containing metals or their alloys and of returnable packaging, as well as of used electric accumulators. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Vendors active in the trade of recycling and delivery of secondary raw materials. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of a generated [business] income constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20 (y) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2012 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| --- |
| **15. Tax exemption of income generated from the sale of natural plant, horticultural production, and animal husbandry** |
| **Description** | There is an exemption for income received by natural persons, except for individual entrepreneurs and farming households (farms), from the sale of natural plant and horticultural production and of animal husbandry production in natural form, in living and slaughtered mass to another natural person, except for individual entrepreneurs and households (farmers). |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Natural persons selling produce from farms |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of a generated [business] income constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(y1) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2004 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| --- |
| **16. Tax exemption of incomes received by individuals for the delivery of milk** |
| **Description** | There is an exemption for income received by individuals, except individual entrepreneurs and farming households, from the delivery of natural milk. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Individuals selling milk (small scale operation) |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of a generated income constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(y2) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **17. Tax exemption of cash allowances to the military** |
| **Description** | There is a tax exemption of cash allowances granted to the military, the pupils, and learners (students) of the military educational institutions and of the higher education institution with the status of large special unit. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipients of these cash allowances. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, transfers or grants should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of these income accretions constitutes a tax expenditure. |
| **Legal Reference** | Art. 20 (z5) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2006 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **18. Tax exemption of royalties for individuals aged 60 and over in the area of art, science, and literature** |
| **Description** | There is a tax exemption of incomes in the form of royalties for individuals aged 60 and over in the domain of literature, art, and science. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Individuals aged 60 earning royalties. |
| **Type of Measure** | Legislated tax exemption. |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, accretion of income from whatever source should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of these income accretions constitutes a tax expenditure. |
| **Legal Reference** | Art. 20(z11) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **19. Tax exemptions for received allowances as compensation for work performed during election day** |
| **Description** | There is a tax exemption for incomes obtained in the form of an allowance for the work performed on election day, paid to the members of the constituency electoral councils, to the members of the electoral bureaus of the polling stations and to the officials of the respective councils and bureaus. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Electoral workers and officials. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, accretion of income from whatever source or any considerations for work performed should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of these income accretions constitutes a tax expenditure. |
| **Legal Reference** | Art. 20(z14) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2018 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **20. Tax exemption of payments borne by the beneficiaries of works for food**  |
| **Description** | There is a tax exemption for payments borne by the beneficiaries of works for food and transportation of day laborers, in the amount established by the Government. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Beneficiaries of works for food. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, accretion of income from whatever source or any considerations for work performed should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of these income accretions or benefits in kind constitutes a tax expenditure. |
| **Legal Reference** | Art. 20(z15) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2020 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **21. Deduction to encourage the development of software (IT programs)** |
| **Description** | A deduction is provided for an amount equal to two average monthly salaries at national level forecasted for the tax year. Not for residents of IT parks; it is a non-structural incentive. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | IT park resident companies or entrepreneurs |
| **Type of Measure** | An allowance |
| **Reason why this Measure is not part of the Benchmark Tax System** | This is to encourage through the tax system a small sub-group of taxpayers with the view to stimulate employment in the IT sector and incentivize the development of IT—it is not a standard practice to enhance the deduction of a legitimate business expense this way; hence, it is a tax expenditure. |
| **Legal Reference** | Law no. 1164‐XIII of April 24, 1997, Art. 24 para. (21) |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year  | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **22. Tax Exemption of income from the disposal of primary residence** |
| **Description** | Income from the disposal of a taxpayer’s primary residence or basic housing is exempt from tax (capital gains). It is deemed to be the primary residence if the individual taxpayer owned it for at least 3 years before selling it and it was the taxpayer’s residence during that period. A 50 percent inclusion rate for capital gains is applied. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Homeowners disposing of basic housing or their primary residence |
| **Type of Measure** | Legislated tax reduction |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. The non-taxation of a generated income from the sale of a home constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 20(y3) |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2017 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **23. CGT with 50% inclusion rate of gains realized by natural persons** |
| **Description** | A non-structural incentive taxing only half of realized gains for a tax period. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Natural persons with realized capital gains |
| **Type of Measure** | Exemption of income |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. A legislated lighter tax burden on generated income from the sale of a home constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 40 of TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| --- |
| **24. Tax exemption of benefits in kind: food stamps** |
| **Description** | Food stamps issued by an employer to its employees that can be used to buy food are not considered as benefits in kind, provided that their value does not exceed MDL 45 per day.  |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Recipients of food stamps |
| **Type of Measure** | Legislated income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | In principle, benefits in kind are taxable as income from employment (Art 18 of the TC). Benefits in kind are valued at market prices on the date of receipt. Benefits in kind include payments made to cover an employee’s personal expenses, the waiving of an employee’s debts by the employer, supplementary payments for accommodation provided by the employer, the benefit of a low-interest loan provided by an employer, except for loans granted to an employee at a regular market rate, the employer’s expenses with regard to the personal use of its assets by an employee, etc. |
| **Legal Reference** | Art. 19 of TC |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2017 | Expiry date: |
| **Source of Data** | Information from stamps issuers |
| **Estimation Method** | Direct calculations |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | 39.5 | *38.6* | *43.7* | *48.0* |

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| **25. Rental income earned by natural persons taxed at a reduced rate** |
| **Description** | Natural persons, subjects of taxation that do not carry out entrepreneurial activity and transmit the real estate in possession and/or in use (rent, lease, usufruct, and superficies[[21]](#footnote-22)) to the other natural persons pay tax in the amount of 7% of the monthly value of the contract.  |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Natural persons that transmit real estate in possession |
| **Type of Measure** | Tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. A legislated lighter tax burden on rentals constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 90 para 34 |
| **Implementation, Objectives, and History** |  |
| Introduced in year:  | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| **26. Interest earned by natural persons taxed at a reduced rate** |
| **Description** | Banks, savings, and loan associations, as well as issuers of corporate securities withhold a tax of 3% of the interest paid to resident individuals. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Natural persons that receive interest from savings |
| **Type of Measure** | Tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. A legislated lighter tax burden on interest earned by natural persons constitutes therefore a tax expenditure. |
| **Legal Reference** | Art. 90 para 37 |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2021 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | *—* |

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| --- |
| **27. Personal deduction of 2% of annual income tax liability** |
| **Description** | Individuals may deduct charity and sponsoring contributions made to eligible entities. This deduction may not exceed 2% of their annual income tax liability. The list of eligible entities for each year is made public annually by the Agency of Public Services. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Donator of funds to assigned charity |
| **Type of Measure** | Tax liability deduction |
| **Reason why this Measure is not part of the Benchmark Tax System** | Through an individually determined deduction up to a ceiling, an individual can reduce his/her tax liability, thereby reducing the originally intended tax burden for respective income earned. |
| **Legal Reference** | Art. 152  |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | Tax return |
| **Estimation Method** |  |
| **Number of Beneficiaries** | 2019 - 504 beneficiaries2020 – 534 beneficiaries2021 – 651 beneficiaries |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | 0.7 | 5.6 | 8.9 | *9.8* |

|  |
| --- |
| **28. Major lifelong personal allowance in case of illness or disability** |
| **Description** | An allowance of (2019 – 2021 is in amount of 30 000 lei; in 2022 -31 500 lei) is applied in case of an illness, disability or for persons whose child or spouse died or was injured in defense of the state |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Taxpayers with disabilities as a result of defense |
| **Type of Measure** | Deduction against taxable income |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. A legislated lighter tax burden on income of persons with long-term illness or disability constitutes a tax expenditure. |
| **Legal Reference** | Art. 35 para (2) of the TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Tax return |
| **Estimation Method** | Microsimulation |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | 31.2 | *35.3* | *38.8* |

|  |
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| **29. Spouse major allowance** |
| **Description** | An allowance of (2019 -2020 is in amount of 18 000 lei; 2021 -18 900 lei: 2022 – 19 800 lei) applies in case of illness, disability, or for persons whose spouse died or was injured in defense of the state. Applies only if the spouse does not benefit from personal exemption |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** |  |
| **Type of Measure** | Deduction of taxable income |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, generated income should attract PIT at the flat rate of 12% if their combined income streams exceed the basic personal allowance of MDL 27,000 per year. A legislated lighter tax burden for surviving spouses or spouses with illness and disability constitutes a tax expenditure. |
| **Legal Reference** | Art. 34 para. 2 of the TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Tax return |
| **Estimation Method** | Microsimulation |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | 11.9 | *13.5* | *14.8* |

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| **30. Allowance for a child and other dependent** |
| **Description** | An allowance is in amount of 3 000 MDL for period 2019-2020; in 2021 – it was 4 500 MDL:; 2022 – 9 000 MDL) is granted for each child and other dependents of the taxpayer |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Taxpayers with a child(ren) and dependents |
| **Type of Measure** | Deduction of taxable income |
| **Reason why this Measure is not part of the Benchmark Tax System** | Through accessing this additional allowance of a capped amount, an individual with children or dependents can reduce his/her tax liability, to a greater extent than taxpayers without children or dependents, translating into a lower tax burden than in the standard PIT regime. This is a tax expenditure. |
| **Legal Reference** | Art. 35 of the TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Tax return |
| **Estimation Method** | Microsimulation |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | 131.8 | *149.2* | *163.9* |

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| --- |
| **31. Major allowance for a child and other dependent with disabilities** |
| **Description** | An allowance of (2019-2020 is in amount of MDL 18 000; 2021 – MDL 18 900; 2022 – MDL 19 800) is granted for each child and other dependents with disabilities due to a congenital or childhood illness, people with severe and severe disabilities. |
| **Type of Tax Affected** | PIT |
| **Beneficiaries** | Taxpayers with a child(ren) and dependents with disabilities |
| **Type of Measure** | Deduction of taxable income |
| **Reason why this Measure is not part of the Benchmark Tax System** | Through accessing this additional allowance of a capped amount, an individual with children or dependents with disabilities can reduce his/her tax liability, to a greater extent than taxpayers without children or dependents with disabilities, translating into a lower tax burden than in the standard PIT regime. This is a tax expenditure. |
| **Legal Reference** | Art. 35 of the TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Tax return |
| **Estimation Method** | Microsimulation |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | 16.6 | *18.8* | *20.7* |

## Appendix 2: BIT Tax Expenditures Summary Sheets

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| **1. Tax exemption of private education authorities** |
| **Description** | The income tax exemption for public education institutions is deemed benchmark treatment, notwithstanding the provisions of the Article 51, whereas the income tax exemption of private education institutions’ income derived from the education process in accordance with the Education Code is a tax expenditure. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Privately run and managed education institutions. |
| **Type of Measure** | Income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The legislated tax exemption is a departure from the benchmark tax treatment whereby taxable income attracts the 12% statutory BIT rate. The exemption is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 513 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2012 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 33.1 | *33.1* | *31.6* | *36.5* | *40.7* |

Note: The income tax exemption of public authorities and public institutions, as stipulated in Art 51 of the Tax Code (BIT), is an element of the BIT benchmark system.

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| **2. Tax exemption of the Administration of a Free Economic Zone (FEZ)** |
| **Description** | Financial sources of the administration of the FEZ as stipulated in Article 5 para. (4) of Law No. 440-XV dated July 27th, 2001, concerning FEZs shall be exempt from tax. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | The administration of the free economic zone |
| **Type of Measure** | Income tax exemption. |
| **Reason why this Measure is not part of the Benchmark Tax System** | The legislated tax exemption is a departure from the benchmark tax treatment whereby taxable income attracts the 12% statutory BIT rate. The exemption is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 512 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2012 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.6 | *0.6* | *0.6* | *0.7* | *0.3* |

|  |
| --- |
| **3. Tax of Administration of IT park** |
| **Description** | The sources of income of the park administration for information technology provided in art. 6 paragraph (3) of Law no. 77/2016 on parks for information technology are exempt from income tax. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Administration of an IT park. |
| **Type of Measure** | A legislated tax exemption. |
| **Reason why this Measure is not part of the Benchmark Tax System** | The tax exemption is a departure from the benchmark tax treatment, providing that taxable income attracts the 12% statutory BIT rate. The exemption is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 514 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2022 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0 | *0* | *0* | *0* | *0* |

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| **4. Tax exemption for non-commercial organizations (NCOs)**  |
| **Description** | Non-commercial organizations (non-profit organizations) shall be exempt from the income tax if they meet the following requirements: a) are registered or established in accordance with the law and carry out activity in accordance with the purposes set out in the statute, regulation or other constituent document; a¹) the economic activity provided by the statute, regulation or other constituent document corresponds to the objectives and purposes provided for in the statute, regulation or other constituent document and results directly therefrom; b) the statute, regulation or other constituent document indicates the prohibition on the distribution of special purpose funds, other means and income resulting from the statutory activity or property between the founders and members of the organization or among its employees, including in the reorganization process and liquidation of the non-profit organization; c) special purpose funds, other funds and income derived from the statutory activity, property of the organization are used as provided by the statute, regulation or other constituent document; d) do not use the special-purpose funds, other funds and income derived from the statutory activity or the property in the interest of a founder or member of the organization or in the interest of an employee, except for the salary payments or other payments regulated by the Labor law, directed in its favor; e) do not support the political parties, electoral blocks or candidates for public authorities and do not use the special-purpose means, other means and income derived from the statutory or property activity for their financing. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Non-commercial organizations |
| **Type of Measure** | Legislated income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The tax exemption is a departure from the benchmark tax treatment, providing that taxable income attracts the 12% statutory BIT rate. The exemption is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 52 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | ONG17 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.6 | *0.6* | *0.6* | *0.7* | *0.8* |

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| **5. Tax exemption of income from non-commercial organizations and religious cults**  |
| **Description** | There is a tax exemption for incomes received by non-commercial organizations, religious cults, and their constituent parts according to the law as a result of percentage designation. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Non-commercial and belief organizations. |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, accretion of income from whatever source should attract BIT at the rate of 12%. The non-taxation of these income accretions constitutes a tax expenditure. |
| **Legal Reference** | Art. 20(z13) of the TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | ONG17 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.3 | *0.3* | *0.3* | *0.3* | *0.3* |

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| **6. Tax exemption of income generated by societies of blind, deaf and disabled persons** |
| **Description** | The enterprises created with a view to the achievement of the statutory goals of the societies of blind, deaf and disabled persons shall be exempt from income tax. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Enterprises created by the societies of blind, deaf and disabled persons |
| **Type of Measure** | Income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The legislated tax exemption is a departure from the benchmark tax treatment, providing that taxable income attracts the 12% statutory BIT rate. The exemption is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 531 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2004 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.1 | *0.1* | *0.1* | *0.1* | *0.1* |

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| **7. Tax relief for savings and loan associations** |
| **Description** | Savings and Loan Associations shall be exempt from income tax. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Savings and Loan Associations |
| **Type of Measure** | Income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The legislated tax exemption is a departure from the benchmark tax treatment, providing that taxable income attracts the 12% statutory BIT rate.  |
| **Legal Reference** | TC, Art. 532 |
| **Implementation, Objectives, and History** |  |  |
| Introduced and in effect since: 2005 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 8.7 | *8.8* | *8.4* | *9.7* | *10.8* |

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| **8. Tax incentive to encourage participation in non-state pension funds** |
| **Description** | The income of the non-state pension fund shall not be taxed, but any payments (i.e., early withdrawals or annuities) made from this fund shall be included in the gross income of the beneficiary. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Non-state pension fund |
| **Type of Measure** | Income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Contributions to a qualified non-governmental pension fund are not taxed, but deferred tax will be collected in the future when the contributions and investment income earned on them are withdrawn. So, the tax expenditure is equal to the applicable tax rate multiplied by the net present value of the payments by way of an annuity that an individual will receive based on the value of the contributions they made. |
| **Legal Reference** | Art. 68 of the TC |
| **Implementation, Objectives, and History** |  |  |
| Introduced and effective since: 1998 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 2.0 | *2.0* | *1.9* | *2.2* | *2.4* |

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| **9. Trade Unions and Employers’ Associations** |
| **Description** | Trade Unions and Employers’ Associations shall be exempt from the income tax. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Trade Unions and Employers’ Associations |
| **Type of Measure** | Income tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Since individual employees and employers can deduct 0.15% of their wage or remuneration fund / payroll for income tax purposes, the symmetry principle indicates that the party receiving the contribution should be taxed on that income. However, the non-taxation of these membership contributions in the hands of trade unions and employer associations makes this a tax expenditure. |
| **Legal Reference** | Art. 533 TC |
| **Implementation, Objectives, and History** |  |  |
| Introduced and in effect since: 2007 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 1.0 | *1.0* | *0.9* | *1.1* | *1.2* |

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| **10. Allowance for encouraging businesses to grow their payroll** |
| **Description** | Deduction of amount calculated by multiplying the average annual salary at country level from the tax period by the increase in the average number of employees in the tax year compared to the previous year. The amount of the deduction cannot exceed the taxable income; non-structural |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Legal entities |
| **Type of Measure** | Reduction of taxable income |
| **Reason why this Measure is not part of the Benchmark Tax System** |  |
| **Legal Reference** | Law no.1164/1997, art.24 para (16) |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2005 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 2.1 | *2.1* | *2.0* | *2.3* | *2.6* |

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| **11. Allowance for charitable and sponsorship donations** |
| **Description** | Any resident business is entitled to deduct any donations made during the tax period for philanthropic or sponsorship purposes, but not more than 5% of the taxable income. Only donations made for philanthropic or sponsorship purposes in favor of public authorities and public institutions specified in Article 51, of non-commercial organizations specified in Article 52 (1), may be deducted, in accordance with paragraph (1) of this article, as well as in favor of family-type orphanages. Donations for philanthropic or sponsorship purposes will be deducted only if confirmed in the manner established by the Government. Donations to non-profits organizations are deductible up to 5 percent of the taxable income. The granted allowance is non-structural |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Doners to charitable causes, sponsorships, and charitable donees. |
| **Type of Measure** | An allowance |
| **Reason why this Measure is not part of the Benchmark Tax System** | In order to support public benefit outreach by non-governmental organizations governments allow their funding through tax-preferential treatment of contributions and/or donations. The donor (a business) can deduct these transfers up to a capped amount even though they are not legitimate business expenses incurred in the production of taxable income. |
| **Legal Reference** | TC, Art. 36 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2012 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 11.2 | *11.2* | *10.7* | *12.4* | *13.8* |

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| --- |
| **12. Reduced BIT rate of 7% for farmers** |
| **Description** | Reduced tax burden on agriculture – non-structural relief measure – as other businesses such as individual entrepreneurs, family doctors and all legal persons pay BIT at 12% on taxable income |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Farming households |
| **Type of Measure** | Tax rate relief—reduced rate of 7% vs standard BIT rate of 12%. |
| **Reason why this Measure is not part of the Benchmark Tax System** | Reduced tax burden on agriculture of 7% is a tax relief measure not available to other businesses such as individual entrepreneurs, family doctors, and all legal persons that pay BIT at 12% on taxable income.  |
| **Legal Reference** | TC, Art. 15 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | VEN12 and UNIF18 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 19.2 | *19.2* | *18.5* | *21.4* | *23.7* |

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| --- |
| **13. Reduced BIT rate of 7% for IT parks**  |
| **Description** | Entities of different legal forms are eligible after fulfilling certain requirements. Subject to tax is revenue from sales (Tax return IU17). Tax liability is calculated with the tax rate of 7 percent, but not less than a minimum tax calculated as: 30 percent\*average monthly salary in the economy \* number of employees. The single unified tax substitutes: income tax on entrepreneurial activity, income tax on salary, SSC from employers and employees, medical assistance contributions from employers and employees, local taxes, real estate tax, road tax for the use of motor vehicles registered in the Republic of Moldova. It is a non-structural tax measure. |
| **Type of Tax Affected** | The unified tax |
| **Beneficiaries** | Residents of IT Parks |
| **Type of Measure** | Tax rate reduction is the tax relief measure as it departs from the statutory 12% standard CIT rate. |
| **Reason why this Measure is not part of the Benchmark Tax System** | The unified tax regime replaces most other taxes levied by national and subnational level government in Moldova on the IT sector, translating into a sizable tax burden reduction across affected taxes. This is a tax expenditure. |
| **Legal Reference** | Law no. 77 of 21.04.2016, Articles 367‐372 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: 2017 | Expiry date: |
| **Source of Data** | IU17 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 182.5 | *182.8* | *174.6* | *201.5* | *224.5* |

|  |
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| **14. 50% reduced BIT rate for income earned on exports in Free Economic Zones (FEZs)** |
| **Description** | A 50% tax rate reduction applies to income from export of goods (services) originating from FEZ outside the customs territory of Moldova. It is a non-structural incentive measure. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Resident companies located in FEZs. |
| **Type of Measure** | Effective rate reduction |
| **Reason why this Measure is not part of the Benchmark Tax System** | It seeks to explicitly provide a cash flow benefit to zone companies by reducing the tax rate to 6% in lieu of the standard 12% BIT rate. The available tax rate departs from the benchmark tax rate of 12% and it is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 49 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: Since 2001 with amendments in 2007, 2008, 2010, 2012, 2013, 2015, and 2017. | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 10.0 | *10.0* | *9.5* | *11.0* | *12.2* |

|  |
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| **15. 25% reduced BIT rate for income earned on domestic sales in Free Economic Zones (FEZs)** |
| **Description** | The standard 12% BIT rate is reduced by 25% and applies to domestic sales of goods (services) originating from FEZ. It is a non-structural incentive measure with the intention to stimulate investments. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Resident companies located in FEZs |
| **Type of Measure** | Effective rate reduction to 9% in lieu of the standard rate of 12%. |
| **Reason why this Measure is not part of the Benchmark Tax System** | It seeks to explicitly provide a cash flow benefit to zone companies by reducing the tax rate to 9 percent in lieu of the standard 12% BIT rate. The available tax rate departs from the benchmark tax rate of 12% and it is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 49 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: since 2001 | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 1.5 | *1.5* | *1.4* | *1.6* | *1.8* |

|  |
| --- |
| **16. 3-year tax holiday for US$1M+ investments in Free Economic Zones (FEZs)** |
| **Description** | This is complete exemption of the BIT for revenue obtained from the export of goods (services) granted for three years provided the FEZ resident invested at least USD 1 million in fixed assets or FEZ's infrastructure. This 3-year tax holiday is a non-structural incentive |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Resident investors in FEZ. |
| **Type of Measure** | A tax holiday of 3 years |
| **Reason why this Measure is not part of the Benchmark Tax System** | A Tax rate of 0% for 3 years is a departure from the standard or benchmark rate of 12% and this tax preferential treatment is a tax expenditure. |
| **Legal Reference** | TC, Art. 49 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 2.0 | *2.0* | *1.9* | *2.2* | *2.5* |

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| --- |
| **17. 5-year tax holiday for US$5M+ investments in Free Economic Zones (FEZs)** |
| **Description** | This is complete exemption of the BIT for revenue obtained from the export of goods (services) granted for five years provided the FEZ resident invested at least USD 5 million in fixed assets or FEZ's infrastructure. This 5-year tax holiday is a non-structural incentive. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Resident investors in FEZ. |
| **Type of Measure** | A tax holiday of 5 years |
| **Reason why this Measure is not part of the Benchmark Tax System** | The tax holiday translates into a 0% tax rate for 5 years which is a departure from the benchmark statutory rate of 12%. The tax measure is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 49 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 5.4 | *5.4* | *5.2* | *6.0* | *6.6* |

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| **18. Additional 1, 3 or 5-year tax holiday for additional US$1, 3 or 5M+ investments in Free Economic Zones (FEZs)** |
| **Description** | In case of additional capital investment of USD 1 million (USD 3 million, USD 5 million) FEZ residents are entitled to additional tax exemption period of 1 year (3 or 5 years, respectively) provided the average number of employees increased by 20 percent compared to the period before the additional investment was made. Again, this is a non-structural incentive. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Resident investors in FEZ |
| **Type of Measure** | Additional tax holiday  |
| **Reason why this Measure is not part of the Benchmark Tax System** | The tax holiday translates into a 0% tax rate for 3 – 5 years which is a departure from the benchmark statutory rate of 12%. The tax measure is therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 49 |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 0.0 | *0.0* | *0.0* | *0.0* | *0.0* |

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| **19. Tax exemption of income from international grants for research and development, and from special funds and grants approved by the government** |
| **Description** | This includes two tax expenditures which are claimed in the same cell:* There is a tax exemption of incomes of the legal entities received from the use of external financial sources within the projects and international grants related to the development of education and research.
* Moneys or grants are tax exempt if received from the special funds and/or financial resources in the form of a grant through programs approved by the Government, used according to their destination.
 |
| **Type of Tax Affected** | BIT  |
| **Beneficiaries** | * Entities engaged in the development of education and research.
* Beneficiaries of public grants or special funds.
 |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Income from whatever source should attract BIT at the flat rate of 12%. The non-taxation of these income accretions constitutes a tax expenditure. |
| **Legal Reference** | TC, Art. 20(z12)  |
| **Implementation, Objectives, and History** |  |
| Introduced in year: | Expiry date: |
| **Source of Data** | VEN12 tax data (2018) |
| **Estimation Method** | Microsimulation model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| 480.9 | *481.7* | *459.9* | *531.2* | *590.8* |

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| **20. Tax exemption of donations to homes providing foster care** |
| **Description** | Patrimony received by family-type children’s homes as a donation is tax exempt.  |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Family children’s homes |
| **Type of Measure** | Tax Exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Transfers/payments constitute income in the hands of the legal persons receiving the patrimony. They should attract BIT at the flat rate of 12%. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 20(i1) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2012 | Expiry date: |
| **Source of Data** | Not reported on the tax forms |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

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| **21. Tax exemption of aid received from charitable organizations** |
| **Description** | Aid received from charitable organizations – foundations and public associations – according to the provisions of the statute of these organizations and of the legislation is tax exempt |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | Beneficiaries of transfer payment from charitable organizations |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Transfers/payments constitute income in the hands of the persons receiving this. They should attract BIT at the flat rate of 12%. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 20(l) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Not reported on the tax forms |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

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| **22. Tax exemption of financial assistance received from the National Olympic and Sports Committee** |
| **Description** | There is a tax exemption for financial assistance received by the National Olympic and Sports Committee and by national professional sports federations from the International Olympic Committee, professional European and international sports federations, and other international sports organizations. |
| **Type of Tax Affected** | BIT |
| **Beneficiaries** | The National Olympic and Sports Committee and national professional sports federations |
| **Type of Measure** | Legislated tax exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under the comprehensive income concept, these “financial assistance” transfers/payments constitute income in the hands of the sports organizations receiving the aid transfers. They should attract BIT at the flat rate of 12%. The non-taxation constitutes therefore a tax expenditure. |
| **Legal Reference** | TC, Art. 20(t) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2001 | Expiry date: |
| **Source of Data** | Not reported on the tax forms |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

## Appendix 3: VAT Tax Expenditures Summary Sheets

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| **1. Reduced VAT rate applies to services and food supplied by hotels and restaurants** |
| **Description** | Reduced VAT rate applies to services and food supplied by hotels and restaurants. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Households and consumers purchasing hotel and restaurant food |
| **Type of Measure** | Reduced VAT rates changed frequently as follows: * 20% until September 2018
* 10% from October 2018 to August 2019
* 20% from September 2019 to April 2020
* 15% from May 2020 to December 2020
* 12% from January 2021 to September 2021
* 6% starting October 2021 (during the state of emergency and/or the state of emergency in public health)
 |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be taxed at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 of TC |
| **Implementation, Objectives, and History** | Fiscal support to the hotel and restaurant sector |
| Introduced with effect 1 Jan 2021: | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT Model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *27.3* | *79.7* | *38.7M* | *134.6* | *218.4* |

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| **2. Reduced rate applies to supply of bread and bakery products, milk, and dairy products** |
| **Description** | Reduced VAT rate applies for the supply of bread and bakery products, milk and dairy products containing less than 40% of fat supplied in the territory of Moldova |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | All households consuming this category of reduced VAT supply |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 of TC |
| **Implementation, Objectives, and History** | Fiscal support, to lower-income households by reducing expenditure on a basket of basic food items. |
| Introduced in year: 2001 (initial wording) - for bread and bakery products, for milk and dairy products, delivered on the territory of the Republic of Moldova;2020 (current wording) - for bread and bakery products (190120000, 190540, 190590300, 190590600, 190590900), for milk and dairy products (0401, 0402, 0403, 0405, 040610300 and 040610500 - with a fat content not exceeding 40% by weight), delivered on the territory of the Republic of Moldova, except for the food products for children which are exempt from VAT in accordance with Article 103 para. (1) p. (2); | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *258.1* | *282.8* | *275.0* | *335.0* | *369.1* |

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| **3. Reduced rate applies to pharmaceuticals** |
| **Description** | Reduced VAT rate applies for the supply of prescription drugs prepared in drugstores, containing authorized ingredients (pharmaceutical substances), as well as approved imported drugs supplied in the territory of Moldova. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | All households consuming this category of reduced VAT supply. |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of healthcare, consumers should not face an additional tax burden when being ill or falling sick. |
| Introduced in year: 2006 | Expiry date: |
| **Source of Data** | VAT declarations data |
| **Estimation Method** | Direct calculation; assumed to be used exclusively as final consumption or as input into exempt healthcare |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *27.7* | *30.1* | *29.2* | *33.0* | *36.3* |

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| **4. Reduced Rate applies to natural and LNG gases** |
| **Description** | Reduced VAT rate applies for the supply of natural and liquefied gases imported and supplied in the territory of Moldova (6% before 2013). |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | All households and industry consuming the reduced rate supply of natural gas for heating / energy purposes. |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 b) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of industries’ and households’ heating and energy consumption |
| Introduced in year: 2013 (6% before 2013) | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *222.6* | *244.0* | *237.2* | *289.0* | *318.4* |

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| **5. Moldovan crop, horticulture, and livestock production supplied at reduced rate of 8 %** |
| **Description** | Reduced VAT rate applies for the supply of natural crop, horticulture products, and livestock produced and supplied in the territory of Moldova. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Moldovan agricultural producers. |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 b) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of Moldovan agricultural sector and consumers. |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *1,017.0* | *1,114.9* | *1,084.2* | *1,320.7* | *1,455.0* |

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| **6. Reduced rate for beet sugar produced, imported, and supplied in Moldova**  |
| **Description** | Reduced VAT rate of 8% applies for beet sugar importedin Moldova. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Moldovan beet sugar producers and consumers of sugar. |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 b) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of Moldovan agricultural sector |
| Introduced in year: 2014 | Expiry date: |
| **Source of Data** | Customs data only |
| **Estimation Method** | Direct calculation; assumed to be used as final consumption and intermediate input into taxable production in same proportion as other agriculture. |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *5.4* | *5.5* | *5.3* | *6.0* | *6.6* |

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| **7. Reduced rate applies for solid biofuel used in the production of electricity** |
| **Description** | Reduced VAT rate of 8% applies for solid biofuel used in the production of electricity, heat and hot water supplied in Moldova, including raw material delivered for the purpose of producing solid biofuel in the form of agricultural and forestry products, agricultural and forestry residues, residues plant products from the food industry, wood residues, as well as heat produced from solid biofuel delivered to public institutions. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Making Moldova more self-sufficient in electricity generation from biofuels and securing thereby enhanced power generation capacity for all households and industry. |
| **Type of Measure** | Reduced VAT rate of 8% vs standard VAT rate of 20% |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. A reduced rate is therefore a TE. |
| **Legal Reference** | Art. 96 b) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of Moldovan energy self-sufficiency/power generation capacity |
| Introduced in year: 2017 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **8. The supplies of zero-rated goods and services—i.e., electricity to residential customers** |
| **Description** | Electricity supplied to residential customers is zero-rated or exempt from VAT with a deduction right of input VAT. Electricity supplied to businesses (mostly VAT vendors) is VAT-able at the standard rate of 20%. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | All households benefit from the consumption of residential power supply without VAT. |
| **Type of Measure** | Non-taxation – exempt supply with the right of deduction |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. The residential VAT zero-rating is a tax expenditure. Also, only exports should attract zero-rating so that supplies of exports can benefit from the deduction of input VAT to ensure the international competitiveness of Moldovan based exporters. |
| **Legal Reference** | TC, Art. 104 (b) |
| **Implementation, Objectives, and History** | Fiscal support, in particular to lower-income households by reducing expenditure on a major household expenditure category. |
| Introduced and effective on 1 Jan 2017 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** | All households, 1.08 million |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *499.4* | *547.3* | *532.2* | *648.3* | *714.3* |

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| **9. Zero-rating of supplies of goods and services consumed by foreign diplomatic mission and representative offices of international organizations** |
| **Description** | Based on reciprocity, the zero-rating of supplies of goods, services into the territory of the Republic of Moldova intended for official use by diplomatic missions and consular offices accredited in Moldova, by representative offices of international organizations accredited in Moldova, intended for personal use or consumption by the staff members of these diplomatic missions and consular offices. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Diplomatic and consular staff of foreign diplomatic missions or international organizations |
| **Type of Measure** | Domestic zero-rating of goods and services |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. This zero-rating represents a tax expenditure. |
| **Legal Reference** | Art. 1015 (1) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2020 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

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| **10. Zero-rating the supply of goods and services destined for technical and investment assistance projects conducted in the territory of Moldova** |
| **Description** | The supply of goods and services destined for use by technical and investment assistance projects conducted in Moldova is zero-rated.  |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Countries that finance the technical and investment assistance projects |
| **Type of Measure** | Domestic zero-rating of goods and services |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art. 104(c) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2008 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

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| **11. Exempting the supply of residential buildings, land and the lease of such buildings, land and land plots** |
| **Description** | The supply of residential buildings, land and the lease of such buildings, land and land plots is exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Prospective homeowners and tenants of residential buildings and land |
| **Type of Measure** | VAT Exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services, including the first sale of new residential dwellings bought by a natural person from a property developer, should attract VAT at the standard rate. |
| **Legal Reference** | Art. 103(1) of TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *233.3* | *257.1* | *249.3* | *304.2* | *336.3* |

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| **12. Exempting the supply of baby food and non-food baby products** |
| **Description** | Exempting the supplyof baby food and non-food baby products. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Households with babies and toddlers |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services, including residential dwelling, to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art. 103(2) of TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | Customs data |
| **Estimation Method** | Direct calculation; assumed to be used exclusively as final consumption or as an intermediate good into production of exempt commodities (e.g., education). |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *20.4* | *22.2* | *21.5* | *24.3* | *26.8* |

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| **13. Exempting the supply of educational services** |
| **Description** | The following supply of goods and services is exempt if provided by public and private education institutions, related directly to the educational process according to the Education Code; services for training children and teenagers in coteries, workshops, studios; services for children and teenagers using sports facilities; childcare services in preschool institutions; staff training and development services; |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | All individuals who are receiving education at various levels from registered educational institutions or operations. |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. Exemption for educational materials, services and equipment is thereby a tax expenditure. Many countries have a comparable tax expenditure for education-related supplies. The effect of an exempt supply is that the education supplier does not charge VAT on their outputs, nor can they claim input tax credits on expenses that are not directly related to education (for example, rent and utilities) they incurred to produce or distribute the education-related goods or services. |
| **Legal Reference** | Art. 103(5) of TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *912.9* | *1,004.1* | *974.7* | *1,188.6* | *1,312.4* |

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| **14. Exempting services and goods used for the care of the sick and elderly** |
| **Description** | Exempting from VAT the care services for sick and elderly people, as well as goods, from the charitable organizations, intended for preparing of packages for needy elderly persons and distributed to them gratuitously. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | The sick and the elderly |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova; this exemption for care-related supplies is thereby a tax expenditure. Many countries have a comparable tax expenditure for care-related supplies. The effect of an exempt supply is that the care supplier does not charge VAT on their outputs, nor can they claim input tax credits on expenses that are not directly related to caregiving (for example, rent and utilities) they incurred to produce the care-related goods or services. |
| **Legal Reference** | Art. 103(9) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 01.01.1998 – services;12.10.2000 – service and goods | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

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| **15. Exempting the supply of medical services and associated goods**  |
| **Description** | The following is exempt from VAT: The supply of medical services, except cosmetic services, air medical ambulance services; medical supplies, materials, articles, primary and secondary packaging used in the preparation and production of drugs authorized by the Ministry of Health, Labor and Social Protection, except for the ethyl alcohol, cosmetics, according to the list approved by the Government; wheelchairs (tariff heading 8713), orthopedic and prosthetic articles and apparatus (tariff heading 9021); treatment tickets (including those without accommodation) and holidays in spas, tourist service packages; the technical means used exclusively for purposes related to the prophylaxis of disability and the rehabilitation of disabled persons |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Persons receiving medical care and services. |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova; this exemption for health-related supplies is thereby a tax expenditure. Many countries have a comparable tax expenditure for health-related supplies. The effect of an exempt supply is that the healthcare supplier does not charge VAT on their outputs, nor can they claim input tax credits on expenses that are not directly related to health (for example, rent and utilities) they incurred to produce or distribute the health-related goods or services. |
| **Legal Reference** | Art. 103(10) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *787.6* | *864.0* | *839.8* | *1,023.3* | *1,128.1* |

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| **16. Exempting the supply of goods and services in canteens of educational and healthcare institutions** |
| **Description** | The following is exempt from VAT: products of own production of the student canteens, school canteens and canteens of other education institutions, hospitals and pre-school institutions, canteens belonging to other institutions and organizations from the social-cultural sphere financed partly or entirely from the budget, as well as canteens specialized in feeding the needy elderly people on the charitable organizations’ expenses. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Pupils and patients and hospital staff that consume canteen food |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova; this exemption for the supply of canteen food is thereby a tax expenditure. Many countries have a comparable tax expenditure. The effect of an exempt supply is that the supplier of canteen food does not charge VAT on their outputs, nor can they claim input tax credits on expenses. |
| **Legal Reference** | Art. 103(11) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| — | — | — | — | — |

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| **17. VAT exemption of financial services** |
| **Description** | The following is exempt from VAT: a) granting or transferring credits, credit guarantees, other warranties for cash transactions and crediting, including management of loans, credits or credit guarantees by creditors; b) transactions related to deposit accounts, including savings accounts, settlement and budget accounts, credit transfers, including through payment service providers, debt securities, checks and other financial instruments, except for income from the sale of goods in the event of credit default, from the rendering of information, consultancy and expertise services, from the purchase and rent of broker’s places at the stock exchange, from rental, from cash collection and delivery services to clients, from services of receipt, storage and transfer of values, cash, securities and documents, revenues from fiduciary operations of management the clients’ goods, from the liquidation of the assets of the bankrupt companies, fees for providing clients with regulatory documentation; c) import of banknotes and metal coins in national currency, banknotes in foreign currency (including for numismatic purposes) and other operations related to the circulation of national currency and foreign currency, as well as import of goods by the National Bank of Moldova and other deliveries to/by the National Bank of Moldova with these goods; d) transactions related to the issuance of shares, bonds, bills of exchange and other securities, incl. trading and brokering operations on the capital market, transactions of the entity keeping the records of the securities holders; e) transactions related to derivative financial instruments, forward, options agreements and other financial operations; f) services related to investment funds management and qualified non-state pension funds; and g) insurance and/or reinsurance operations, including brokering services of those. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Individuals and businesses using financial services provided in Moldova |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova, including financial services. This exemption is therefore a tax expenditure. With regard to life insurance, one should note that it is primarily a mechanism for long-term savings and estate planning rather than a good or service. Thus, exempting this type of insurance is part of the VAT benchmark tax base. |
| **Legal Reference** | Art. 103(12) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022**  |
| *-2.2* | *-2.0* | *-2.1* | *-2.5* | *-2.4* |

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| **18. VAT exemption of postal services** |
| **Description** | The supply of postal services, including the delivery of pensions, subsidies and indemnities is exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Households using postal services and recipients of pensions and subsidies. |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova, including courier or mail delivery services should attract VAT at the standard rate of 20%. This exemption is therefore a tax expenditure.  |
| **Legal Reference** | Art. 103(13) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *20.0* | *22.3* | *21.6* | *26.4* | *29.2* |

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| **19. VAT exemption of gaming and gambling services** |
| **Description** | The following supply is exempt from VAT: gambling services rendered by entrepreneurs engaged in the gambling business (including the use of gaming machines), except for the services the value of which is partially or entirely included in the stake or entrance fee, and other services rendered to participants or audience; lotteries. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | People placing wagers or participating in games of chance and lotteries— i.e., gamblers. |
| **Type of Measure** | VAT |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova, so the exemption for gaming activities is a tax expenditure. Gambling is structurally similar to property and casualty insurance and should be included in the benchmark tax base. The margin of the casino or lottery is calculated as the difference (recorded daily or over some other reasonable period) between the cash received for tokens or lottery tickets and the winnings paid out on the redemption of tokens or tickets. |
|  |  |
| **Legal Reference** | Art. 103(14) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *41.5* | *48.0* | *45.5* | *56.3* | *64.1* |

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| **20. VAT exemption for burial and crematorium services of human and animal bodies** |
| **Description** | The following supply is exempt from VAT: burial and incineration services of human and animal bodies, and related activities: preparation of bodies for burial or incineration, embalming and services provided by funeral furnishers; rental of funeral rooms; rental or sale of burial places; maintenance of graves; fitting out and maintenance of cemeteries; transportation of bodies; rituals and ceremonies provided by religious organizations; organization of funerals and incineration ceremonies, manufacturing and/or delivery of coffins, wreaths. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Families of the deceased |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova, so the VAT exemption of burial/crematorium services is a tax expenditure. |
| **Legal Reference** | Art. 103(15) |
| **Implementation, Objectives, and History** |  |
| Introduced in year:1998 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *5.5* | *6.1* | *5.9* | *7.2* | *8.0* |

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| **21. VAT exemption for utilities for the general public, rental of dwelling, water supply, sewage, heating, sanitation, elevators** |
| **Description** | The following supply is exempt from VAT: utilities for the general public: rental of dwelling, technical services for the residential buildings, water supply, sewage, heating, sanitation, elevators; |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Households |
| **Type of Measure** | VAT exemption |
| **Reason why this Measure is not part of the Benchmark Tax System** | The benchmark VAT base is all goods and services consumed in Moldova, so the VAT exemption of rental accommodation services is a tax expenditure. |
| **Legal Reference** | Art. 103(16) |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 1998 | Expiry date: |
| **Source of Data** |  |
| **Estimation Method** |  |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *113.3* | *124.7* | *121.0* | *147.6* | *163.0* |

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| **22. Exempting the supply of editing of books and periodicals as well as publishing service with respect to such books/periodicals, copyright services, and other related rights used in the editing of books and periodicals** |
| **Description** | Book production and periodical publications (except advertising and erotic ones) under tariff headings 4901, 4902, 490300000, 490400000 and 4905, as well as book and periodicals publishing services, and other related services, except those mentioned above are exempted from VAT deliveries. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Producers of books and periodicals, as well as consumers of these goods |
| **Type of Measure** | VAT Exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services, including books and periodicals, as well as publishing service to final consumers should be at the standard VAT rate. This exemption is therefore a tax expenditure. |
| **Legal Reference** | Art. 103(20) of TC |
| **Implementation, Objectives, and History** | Fiscal support, to lower-income households by reducing expenditure on using books and periodicals |
| Introduced in year: 2001 | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| *98.9* | *108.4* | *105.4* | *128.4* | *141.6* |

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| **23. Exempting the supply of fixed assets used as contributions to the owner’s equity of a co** |
| **Description** | Fixed assets used directly in the manufacture of products, the provision of services and/or the works performed, meant to be included in the statutory (share) capital are exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | The economic entities that include in the statutory (share) capital the fixed assets used directly in manufacturing products or providing services/works |
| **Type of Measure** | VAT exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art. 103 (1) 29) TC |
| **Implementation, Objectives, and History** |  |
| Introduced in year: 2014) | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **24. Exempting the supply of services performed by entities operating in the field of science and innovation technologies** |
| **Description** | The supply of services performed by entities operating in the field of science and innovation technologies is exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Entities operating in the field of science and innovation technologies |
| **Type of Measure** | VAT exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services, includingservices performed by entities operating in the field of science and innovation technologies, to final consumers should be at the standard VAT rate.  |
| **Legal Reference** | Art.103 (1) 27) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of science and innovation sphere in the Republic of Moldova in terms of facilitating the services provided by accredited organizations in this field. |
| Introduced in year: Until 2006, the exemption was applied for imported services | Expiry date: |
| **Source of Data** | National accounts data |
| **Estimation Method** | VAT model |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021**  | **2022 projected** |
| *1.6* | *1.8* | *1.8* | *2.2* | *2.4* |

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| **25. Exempting the supply of aircraft, helicopters and trains for passenger transportation, and related leasing services** |
| **Description** | The supply of aircraft, helicopters and trains for passenger transportation, and related leasing services is exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Entities that realize the import/supply of aircraft, helicopters and trains for passenger transportation and entities that offer related leasing services  |
| **Type of Measure** | VAT exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art.103 (1) (32) and (33) of TC |
| **Implementation, Objectives, and History** | Fiscal support in the field of passenger transportation, in particular to the domain related to aircraft, helicopters and trains  |
| Introduced in year: 1 May 2015 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **26. Exempting the supply of air medical services** |
| **Description** | Air medical ambulance services are exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | People receiving aerial medical services |
| **Type of Measure** | VAT Exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Medical services are essential ; it is a common exemption as it is justified. However, under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services, including these special ambulanceservices, should attract VAT at the standard rate. Consequently, it should be scored as a tax expenditure. |
| **Legal Reference** | Art.103 alin. (1) pct.10) of TC |
| **Implementation, Objectives, and History** | Fiscal support in support of healthcare, consumers should not face an additional tax burden when being ill or falling sick. |
| Introduced in year: 1 May 2015 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **27. Exempting the supply of samples the value of which does not exceed MDL22,000** |
| **Description** | The import of goods samples with the intrinsic value not exceeding euro 22 for an import shall be exempt from VAT without deduction right. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Sample importers and final consumers |
| **Type of Measure** | VAT Exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art.103 alin. (97) of TC |
| **Implementation, Objectives, and History** | Non-taxation of imported objects for testing purposes |
| Introduced in year: 01 May 2015 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **28. Exempting the supply (and importation) of tractors and other agricultural machinery, provided that these are not rented or leased during 3 years from the date of importation or acquisition** |
| **Description** | Agricultural tractors under tariff headings 870191100, 870192100, 870193100, 870194100, 870195100 and agricultural machinery under tariff headings 842449100, 842482100, 8432, 843320, 843330000, 843340000, 843351000, 843352000, 843353, 843359, 8436, 8437 and parts thereof under tariff headings 8432, 8433 and 8437 are exempt from VAT |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | Farmers and final consumers |
| **Type of Measure** | VAT Exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. The input VAT on agricultural implements could have been fully claimed by the vendor (farmer) that supplies agricultural produce at the standard VAT rate (no exemption). |
| **Legal Reference** | Art.103  |
| **Implementation, Objectives, and History** | Fiscal support for farmers and final consumers |
| Introduced in year: 1 January 2014 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **29. Exempting the supply of goods and services for no consideration for the promotion of trade in the amount of 0.5% of sales return for the previous year** |
| **Description** | Supply of goods and services made free of charge for the purpose of advertising and/or promoting. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | the economic entities that supply goods and services made free of charge for the purpose of advertising and/or promoting |
| **Type of Measure** | VAT exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art. 95 (2) c) TC |
| **Implementation, Objectives, and History** |  |  |
| Introduced in year: Law 108/2009 (in force 1 January 2010)- 0,1%; Law 288/2017 (in force 1 January 2018) – 0,5% | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
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| **30. Exempting property transferred as a result of a company reorganization** |
| **Description** | The property transferred as a result of a company reorganization is exempt from VAT. |
| **Type of Tax Affected** | VAT |
| **Beneficiaries** | The companies that realize the reorganization. |
| **Type of Measure** | VAT exemptions |
| **Reason why this Measure is not part of the Benchmark Tax System** | Under a modern VAT, the benchmark tax regime provides that all final consumption of goods and services to final consumers should be at the standard VAT rate. |
| **Legal Reference** | Art.95 (2) d) of TC |
| **Implementation, Objectives, and History** | The property is exempt becausethere is no transfer of ownership |  |
| Introduced in year: 2010 | Expiry date: |
| **Source of Data** | No data available |
| **Estimation Method** | Not estimated |
| **Number of Beneficiaries** |  |
| **Revenue Cost Reporting** | Million MDL |
|  | **2018** | **2019** | **2020** | **2021** | **2022 projected** |
| — | — | — | — | — |

1. The business income tax micro-simulation model is developed with the IMF’s support. [↑](#footnote-ref-2)
2. There can be cases when TEs increase revenue, for example a VAT exemption on the supply of an intermediate good that is used for a taxable supply, or an accelerated depreciation measure when investment in the eligible capital good is declining over time. [↑](#footnote-ref-3)
3. See for example IMF (2015), Redonda and Neubig (2018), and EC (2014). [↑](#footnote-ref-4)
4. This is the case when tax expenditure strengthens certain desired behaviors (e.g., making work pay type of measures), it is a modification of an existing tax provision (e.g., accelerated depreciation), or it allows administrative or compliance costs to be reduced. [↑](#footnote-ref-5)
5. Several IMF FAD capacity building missions were requested to assist the Tax and Customs Policy Unit to complete the first TEAR and to help strenghten local technical capacities in this area. [↑](#footnote-ref-6)
6. This first TEAR will only analyze TEs of the BIT, PIT and VAT systems. An analysis of TEs in other tax instruments will be developed over time. [↑](#footnote-ref-7)
7. This section builds on Heady, C. and Mansour, M., (2019). [↑](#footnote-ref-8)
8. A comprehensive income tax is defined by a rate schedule that applies to an individual’s income from all sources (that is, wages, capital income and capital gains, rental income, business income, gifts, inheritances, and so on). [↑](#footnote-ref-9)
9. Note that when businesses in the middle of supply chains are exempt from VAT it can mean higher total VAT revenue liability further along the supply chain. A negative tax expenditure can result, because VAT on purchases of exempt items cannot generally end up as an input tax credit. [↑](#footnote-ref-10)
10. This is not a persuasive argument: high-income households end up reaping most of the benefits of such policies, because they consume more (in absolute terms) than low-income households. [↑](#footnote-ref-11)
11. In practice, no country has a true comprehensive income tax, in that some incomes are exempt or taxed at lower rates than the normal schedule. The guidance here takes a pragmatic approach and defines the benchmark relative to what a PIT most closely resembles, or what it is intended to do as a policy objective. [↑](#footnote-ref-12)
12. If corporations are taxed in less standard ways—for example, through a cash-flow tax or if the CIT has an allowance for corporate equity, the issues above are handled differently. For instance, total expensing of capital input would be part of the benchmark under a cash-flow tax, and not a TE providing a timing advantage. The deduction for equity under an allowance for corporate equity would also be part of the benchmark, and not a TE for equity financing. [↑](#footnote-ref-13)
13. Most high-income countries, and increasingly other countries, are introducing rules to limit interest expenses (i.e., thin capitalization rules) and other costs, such as management and service fees, particularly when such costs accrue to nonresident parties related to the payers. [↑](#footnote-ref-14)
14. The design characteristics of a revenue-productive and neutral VAT include a comprehensive base that includes in principle all goods and services; using only a few and well-targeted exemptions; adopting a single positive rate; imposing no tax burden on capital goods and other business inputs; providing for an adequate threshold to exclude small and micro businesses; and maintaining effective credit and expeditious refund procedures to deal with excess net credits. [↑](#footnote-ref-15)
15. Countries who have adopted such modern broad-based VAT regimes are New Zealand, Australia, Singapore, and South Africa. [↑](#footnote-ref-16)
16. A better option to provide tax relief to the poor is to have a few exemptions that are well-targeted at consumption items that are predominantly consumed by poor households. [↑](#footnote-ref-17)
17. Some modern VATs address the difficulty of taxing financial services under a VAT by taxing all fee-based financial services and limit the exemption to margin fees. Examples of services thus captured include: currency exchange transactions; transactions involving checks, letters of credit, debt, equity or participatory securities; and some credit transactions. In support of this approach a government may work with institutions in the financial sector to develop lists of taxable, exempt, and zero-rated services rendered by banks. This way a country may raise more VAT revenue from financial services than the traditional EU exemption approach, although it necessitates apportioning input tax credits. Hiving off fee-based financial services into a separate entity may ease the compliance burden in this respect. New Zealand, on the other hand, zero-rates financial services supplied to VAT-registered entities and exempts such services when supplied to consumers and non-registered entities. However, this approach is likely to be too complex for most tax administrations. Similar problems arise with respect to insurance companies. Value added of insurance companies is defined as the difference between premiums collected and benefits and claims paid out. Most modern VATs tax insurance companies on their value added or net margin by imposing VAT on all premiums and allowing input tax credits for claims paid out, while exempting life insurance which embodies a considerable savings element. A number of African countries have adopted the New Zealand approach to taxing property and casualty insurance. For similar reasons, reinsurance does not have to be exempted. However, an exemption from the VAT might be made for health-related and life insurance. [↑](#footnote-ref-18)
18. NGO activities may include religious or philosophical institutions; organizations with aims of a political, trade-union, religious, patriotic, philosophical, philanthropic, or civic nature; and cultural services. [↑](#footnote-ref-19)
19. Since the supply matrix is diagonal — i.e., each industry produces only one commodity — this is equivalent to copying the shares of each commodity that is exempt and transposing it into activity space. [↑](#footnote-ref-20)
20. It may seem counterintuitive to use the commodity’s taxable share rather than the exempt share, but it is the taxable share because it is on taxable intermediate inputs that tax is paid when producing an exempt commodity. There are no tax revenues from exempt or zero-rated intermediate inputs used in the production of exempt commodities as no direct tax is paid and so the deductibility of input tax credits is irrelevant. This is an example of interaction effects in VAT tax expenditures. When more intermediate inputs into an exempt commodity are made exempt, less tax revenue is recovered through unrecoverable embedded VAT and the closer that commodity becomes to being effectively zero-rated. [↑](#footnote-ref-21)
21. i.e. the right of ownership over the constructed building or plantation located on another person's land and right of use over that land. [↑](#footnote-ref-22)