

## SUSTAINABLE TAXATION SOLUTIONS RELATED TO FISCAL CONTROL

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### **Abstract**

This research analyzed the implications of fiscal control in the efficiency of the fiscal system of the Republic of Moldova, by exploring the conceptual, methodological and practical aspects of fiscal control and how it can influence the performance of the national fiscal system. The importance of an efficient tax system and its continuous evaluation was emphasized, highlighting the role of tax control in identifying and correcting deficiencies in tax administration. The ways in which the results of fiscal control can contribute to improving the performance indicators of the national fiscal system were also analyzed.

**Keywords:** tax control, efficiency, tax system, tax administration

The Republic of Moldova faces various economic and fiscal challenges, including tax evasion, corruption, and a lack of transparency in tax administration. In this context, streamlining the tax system through rigorous and efficient tax control is essential for ensuring the accurate and effective collection of tax revenues, reducing tax evasion, and improving the overall business climate. Additionally, Moldova faces pressure from international partners and financial institutions to enhance its tax system and align with international standards in taxation and financial transparency. In this regard, research on the implications of tax control for optimizing the fiscal system has become a priority for the Moldovan government and tax authorities. Moreover, in the global context of digital growth and rapid technological changes, tax administration and control must keep pace with new challenges and opportunities.

Tax control, essential for monitoring and enforcing tax legislation, primarily aims to ensure accurate tax collection, securing the revenue necessary for public services and projects. Through various forms and processes, it not only improves the efficiency and transparency of the tax system but also fosters a trusting relationship between the state and taxpayers, ensuring fair revenue collection and promoting a healthy economic environment.

The tax system of the Republic of Moldova is a dynamic mechanism, continuously evolving and adapting to market demands (Carașciuc 5). In its initial stage, during the first years of Moldova's independence, the foundational laws regulating tax authorities were established, including (Castraveț 358):

- Law on the State Tax Service (No. 876-XII of January 22, 1992)
- Law on the Fundamentals of the Tax System (No. 1198-XII of November 17, 1992)
- Law on the Procedure for Collecting Taxes, Fees, and Other Payments (No. 633-XIII of November 10, 1995).

These laws set the fundamental economic, legal, and organizational principles for establishing the tax system. They defined types of taxes, the competencies of state bodies, taxpayer rights and obligations, and the responsibilities of tax authorities, also providing protections for taxpayers.

A significant milestone in the tax system's evolution was on December 2, 1992, when the Law on Corporate Income Tax (Ciubotaru 267) came into force. This law imposed taxation on all economic agents, including legal entities, regardless of ownership structure or legal framework, covering foreign-invested enterprises, associations, and international organizations. Agricultural enterprises, except for those of an industrial type, were exempted from income tax on profits from the production and sale of agricultural goods and from selling products derived from the industrial processing of their raw materials.

Another noteworthy law, adopted in April 1992, was the Law on Foreign Investments. It provided income tax exemptions for joint ventures with foreign investments. These tax incentives were later simplified, allowing joint ventures to benefit from the same basic exemptions as domestic enterprises.

The Law on Value Added Tax (VAT) was enacted in November 1994, introducing an indirect tax applied to the added value generated at each stage of production, sales, service provision, and work execution.

Both enterprises and individuals, including foreigners engaged in commercial activities, were subject to this tax, with exceptions for individuals with annual incomes below 400 minimum wages and budget-funded institutions. Initially set at 20% of taxable transactions, the tax rate could be adjusted by Parliament during the approval of the following year's budget (Criclivaia 122).

At the end of December 1994, Parliament adopted the Law on Excise Duties (Criclivaia 119). The taxpayers were individuals and legal entities producing and selling excisable goods, such as alcoholic beverages, tobacco products, and precious metal items. Beginning in 1995, excise duties were set as fixed amounts per unit of goods, replacing the previous percentage-based rate on sales prices. Goods produced domestically and intended for export were exempt from excise duties.

In December 1992, the Law on Land Tax was adopted, along with taxation methods (Cuzimina 54). Taxpayers were individuals and legal entities holding land titles, possession, or usufruct rights. Initially, tax rates were low and differentiated based on soil fertility and agricultural use. From 1995 onward, agricultural enterprises began paying a unified land tax, which also included previously separate property and road taxes. Subsequently, land tax rates increased. According to a decree by the President of the Republic, property tax became mandatory for all legal entities with productive and non-productive assets, as well as for citizens owning buildings and constructions.

The Law on Road Tax, adopted in June 1993, introduced fees for the use of highways, various automotive structures, vehicle purchases, and other means of transport, along with a transit tax and a special road tax (Gherman 84). In 1996, the Law on the Road Fund came into effect, addressing inequalities related to the "equal distribution of road tax" among vehicle owners and non-owners alike.

The second stage in the evolution of the tax system involved the implementation of Titles from the Tax Code and corresponding enforcement laws. On January 1, 1998, Title I "General Provisions" and Title II "Income Tax" (Law No. 1163-XIII of April 24, 1997) were enacted, along with the "Law for the Enforcement of Titles I and II of the Tax Code" (Law No. 1164-XIII of April 24, 1997). These laws laid the foundation for codifying existing tax regulations, establishing definitions used in fiscal legislation and the scope of income tax for both individuals and legal entities. Later, Title III of the Tax Code, "Value Added Tax" (VAT), was adopted and came into effect in July 1998 (Law No. 1415-XIII of December 17, 1997), along with the "Law for the Enforcement of Title III of the Tax Code" (Law No. 1417-XIII of December 17, 1997), containing regulatory norms for VAT application.

To consolidate excise-specific regulations, Title IV of the Tax Code, "Excises" (Law No. 1053-XIV of June 16, 2000), and the "Law for the Enforcement of Title IV of the Tax Code" (Law No. 1054-XIV of June 16, 2000) were adopted, setting standards for excise taxation.

For the centralization of tax regulations regarding other taxes and fees, additional regulatory frameworks were established, as illustrated in Figure 1.

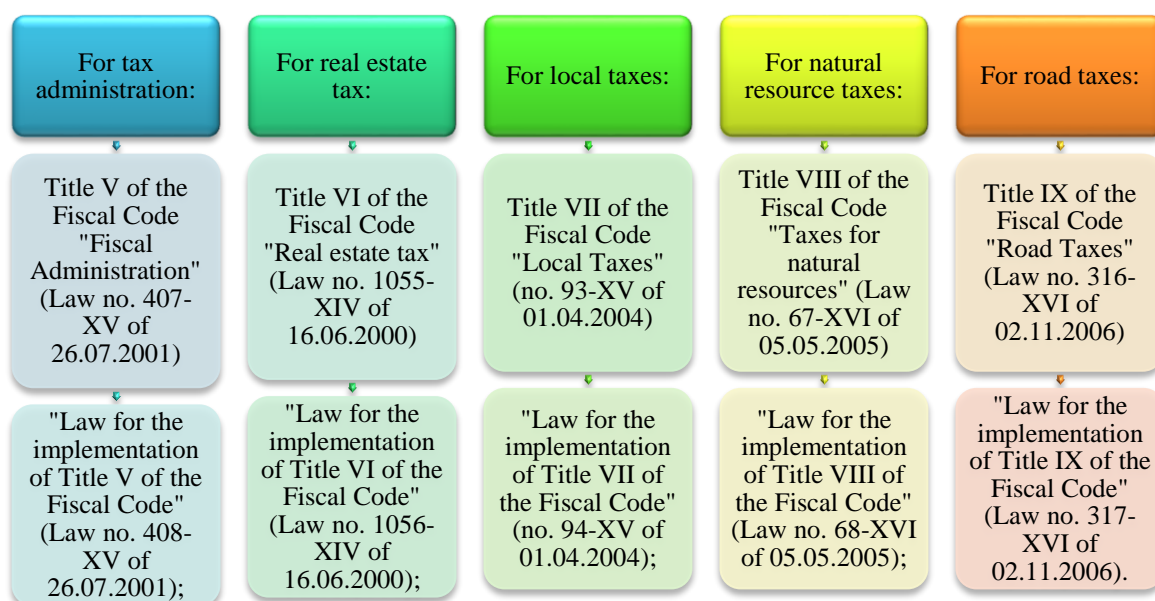


Figure 1. Centralization of Tax Regulations for Other Taxes and Fees

The third stage in the evolution of the tax system focuses on enhancing tax administration mechanisms with the help of advanced information technology. This phase is currently ongoing, aiming to improve interaction, operations, and control within the tax administration (Codul Fiscal). A relevant example of this is the introduction of the "Electronic Declaration" service, designed to simplify reporting for individuals. This service allows all citizens to file tax reports electronically using an authentication electronic signature. Through this tool, individuals can create, verify, and submit income declarations online, eliminating the need to visit tax offices in person. The service is free for individuals, and the electronic signature is valid for five years, exclusively for this service, and is not recognized in other legal contexts (Vragaleva 451).

In terms of international cooperation, the State Tax Service participates in two international organizations: the Coordinating Council of Heads of Tax Services of CIS Member States (CCCSF) and the Intra-European Organisation of Tax Administrations (IOTA). Bilateral treaties have been signed to facilitate collaboration and mutual assistance in tax law compliance, principles for indirect tax collection on exports and imports, and conventions to avoid double taxation and prevent tax evasion related to income and property taxes.

The activities of control bodies operate in accordance with the Constitution, laws on establishment, competencies, principles of activity, and other regulatory acts governing control in Moldova. The legal framework governing fiscal decentralization in Moldova is provided by the Law on Local Public Finances (2003, last amended in 2013) and the Law on Administrative Decentralization (2006, last amended in 2012) (Codul Fiscal).

The primary state control bodies with the authority to inspect the economic activities of enterprises in the Republic of Moldova are (Vragaleva 451):

#### **I. The State Tax Service**

This includes the Principal State Tax Inspectorate under the Ministry of Finance, which serves as the highest hierarchical body, the State Tax Inspectorate for the Gagauzia Territorial Unit, and local state tax inspectorates in municipalities and districts (in accordance with Government Decisions No. 1736 of December 31, 2002, No. 786 of June 30, 2003, and No. 1208 of October 20, 2006).

The state tax inspectorates operate as legal entities in line with current legislation and the Regulation on the Operation of the State Tax Service Bodies, approved by Government Decision No. 1736 on December 31, 2002.

The primary responsibility of the state tax inspectorates is monitor compliance with tax legislation, ensure accurate calculation, and timely and full payment of taxes and other legally mandated payments (Vykliuk 303). These tax bodies, responsible for tax administration and organization, carry out their duties in collaboration with public authorities and are accountable for any non-compliance in the exercise of their functions and rights, in accordance with the provisions of the Tax Code, the Public Service Law, and other relevant laws.

#### **II. The Center for Combating Economic Crimes and Corruption**

This is a specialized body focused on law enforcement, targeting economic-financial and tax-related crimes, as well as corruption. It operates under the Law on the Center for Combating Economic Crimes and Corruption No. 1104-XV of June 6, 2002. The Center operates according to principles of legality, respect for fundamental human rights and freedoms, and opportunity, employing both public and covert methods and resources. It combines both individual and collective leadership approaches and collaborates with other public authorities, civic organizations, and citizens.

The responsibilities of the Center for Combating Economic Crimes and Corruption include:

- Preventing, detecting, investigating, and halting economic-financial and tax violations and offenses
- Combating corruption and protectionism; countering the legalization of illicitly acquired assets and money laundering

To implement the provisions of Article 7, paragraph (1), letter e) of Law No. 1104-XV of June 6, 2002, the Regulation on Conducting Economic-Financial Audits was developed and approved by Government Decision No. 253 of March 10, 2003. This regulation establishes the organization and conduct of economic-financial audits, the procedure for preparing reports, and the method for utilizing findings resulting from these audits.

**III. The Labor Inspection** is a regulatory body whose activities are governed by the Labor Inspection Law No. 140-XV of May 10, 2001. Operating under the Ministry of Labor and Social Protection, the Labor Inspection is a central public administration body headquartered in Chişinău. It conducts state control activities to ensure compliance with labor legislation and other regulations across enterprises, institutions, and organizations, regardless of ownership type or legal form, as well as within central and local public

administration authorities. Under its authority are regional labor inspectorates, which operate in each second-level administrative-territorial unit and do not hold separate legal status.

The Labor Inspection's responsibilities include (Vragaleva 453):

a) Ensuring compliance with legislative provisions and other regulations related to individual and collective labor contracts, workbooks, working and rest hours, wage conditions, work discipline, and labor protections for minors and women.

b) Issuing approvals, as per legal requirements, for the manufacturing of technical equipment prototypes and personal protective and work equipment.

c) Investigating workplace accidents in accordance with government regulations.

d) Coordinating employee training, education, and information activities on labor relations and workplace safety issues.

**IV. The State Ecological Inspectorate** is a regulatory body operating in accordance with Government Decision No. 77 of January 30, 2004. It serves as the public authority responsible for conducting state ecological control to ensure compliance with environmental laws and regulations, under the supervision of the Ministry of Ecology and Natural Resources.

The Inspectorate's responsibilities in the field of state ecological control include (Vučković 129):

- Conducting state control and oversight over compliance with environmental protection laws and regulations regarding the use of natural resources by economic agents, regardless of ownership type, departmental affiliation, or by individuals, including foreign nationals.

- Supervising compliance with ecological standards and requirements, as well as guidelines, recommendations, and norms related to the use of natural resources, and standards for handling hazardous substances and waste.

- Overseeing environmental protection standards in site selection, project design, and construction of facilities, adoption of new technologies, installation of new equipment, and ensuring that economic agents properly utilize funds designated for environmental protection.

- Monitoring the implementation of environmental protection measures by economic agents, including the payment of environmental pollution taxes and fees.

- Enforcing environmental laws and regulations related to the manufacturing, storage, transport, use, neutralization, and disposal of hazardous products, substances, and associated waste.

- Conducting state ecological expertise on project documentation for the construction, expansion, reconstruction, reuse, modernization, repurposing, conservation, demolition, and decommissioning of facilities in accordance with regulatory acts and guidelines.

The State Fiscal Service is focused on the continuous improvement and refinement of fiscal administration processes and procedures. In line with its development objectives, as of December 31, 2021, the State Fiscal Service operates through an optimized structure that includes:

- The Central Apparatus: Responsible for methodological aspects, planning, support, management, and the administration of large-scale taxpayers.

- 8 General Fiscal Administration Directorates: These are divided by geographic regions, including North, South, Central, Chişinău Municipality, arrears, anti-fraud, operational fiscal control, and post-operational fiscal control.

- Regional Taxpayer Service and Service Delivery Directorates: These provide services to taxpayers at the local and regional level.

**Fiscal control** is an essential tool for the state to monitor and ensure compliance with fiscal legislation by taxpayers. Regardless of the organizational structure or methods used, the primary objective of fiscal control is to ensure the correct collection of taxes and fees owed by taxpayers, in accordance with legal provisions. It serves as a means through which the state secures the necessary revenues to meet public needs and support public services and projects.

Through various forms and processes of fiscal control, the aim is not only to identify and correct potential tax irregularities but also to improve the efficiency and transparency of the fiscal system. Fiscal control is not only a taxpayer obligation but also an essential function of fiscal administration, with the goal of ensuring the application and respect of fiscal laws in a fair and efficient manner. Through fiscal control, the state exercises its authority in the fiscal domain and contributes to maintaining a healthy economic activity while combating tax evasion. It is crucial that this process is conducted in accordance with the principles of fairness, transparency, and respect for taxpayers to ensure correct revenue collection and foster a relationship of trust between the state and citizens.

The evaluation of the effectiveness of a fiscal system involves a series of fundamental concepts and approaches, originating from economic theories and principles of fiscal justice. The basic principles such as

"ability to pay" and "benefit or equivalence" form the foundation of the conceptualization of the fiscal system and its effectiveness evaluation.

The concept of "ability to pay" suggests that those with higher incomes should contribute more to the fiscal system, while the "benefit or equivalence" concept proposes a fair distribution of the tax burden based on the benefits or services provided by the state to taxpayers.

The fiscal system is analyzed and broken down into essential components, including the tax system, fiscal apparatus, and fiscal legislation—interdependent elements that form the core structure of the fiscal system, which must be designed and implemented in a way that fulfills multiple essential functions.

The fundamental functions of the fiscal system include mobilizing budgetary resources, stimulating economic activity, promoting social inclusion and reducing inequalities, as well as ensuring the correct enforcement and collection of taxes and fees. Through fiscal policies and control mechanisms, the fiscal system can contribute to the economic and social stability of a country and improve the well-being of citizens.

In the early years of independence in the Republic of Moldova, essential laws were established that regulate the activities of fiscal bodies, including the law on the State Fiscal Service, the law on the basics of the fiscal system, and the law on the collection of taxes, fees, and other payments. The main state control bodies in Moldova include the State Fiscal Service, the Center for Combating Economic Crimes and Corruption, the Labor Inspection, and the State Ecological Inspectorate, each with distinct responsibilities, acting according to the relevant legislation to ensure compliance with rules and standards in their respective areas of competence.

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