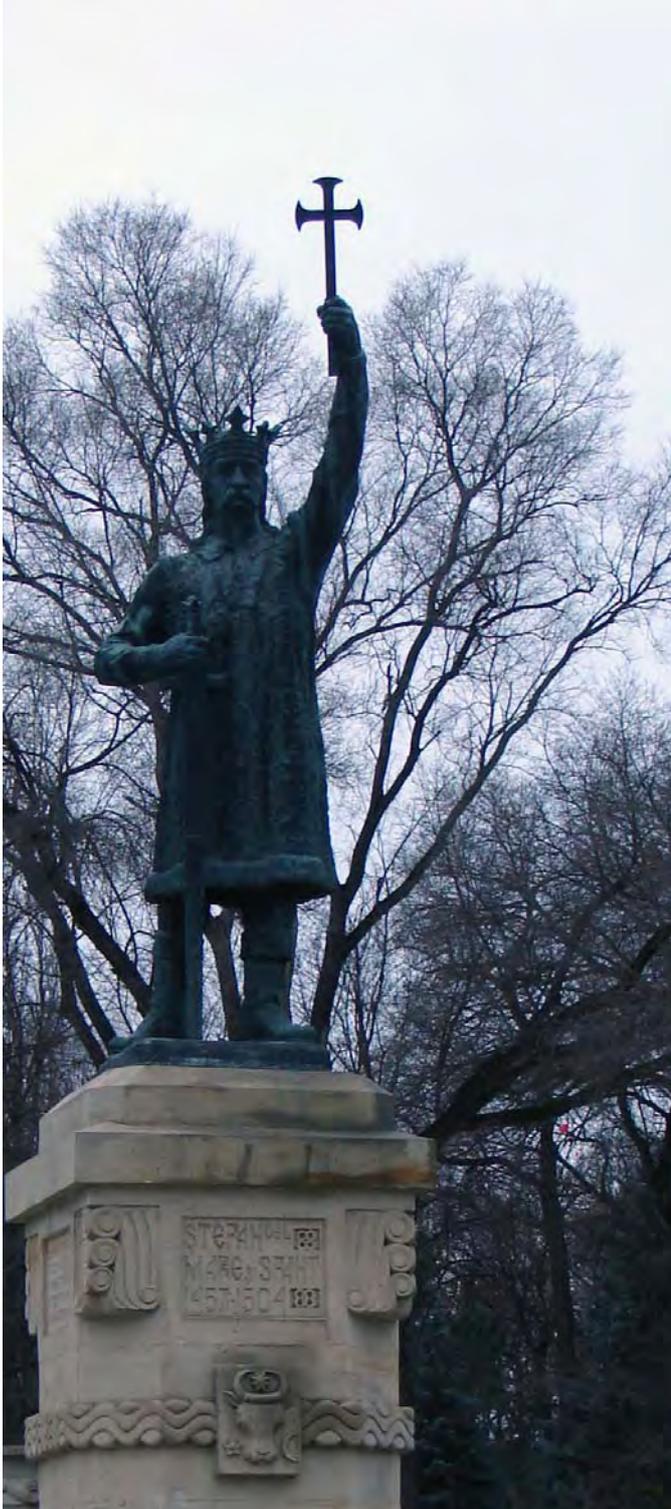




USAID | **BRTA**
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Business Regulatory & Tax Administration Reform Project

Workplan

October 1, 2007 - September 30, 2008

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Workplan narrative

The mandate

The USAID/Moldova *Business Regulatory & Tax Administration Reform* (BRTA) Task Order was executed by USAID and DAI (for the DAI/Nathan Group) on September 26, 2007. The BRTA Project seeks to improve Moldova's business enabling environment by reducing the administrative burdens on the private sector, streamlining tax administration, curtailing opportunities for corruption, and improving the access for citizens and businesses to government information. The BRTA Project places considerable emphasis on promoting public awareness and support for policy reforms to create a better business environment. It also stresses the creative deployment of information and communications technology (ICT) to facilitate transparent data management, streamlined administrative processes, and enhanced private-public sector partnerships.

Over the past few years, Moldova has embarked on a program of comprehensive structural reforms to complement prudent macroeconomic management. These efforts aim at creating a vastly more hospitable environment for business creation and enterprise growth. They form part of a broader transition strategy to orient the country toward Europe. The EU-Moldova Action Plan, signed in February 2005, sets the stage for accession discussions by laying out specific steps to create a market economy that can compete in Europe. The principal mandate for the Business Regulatory and Tax Administration Reform (BRTA) Project is to promote that reform agenda, interfacing closely with other assistance efforts.

Support for the full implementation of the Guillotine II Law with its emphasis on a participatory approach through the National Working Group and revitalized Regional Working Groups will be central to the Project. A number of other activities complement this focus to create comprehensive support to efforts to modernize the country's business enabling environment. In addition, the BRTA Project will provide *targeted* support for the modernization of country's tax administration system, in cooperation with other assistance efforts, such as that provided under the Moldova Governance Threshold Country Plan Project (MCC/USAID) or the UNDP support for the implementation of e-Moldova. While the presentation here maintains a degree of separation between the regulatory and tax administration reform side, we treat the Project as an integral approach to policy reforms that will contribute to raising the competitiveness of the Moldovan economy, and make it more attractive destination for investment.

On the regulatory reform side, the Project will pursue three main tasks—i) reduce the administrative burden on business of interfacing with government institutions, ii) ensure that government institutions have the kind of information justified by their mandates for policy oversight and service delivery, and iii) make the process of policy oversight and service delivery more efficient and transparent to businesses and individual citizens to facilitate broader participation and greater effectiveness. On the tax administration side, the BRTA Project will support efforts to streamline the delivery of tax services and make them more user-friendly. It will also address selected aspects of tax policy as they affect the ability of the State Tax Service to work more efficiently, and the uses of the information that it gathers for other institutions.

Objectives and scope

This document outlines the workplan for the *Business Regulatory & Tax Administration Reform* (BRTA) Project for the period October 1, 2007 through September 30, 2008. It also sketches

objectives and activities for the remainder of the Project beyond this 12-month period in outline form. The underlying approach is that of a “rolling workplan;” this workplan—and subsequent editions—will be subject to review and revision after a period of six months, (for this version, in March 2008). That revision will provide the foundation for a workplan for the next twelve months, covering the period from April 2008 through March 2009. This review and revision will involve key stakeholders from the Moldovan private and public sector, as incorporated in the strategic management approach outlined below.

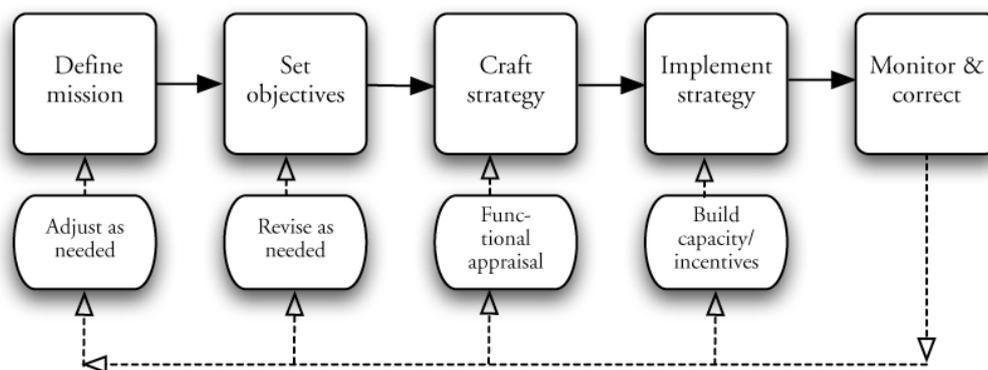
Strategic directions

A strategic management approach

The lessons of assistance to promote regulatory and other policy reforms are clear: lasting policy reform ultimately comes from within. The task of technical (and other) assistance is to support and guide, but “leave the driving to others.” This philosophy has governed USAID’s successful projects in Moldova, in particular the BIZPRO Project, and related activities. It stresses effective participation and leadership from our counterparts in line with the overall strategic goal - the emergence of an efficient and competitive economy.

To encourage participation and leadership, the BRTA Project will employ *strategic management principles*. They outline a continuing participatory process of defining mission(s), establishing objectives, crafting and implementing a particular strategy, and monitoring to correct specific issues along the way, as illustrated in Figure 1. As a rule, the Project team will not necessarily go through this process in an explicit and formal manner, but the principles form a frame of reference.

Figure 1: The steps in strategic management



One of the key elements in this process is the integration of *monitoring* as part of the overall activity, at all levels. Monitoring therefore becomes less a reporting obligation, but emerges as a critical management tool for the implementation of each activity and set of activities. The application of the Performance Monitoring Plan (PMP) therefore forms an integral part of this workplan.

Strategic priorities for Year 1

The ultimate vision that guides the BRTA Project is the creation of an enabling environment to foster enterprise growth and competitive performance. That vision entails a fundamental transition of the relationship between government and business, as well as individual citizens. The government will need to demonstrate that benefits to society as a whole *justify* the regulatory and administrative costs to business that affects price competitiveness. The government also has to provide support to ensure that Moldovan entrepreneurs can compete on non-price factors; that they can meet and keep up with global standards.

Many forces block such a fundamental transition—the vested interests of bureaucrats and economically powerful interests, reverence to socialist ideals of government-business-citizen interaction, a poor appreciation of the real costs of undermining competitiveness, and a lack of actual know-how for making the necessary changes. These are powerful forces, and the transformation demands adequate incentives and sustained support with realistic objectives. It also demands flexibility in responding to emerging opportunities and needs.

For the first year of the BRTA Project, we have identified the following strategic priorities:

- Establish an institutional structure to make it easier for businesses to obtain required licenses, both at the national and at the regional/local level, including the creation of a Technical Working Group on Licensing, and focused support for local one-stop shops;
- develop a workable concept of a “national one-stop shop” that reflects a consensus of key institutions, and draft the normative acts needed to translate that concept into reality;
- work with the State Tax Service to develop applications that will make full use of existing databases, allow for improved access to tax data, and improve the overall efficiency of tax administration;
- design and help implement a strategy for gaining wider recognition for Moldova’s efforts to forge a more supportive business environment, in particular in terms of *Doing Business* indicators;
- build on past efforts to promote a greater understanding of and support for efforts to create a more hospitable business environment.

These strategic directions allow for adequate flexibility, but ensure that the BRTA Project will realize significant progress in the first year.

Startup and cross-cutting activities

Substantive startup activities

During the initial period (October through December), the Project will conduct initial discussions with counterparts to assess needs and identify broad priorities, and lay the foundations for joint workplans with selected institutions. These institutions include in particular the State Tax Service (STS), the Ministry of Economy and Trade, as well as the prospective participants in a national one-stop shop (OSS) system. Some of these meetings are in fact already reflected in this workplan.

Substantive activities also include coordination with the tax administration reform activities under the MCC-funded Moldova Governance Threshold Country Program (MGTCP). Based on consultations

with USAID and the staff of the MGTCP project, we have agreed on a joint program that presents a unified US government-funded support to the modernization of the tax administration in the Republic of Moldova. Since the MGTCP activities are already farther along and are scheduled to end in 2009, the BRTA Project will initially provide consultations and support as needed on selected aspects of the tax administration reform initiative. The BRTA Project will initially focus on other areas, such as support for the development of applications that make better use of the web-accessible database based on Informix, and would then become engaged more fully on selected tasks where MGTCP has taken the lead at the beginning of the second year of the Project (FY 09).

Staff: D. Greer¹, C. Erickson, M. Gallagher, P. Bilinsky, U. Ernst

Preparation of a procurement strategy for information technology

Information technology is scheduled to play a major role in the activities of the BRTA Project. On the regulatory reform side, simplification, integration and access to shared databases in the context of the national drive toward e-Moldova will be essential to lighten the burden of state regulation on business. In tax administration, streamlining of procedures and better use of existing databases call for targeted use of information technology. The initial report is designed to lay out the criteria for IT procurements, both software and hardware, for counterpart agencies. The strategy document will also address the issue of obtaining the concurrence of USAID's Information Resource Management (IRM) department. It bears mention that the initial strategy document will be limited. It will not be a comprehensive and detailed plan for the procurement of IT solutions but rather a template to be used, in consultation with counterparts, for developing the comprehensive and specific IT solutions to be provided.

The draft of the IT procurement strategy will be submitted in mid-January.

Lead: S. Rabii, V. Goian, S. Iuncu, A. Liu

Administrative startup activities

Administrative startup activities include recruiting of Moldovan staff, the approval and mobilization of our Chief of Party (replacing the original candidate who had to move back to the US for a serious medical emergency), the selection, lease and setup of the Project office, and related tasks.

The administrative startup activities also include the preparation of the draft workplan (this document) and the installation of DAI's proven management information system, TAMIS (Technical Assistance Management Information System). Finally, we will also start the development of the BRTA Project web site, to be implemented under a local subcontract by an IT provider.

Staff: C. Erickson, D. Kane, A. Cebotar, and DAI Home Office staff.

Survey of business perceptions

Both design and monitoring considerations underlie the necessity of a business survey. We have a number of contact points with private sector representatives, and consultation with the private sector

¹ David Greer, the Chief of Party for the BRTA Project, will be involved in all of the tasks. The presentation therefore does not show him separately under each task. Similarly, in many instances, the BRTA Team will draw on the services and advice from short-term technical assistance (STTA). Where the STTA has already been identified, they are shown, but in other instances, the selection of appropriate STTA will depend on substantive progress on the task.

will be a central point in our approach to the Project. Yet we do not have a basis for exploring issues and concerns on a more representative basis. We therefore propose to conduct a sample survey to elicit views and perspectives from business representatives from around the country.

Another reason for this survey is to establish a baseline for Project monitoring and evaluation. The indicators proposed in our Performance Monitoring Plan (PMP) draw to a large extent on readily available data, especially estimates from the World Bank's *Doing Business* series and the World Economic Forum's *Global Competitiveness Report*. However, there are a number of measures to be collected through a proposed survey.

This task will include the development of an appropriate questionnaire and the specification of a sampling strategy. Once these have been approved by USAID, we expect that the actual implementation will be contracted out to a local survey operation who will be responsible for the administration of the survey, data entry and quality control. The Project will then take over to do the analysis of the survey.

One option to be explored is the combination of this survey with the annual *Cost of Doing Business* (CODB) survey conducted with funding from the World Bank's Competitiveness Enhancement Project by the Ministry of Economy and Trade. The subject matter may not be exactly the same, but the CODB survey addresses similar issues, and it may be beneficial for both sides to pool resources to focus on specific issues and to increase the sample size to allow for more reliable estimates, and cross-region comparisons.

Lead: E. Osmochescu, TBD (Outreach), U. Ernst

Regulatory reform

Result 1.1: Improved business practices

Guillotine II implementation and regulatory impact analysis: The Guillotine II Law provides for the mandatory application of regulatory impact analysis (RIA) of existing and new legislation. We expect that the World Bank-funded RIA Project working with the Ministry of Economy and Trade will provide much of the support. However, we expect that there are a number of areas where the Project can and should provide specific assistance for the development of normative acts, and in particular outreach activities.

Lead: E. Osmochescu

Develop strategy for improving performance on *Doing Business* indicators: This task includes the careful analysis of the way in which indicators and subindicators for the 2008 edition of the World Bank's *Doing Business* series on Moldova compare with similar measures for selected comparison countries, such as Romania or one or more of the Baltic countries. The goal is to identify at exactly what steps in the process Moldovan entrepreneurs encounter delays or costs that seem out of proportion with comparison countries. These steps then need to be analyzed further to identify the causes of the disproportionate delays and costs— whether existing laws or regulations, or administrative practice. The results of this detailed analysis will guide a strategy for tackling these specific steps and their associated costs and delays.

Lead: U. Ernst

Assess regional variations in obtaining construction permits: To our knowledge, there has been no comprehensive evaluation of the impact of the regional one-stop shops (OSSs) on the ease of doing business, although there have been some reviews of the performance of these OSSs. The BRTA Team will address one particular aspect of OSS impact by exploring possible effects in the context of

construction permits. Moldova ranks low in the World Bank's Doing Business indicator related to "Dealing with licenses." The definition of this indicator relates to the cost and time involved in constructing a warehouse and obtaining utilities connections. Moldova's ranking in this measure is based on the experience in Chisinau, where the OSS, established in July 2006 provides a single physical location of representatives of departments in the Mayor's Office. Applicants receive consultation and submit applications there, which are then taken to the respective department for decision. However, obtaining a construction permit involves six utility enterprises, in addition to the six departments in the Mayor's Office. There is no direct interaction with these enterprises, and the applicant has to deal with them directly. We believe that the OSSs that provide construction licensing services, involving all public authorities involved in construction authorization and applying IT technologies (such as the ones in Cahul or Orhei) are likely to demonstrate a different pattern. We intend to use the *Doing Business* approach and apply it to at least two regional OSSs that provide construction licensing services in order to indicate what may be possible under the same set of basic normative acts. If the comparison suggests that the OSS services do in fact reduce costs and delays for business, we would have a basis for promoting best practices and respective changes to the legislation. If, however, they do not show any significant differences, it would raise the question whether these services are sufficiently well organized. If the latter result obtains, we will have a basis to suggest improvements to these services.

Lead: R. Ladus, U. Ernst

Conduct a regulatory impact analysis of national licensing requirements: This analysis can be viewed as a subset of the RIA analysis of existing legislation stipulated under the Guillotine II Law. It will involve a systematic analysis of the benefits and costs associated with the legal requirements for licensing under the Law on Licensing. This particular analysis will focus on the licenses granted by the national Licensing Chamber, but other license-issuing bodies may be included.

This activity will also include an assessment of the implications of amendments to the Law on Licensing adopted under the umbrella of Guillotine II.

Lead: R. Ladus, E. Osmochescu, U. Ernst

Promote the formation of a Technical Working Group on Licensing and support its operations:

The BRTA Team is developing the notion of establishing a Technical Working Group on Licensing (TWGL). This Working Group will review the license/authorization process and provide recommendations for the streamlining of this process. It will guide the implementation of these recommendations in developing normative acts and in administrative and IT procedures. Specifically, the TWGL will explore options for streamlining access to required documents for granting licenses at the national level, and to provide improved access to national databases for permits and authorizations at the regional level. The initial focus will be on the overall mission, potential members, and operating structure.

Lead: R. Ladus, U. Ernst

Identify options for process re-engineering of licenses granted at the national level (as needed):

If the RIA determines that there are certain licenses where the benefit/cost ratio is low, or whether particular features—such as the required travel to Chisinau—imply unreasonable costs, we would proceed to developing options for improving overall benefit/cost ratios. One of the options that is likely to be explored is to provide services in the regions for businesses to apply for the national licenses, but it is difficult to predict at this point whether these options are legal, whether they interfere with the modus operandi of the Licensing Chamber, or how many businesses would actually be affected.

Another option to be explored further is the linkage between license activities and other databases maintained by the central government. For example, the Licensing Chamber (or any other license-granting authority) may be able to obtain specific certificates or other documents from existing databases, rather than insisting that the applicant submit them in person. Such a step would also provide for future renewals (CNAM or cancellations if the license holder no longer meets a key requirement).

Lead: R. Ladus, C. Aaron, M. Reisman, TBD (Regulatory Reform Implementation), U. Ernst

Provide assistance to CNAS related to data sharing: Both the national social security operation, *Casa Nationala de Asigurari Sociale* (CNAS), and the national health insurance scheme, *Compania Nationala de Asigurari in Medicina* (CNAM), are likely key participants in developing a national OSS system, starting with improvements in shared database use that would allow access to different institutions and to lower the requirements for reporting and document preparation by both individuals and businesses. The tasks here will be concerned with providing the assistance to get CNAS ready to provide the data and services needed and relevant for a shared database. Initial contacts have suggested that there is a need for developing a document handling system, but that must be covered under a broader process re-engineering framework.

Lead: E. Osmochescu, V. Rusu, TBD (RRI)

Provide assistance to CNAM related to data sharing: At the present time, CNAM appears content with the setup and operations they have established, in particular with their interaction with the STS. We have therefore agreed with the Director General to postpone any further exploration of specific needs until steps are taken toward an improved shared database (national OSS). Ideally, a unified database will provide access provisions, to enable the staff of the CNAM to obtain real-time data on individual contributions and interact more effectively with its clients and providers.

Lead: E. Osmochescu, TBD (Regulatory Reform Implementation)

Develop a program for strategic partners in the regions and execute it: The strategic partners in the regions, such as Chambers of Commerce and Industry (CCI), served as strategic partners in the implementation of BIZPRO, and they have expressed their eagerness to play a similar role on the BRTA Project. We have held meetings with the heads of the regional CCIs, and are expecting further inputs from them as to the kind of cooperation they are interested in. We expect to hold some event for them, like a seminar or roundtable, on roughly a monthly basis. They have also indicated an interest in the revitalization of the "hot lines" that have apparently performed a useful function under BIZPRO auspices. However, experience suggests that the effectiveness of such provisions depends on both a well-trained staff manning these hot lines, and an institutional support structure. The BRTA Team will explore this option in the context of providing support for the creation of an Ombudsman's Office for regulations and inspections. BIZPRO also supported the Regional Working Groups (RWG) on regulatory reform. The RWGs provided support to the guillotine process and played an important role in public awareness on and buy-in to the regulatory reform philosophy and initiatives..

Lead: R. Ladus, S. Rabii

Assist regional One-Stop Shop operations: We expect to be working closely with the Project's strategic partners in the regions, in particular the OSSs, to improve their performance and provide additional services. We have therefore scheduled a particular roundtable devoted to the spread of innovation among the group of regional OSSs under the current legislative and regulatory conditions, that is, without a legal basis for these operations. There appears to be interest in the revitalization of the hot lines and other activities, but our assistance is ultimately intended to go beyond to focus on the development of a legal framework.

Lead: R. Ladus, S. Rabii, TBD (RRI)

Contribute to the development of a more transparent quality infrastructure: While there are a number of efforts under way to provide greater transparency to the review process for technical regulations and related public sector initiatives, our understanding of the current system suggests that the mechanisms in place for public-private partnerships in vetting and adopting technical regulations and standards could be improved. Moreover, there is also the issue of using mechanisms to facilitate participation to provide improved access to existing regulations and standards.

Lead: E. Osmochescu, R. Ladus, S. Rabii, TBD (RRI)

Result 1.2: Simplified business reporting requirements

Conduct RIA for National Bureau of Statistics reporting requirements: The notion for these tasks is to take measures of the costs and time required to meet the reporting requirements, and conduct an analysis of the benefits and costs to determine where the major problems lie. The Foreign Investors Association (FIA) has conducted a survey among its members and calculated the time and cost requirements. Our business survey will attempt to do the same on a more representative basis to provide a basis for the cost side. On the benefit side, we expect to explore the actual uses, beyond the legal requirements.

Lead: TBD (RRI), S. Rabii, R. Ladus, A. Kornis

Provide assistance to National Bureau of Statistics: The NBS is expected to play a major role in the development of a shared database at the national level. It has now become part of the UNDP support project for the promotion of e-Moldova. We expect to be working with the NBS, and other donor efforts, to examine the data requirements, both under the Law on Statistics and the Law on Accounting and explore the organizational and institutional implications. Based on that assessment, we will work with the NBS and others to develop options for reducing the reporting requirements to elements to those with higher benefits.

Lead: TBD (RRI), S. Rabii, R. Ladus, A. Kornis

Develop and disseminate outreach materials for users and businesses: Once reporting requirements have been modified as a result of the preceding task, the Project will engage in supporting the outreach efforts to inform businesses of the new requirements.

Lead: E. Osmochescu, TBD (RRI), TBD (Outreach)

Explore options for the establishment of an Ombudsman Office for reporting and inspections: Part of the problem with the hot lines has been the absence of a formal institutional home. In the same way that we believe that the creation of an Ombudsman Office for tax administration will be useful, an Ombudsman Office regarding business reporting and inspections could also provide the institutional infrastructure for coordinating and guiding the work of the regional hotlines.

Lead: R. Ladus, E. Osmochescu, TBD (RRI)

Result 1.3: Improved access to government information

Conduct needs assessment and recommend options for improving access: As part of our projected work with the regional OSSs and the survey of businesses, we expect to identify the demand for access to information in a more precise manner. We will array possibilities for providing this access in the regions (through the OSSs, the TTIs, the territorial offices of the Registration Chamber or of the CNAS, or other options, like banks) to explore how access to information can be

improved. This step also includes the development of a Business Portal with a description of regulatory requirements for business operation.

Lead: TBD (RRI), S. Rabii

Support improved functioning of Ministry of Justice database of normative acts: The Ministry of Justice has developed a powerful web-accessible database of all normative acts (Register of Legal Acts) that makes it easy to track particular issues from a legal perspective. In initial discussions with the authors of this database, we have identified some expansion options, and may pursue these options further. One of the potential expansions concerns the addition of local regulations which impact business, even with the limited regulatory powers of local administrations. Others include possible upgrades to interactive services from the central register, including the posting of draft regulations as well as informative notes, the collection of comments, and the integration of these comments into the final version of a law or act. Access to this register would be provided through one or more of the options analyzed in the preceding task.

Lead: E. Osmochescu, S. Rabii

Result 1.4: Ensure effective monitoring of reforms and public awareness

Assess options for monitoring of regulatory reforms: In this task, we will explore options for developing interactive web solutions to engage stakeholders, encourage their participation, and ensure their inputs are integrated into final texts and solutions. It is clear that this task will involve education of the public sector partners to be more forthcoming in their deliberations, and to accept and integrate any comments provided by businesses or members of the public. It will also involve education of the public that their contributions will make a difference. A part of this endeavor are efforts to energize trade and business organizations, and providers of legal and audit services, to see that they have a role to play in marshaling their membership's and clients' views and serving as a vehicle for channeling comments to the public sector. Other options to be explored include the role of revitalized Regional Working Groups in the process of monitoring regulatory reform.

Lead: TBD (Outreach), A. James, W. Cleary, A. Mattern

Develop "reform branding" and public awareness options: The Project approach will be guided by a strategy that calls for the branding of reform. Our approach will build on the success of the branding program implemented by BIZPRO/Moldova in 2005 and 2006. This campaign will be integrated with the Project's overall branding strategy.

Lead: TBD (Outreach), A. James

Tax administration reform

Background issues

A number of recent events affect the work that BRTA is to accomplish in the area of tax system reform. First, the recent enactment of the tax amnesty bill, which can allow the STS to write down uncollectible debt, has urgent implications for the way the STS manages tax accounting and imposes new requirements for the taxpayer current account. Second, the recent zero-rating of taxes on business incomes has implications for work that would be related to the implication of both corporate and personal income taxes, especially with regard to the simplification of the personal income tax on sole proprietorships and partnerships. Third, the IMF has established a series of requirements related to the reporting of taxpayer obligations that require greater detail in the taxpayer current account

system. Finally, the MGTCP has begun its operations and to avoid duplication of effort and to develop synergies, we will work closely with MGTCP. These are discussed as follows.

Tax amnesty: The recent amnesty on outstanding debt to the STS by taxpayers makes more urgent the application of improved methods and systems related to tax debt management, enforced collections, and the structure of tax accounting and the taxpayer current account. The STS has specifically requested BRTA Project assistance in the area of tax debt management as well as enforced collections. Since the MGTCP will be working in these two areas, BRTA assistance will be limited to support and to provide policy and legislative drafting assistance, as may be required.

The STS Director, Mr. Puscuta has already requested assistance of BRTA tax lead advisor, Mr. Viorel Rusu, to help draft legislation regarding establishing procedures for the cancellation of tax debts.

Zero-rating of business income taxes: Zero-rating is applied not only to the corporate income tax, but also to entrepreneurs, sole traders and partnerships that currently pay taxes on business income as part of the personal income tax system. We believe that this new zero-rating scheme obviates the need to develop a simplified personal income tax methodology for these taxpayers. However, there may be a requirement to adjust the patent system. We do not include patent taxation in our workplan, but we stand ready to provide assistance in developing a new patent tax policy should such assistance be needed and requested.

New IMF requirements: The IMF recently delivered a set of new standards for the STS's systems of tax accounting and taxpayer accounts. These standards directly affect proposed work in improving the taxpayer account. What is now required is no longer simply a matter of migrating the Foxpro-based application to the Informix-based application, but rather implementing improvements to tax accounting in order to include the vintage of debt (rather than merely provide balances). The same is true for the taxpayer current account, which now must not only provide taxpayer balances, but also the dates that debts were incurred.

Cooperation with the Moldova Governance Threshold Country Program: Assistance under the BRTA Project to the State Tax Service will be closely coordinated with the Moldova Governance Threshold Country Program Support (MGTCP). In essence, the BRTA will initially focus on those elements with a longer gestation period, but will consult with MGTCP on their assistance in the areas of management information systems and taxpayer services. Where necessary we will work with them on specific activities, and will continue support when MGTCP closes down in 2009. We will present a unified US Government funded assistance to the STS in line with the National Strategic Plan of that institution.

Assessment of the impact of new policies and legal changes

As discussed above, the new changes in tax law introduced toward the end of 2007, namely the zero-rating of business income tax and the tax debt amnesty, have implications for this workplan. The potential implications have been highlighted here, but have not yet been fully investigated. One of the first technical products of the BRTA tax team will be an analysis of these legal changes and their implications for the tax system, for doing business, and for BRTA future work.

Lead: V. Rusu

Tax benchmarking and IT strategy exercise

The BRTA Team will undertake a comprehensive *Tax System Benchmarking* exercise. This exercise is designed to provide a comprehensive diagnostic of the tax system, revenue and compliance performance, and administrative aspects, to lay the groundwork for developing specific objectives

and crafting the appropriate strategy. This initial diagnostic will also include an inventory of current assistance efforts, including that provided by the Dutch government. It will build on the work already underway under the MGTCP Project.

The benchmarking activity will also include as an annex a proposed IT strategy that is needed to bring about the reforms of tax administration needed to achieve BRTA and MGTCP objectives and results, but specifically within the context of the STS overall tax administration modernization strategy.

Lead: V. Rusu and V. Goian

Result 2.1: Simplified tax reporting requirements

The BRTA Team will assist STS and others to reduce tax-reporting requirements by identifying important bottlenecks that taxpayers face vis-à-vis STS. Once a target of opportunity is identified, the BRTA Team will review the respective reporting process, the related legal and regulatory requirements, and the necessary forms and time for completion, and will then work with the STS and taxpayers to propose new methods for simplifying the process.

There are a number of tax code regulations that impede business operations without improving compliance. Several of these will be investigated during the course of BRTA. Some of these include:

- review Tax Code Chapter 5 on sanctions,
- review unclear decisions on issues, such as tax on rental income,
- review still unclear regulations for application of the tax amnesty,
- review inadequate controls on audits and other tax inspections not just by STS but also by others,
- review other specific legislative and regulatory issues regarding tax compliance and tax administration that are touched upon in other parts of this workplan.

BRTA will conduct an overall review of the various tax code and regulations and decisions and make recommendations that can be immediately implemented.

Lead: V. Rusu and J. Hook

Simplify declarations process: Simplification of the tax administrative burden on Moldovan businesses can improve their competitiveness. The BRTA Team will work on one area that is in urgent need of reform: delivering reports to the tax authorities. Currently STS must provide a time-stamped copy of each tax declaration, which causes congestion and delays. BRTA will work with others to address these problems.

The BRTA staff has already been involved in discussions with STS and the contractor who is implementing the e-declarations system. If the e-declarations proceeds as currently conceived, the need for hard copy tax declaration receipts may be obviated. However, it is our understanding that fewer than 1,000 enterprises out of a total of 35,000 company tax filers are likely to be included in the e-declarations process for the first few years. The BRTA staff will continue to engage on this topic, provide recommendations as needed, and possibly investigate other means of reducing taxpayer compliance requirements with respect to the issuance of hard copy documentation receipts.

Lead: V. Rusu

Move toward a common accounting system for VAT invoice reporting: The BRTA Project will investigate the feasibility of allowing firms to provide their input purchase data, drawn from accepted

accounting software, as a means of transmitting this information to STS. This will greatly reduce the tax filing compliance costs of business, while also reducing the work required of the STS.

At present, the planned introduction of the e-declarations process is envisaged to include the electronic transmission of the VAT attachments. If this is properly executed this will greatly ease the work required of taxpayers in terms of their VAT reporting. The BRTA team will keep engaged in this area to ensure that the best solutions are implemented and provide technical input where required.

Lead: V. Rusu and V. Goian

Microsimulation model to examine options to improve efficiency of tax coverage: A restructuring of the income tax might remove thousands of individual taxpayers from the rolls, reducing the administrative burden on employers, employees and the STS with a negligible impact on revenue generation. Several regional neighbors have taken this step in recent years, including Russia, Slovakia, and Estonia.

Our analysis indicates that by raising the tax threshold for personal income taxation, and removing the bottom marginal tax rate of 10 percent, about half of the current stock of personal income tax subjects would be removed from the tax system, at minimal loss of government revenue. This would greatly reduce business compliance costs while also spurring the creation of new jobs at the lower end of the economic spectrum, and it would allow STS to redirect its resources to more productive activities.

BRTA will develop a personal income tax microsimulation model to simulate the personal income tax system. This model will facilitate the analysis and discussion of applying scenarios of marginal tax rates, deductions, and other, major tax treatments, to indicate effects on total revenue and revenue by taxpayer income level.

Lead: V. Rusu

Simplify tax regime for small business: Explore simplifications for taxes other than income tax, depending on the implementation of the new tax provisions starting in January 2008. A preferred method for simplifying the personal income tax on small businesses is to apply a single flat rate on total business revenues. This rate would be lower than the average personal income tax rate since no deductions for business expenses would be included. Small businesses should be allowed to opt into the simplified regime or to continue to apply the more complicated regime based on full cost accounting. However, small businesses should not be allowed to switch from the more complicated regime in one year to the simplified regime the next. Once a small business has opted for the complicated regime, it should be required to continue in that regime.

Since the small businesses also will enjoy zero-rating, the above tax scheme would only be applied when the zero rate is again increased. In the meantime, however, we would propose that small business merely be required to report their total receipts and not have to account for their business expenses.

Other options for incorporating the “hard-to-tax” business population within the context of simplified compliance requirements will also be investigated.

Lead: V. Rusu

Result 2.2: Improved taxpayer services

Create and equip call center: The MGTCP Project will take the lead in this area. The BRTA Team will remain involved through regular consultations and targeted support as needed, and will provide direct support in years 2 and 3.

Assist in establishing a Tax Ombudsman Office: The BRTA Project will explore the notion of creating the position of a taxpayers' ombudsman for the STS. The ombudsman would serve as a sympathetic ear for the taxpayers, especially during audits or coping with requests for information from the tax authorities. The ombudsman would be added to the declaration of Taxpayer rights on the STS web site.

Lead: V. Rusu

Improve the taxpayer certification process: With the Informix-based current account application, issuing multi-region based taxpayer certifications will be simple. The BRTA Project will work with the STS and the TTIs to develop a clear, controlled and accountable certification process that allows immediate issuance of certifications in the TTI offices.

It must be made clear, for the taxpayer certification process to operate properly the STS needs to be able to issue appropriate current account information for taxpayers. The development of the web-accessible, Informix-based current account will be developed with assistance from BRTA, as well.

Lead: V. Goian

Support creation of a Tax Advisory Council: The STS Strategic Plan calls for the creation of an Advisory Council made up of members of the private sector, tax experts and accountants, and broader civil society. Such a council will be extremely useful in the modernization processes that BRTA will help to support in STS. The council will go beyond merely being useful to STS's modernization process, however. It can also serve as a forum for airing broad concerns that the business sector has with regard to the treatment it gets from STS. It can also help STS in its quest to provide fair treatment to all and at lower compliance costs.

The BRTA Project will provide assistance to the establishment of this council that will be extremely useful in the modernization process of the STS.

Lead: V. Rusu

Taxpayer notification service: Taxpayer notifications usually includes a wide array of applications and sub-processes. For the BRTA first year workplan, however, our efforts will focus on enabling an automated mechanism for issuing tax document receipts to taxpayers, which would eliminate the need for taxpayers to wait in line for the emission of official receipts. This process change will require both legal and regulatory changes, since the physical receipts are required in the Tax Administration Code, as well as changes in the business process of issuing receipts and the computer application for issuing these electronically. In addition, BRTA is investigating the feasibility of also making these receipts available at the OSS.

Leads: V. Rusu and V. Goian

Provide assistance to improving STS web site: The BRTA Project will provide assistance as needed.

Lead: V. Rusu, S. Rabii

Result 2.3: Improved effectiveness of the audit program

Risk-based audit selection: Any effective tax audit system must be based on the appropriate selection of cases for audit. The appropriate selection of tax audit cases must be based on an impartial, risk-based selection system. Such a system selects audit cases based on a large and ever-changing vector of risk factors. Factors, such as deviations from norms of such elements such as the

ratio of total sales to exempt sales, profits to revenues, or imports to domestic value-added, weighted by company size and adjusted for industrial sectors.

The STS currently has such a system, but it is outdated, based on the old Foxpro database, slow, and not easy to apply and adjust on a regular basis. BRTA will provide assistance in the assessment of current methods, design of new methods, design of requirements for the computer application for this new methodology, and will procure the programming and installation of the new risk-based audit selection system.

The work of MGTCP Project in complements BRTA's efforts in two aspects. First, MGTCP will develop a case management system for audit tracking, once audit selection has take place. Second, MGTCP is developing a means for accessing and managing external data, especially from financial reporting, which can be added in 2009 to the risk profiling capabilities for audit purposes. BRTA's work in the second project year will attempt to capitalize on this new data-sharing opportunity.

Lead: V. Goian, and M. Grampert

Coordinated tax audits from all agencies: Tax audits are conducted by a number of agencies, not just by STS. For instance, taxpayers, especially businesses, are subject to tax audits by STS territorial administrations, the Ministry of the Interior's Department for Fighting Economic Crimes, the Center for Combating Economic Crime and Corruption, the National Social Fund, National Social Insurance Office, and by local governments' tax offices. This multiplicity of uncoordinated audits and inspections impedes normal operations of lawfully operated enterprises and is widely perceived to be fraught with opportunities for inspectors to demand payoffs.

BRTA will investigate the possibilities of centralizing all tax audit control within the MSTI. BRTA will assess the overall situation and propose legal and procedural methods to reducing the number of audits that taxpayers are subjected to, while also ensuring greater control over what happens in the audits that are conducted.

Lead: V. Rusu

Result 2.4: Improved tax appeal procedures

The main mission of any administrative appeals office should be to reach a fair and impartial solution of tax controversies without litigation, and foster voluntary compliance and public trust in the integrity and efficiency of the STS. The objectives the BRTA Project's work in the area of appeals are to encourage legitimate appeals, ensure that appeals are impartially decided, and reduce the number of appeals that move to the judicial system.

Depending on outcomes, BRTA could develop a case management program for appeals, which taxpayers could access either online or at the OSS. Case management development is unlikely to initiate until the second project year.

Lead: V. Rusu, A. Jacobs

Result 2.5: Tax fraud prevented

The BRTA Project will assist in reviewing the activities of the Division of Internal Control and Anti-Fraud and make recommendations on its structure, methods, and training needs. The Project will also provide assistance to strengthen this process toward greater transactional transparency, reducing opportunities for unscrupulous taxpayers to evade the tax system, and taxpayer vulnerability to unscrupulous tax officers.

Lead: V. Rusu, A. Jacobs.

Summary of assistance in the area of Tax IT

The BRTA Team will provide assistance to the STS in developing its IT strategy, as an adjunct to the benchmarking exercise. In addition, BRTA will provide assistance in designing, developing and implementing several specific applications, along with their new processes and procedures. The applications that we will implement include:

1. taxpayer current account,
2. taxpayer notifications (mainly document receipts)
3. taxpayer certifications,
4. appeals case management, and
5. risk-based audit selection.

Some of these systems will be available on both the web as well as in OSS. Risk-based audit selection will be entirely internal to the STS.

Our methodology can be seen schematically as follows:

Process analysis

 Requirements definition

 Tender preparation

 Procurement

 Supervision of implementation, including training.

