Collecting and Paying Taxes in Moldova
A Tax Benchmarking Exercise

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Of course, all errors, omissions, and lapses in judgment that remain are solely the responsibility of the authors of this report.

Acronyms

CCCEC	Center for Combating Economic Crimes and Corruption
CEE/SEE	Central and Eastern/South East Europe
CMS	Case Management System
CNAM	National Mandatory Medical Fund
CNAS	National Social Insurance Fund
CPU	Central Processing Unit
CST	Center for Special Telecommunications
FSU	Former Soviet Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
LTU	Large Taxpayer Unit
MDL	Moldovan lei (the national currency)
MMF	Mandatory Medical Fund
MSTI	Main State Tax Inspectorate
NBS	National Bureau of Statistics
PIN	Personal Identification Number
PRGF	Poverty Reduction and Growth Facility program
SB	State Budget
STI	State Tax Inspectorate (Service)
TAU	Territorial Administrative Unit
TTI	Territorial Tax Inspectorate
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value-added Tax

Executive summary

This study begins with a review of tax performance in Moldova, both over the recent past and in comparison with a very large number of countries around the world. The next section compares internationally recognized practices in tax administration operations and organization with those prevailing in Moldova, based on the benchmarking methodology.[1] This is followed by a review of the major operations of the STI and its organizational setup and the legal framework for taxation. Finally, we provide a number of recommendations both to improve STI efficiency in tax collection and to reduce the burden of tax compliance on taxpayers, thereby improving the enabling environment for private sector development as well as enhancing revenues. Annex A provides a graphic presentation of a large number of tax performance and structural indicators that were used to provide the overall performance assessment.

The Moldovan tax system has a number of excellent features. The collection of the Value-Added Tax (VAT) is very high compared to other countries with similar tax rates. There is a modern, comprehensive tax code, integrating tax administration and substantive tax legislation in a single, accessible source.

The State Tax Inspectorate follows many of the internationally recognized best or good practices, such as operating a Large Taxpayers Unit to service the countries largest taxpayers. The overall tax administration is organized along functional rather than tax-type lines. Innovations have been implemented in the STI that have drawn attention from foreign tax officials, eager to learn of the new methodologies implemented in Moldova. Primary among these is the requirement for VAT payers to report records for all fiscal invoices as an annex to each monthly VAT declaration, a methodology that although quite burdensome administratively for both the taxpayer and the STI, has resulted in a very high rate of VAT compliance. The STI actively pursues strategic planning and has a wide array of statistical information that it uses to monitor and improve its performance. STI staff, while not highly remunerated, are relatively well educated and have a high degree of professionalism. STI staff actively pursue tax fraud and maintain an operating taxpayer current account. To better serve the public and its own administrative purposes, the STI has been developing an e-declaration system, which, however, is far behind in implementation, mainly due to factors external to the STI. Leadership is seeking to improve its operations and its organization, and is still in the process of a reorganization of its headquarters, the Main State Tax Inspectorate (MSTI).

[1] More on the tax benchmarking methodology and datasets is available at: http://www.fiscalreform.net/index.php?option=com_content&task=view&id=16&Itemid=37. This dataset has been updated and the new data are used in this report. New data are from 2005 to 2007.

Despite these advantages, the STI continues to face both old challenges and new. While VAT collection is very efficient, personal income tax and corporate income tax collections have not been very efficient. While we have not been able to assess the efficiency of the collection of other taxes, mainly due to the lack of methodology and comparative data, we have reviewed all the major operations of the STI and can provide some ideas that we hope will improve the application of these other taxes, as well.

The team has performed a benchmarking exercise, based on international experiences and recognized and accepted best and good practices. Data were gathered from existing reports, such as the STI Strategic Plan, IMF consulting reports, from STI statistical reports, from numerous interviews with STI staff and leadership, observation of STI facilities, and interviews with a number of taxpayers. Based on this exercise, the team has compiled a number of recommendations that can help to improve STI performance and interaction with taxpayers.

Recommendations are found in the final section of this study and cover items, such as: developing a number of tax applications for web-accessibility, such as the taxpayer current account; improving the taxpayer appeals process and reducing internal conflicts of interest; reorganizing the Territorial Tax Inspectorates (TTIs) and reducing their number; reallocation of staff in the TTIs toward greater focus on audit (inspection), collection, and taxpayer services, while at the same time reducing face-to-face contact between STI staff and taxpayers; review of the structure of the personal income tax to reduce taxpayer compliance effort and tax administration burden; and, strengthening audit through the development of new, risk-based audit selection and audit management, including case management, systems.

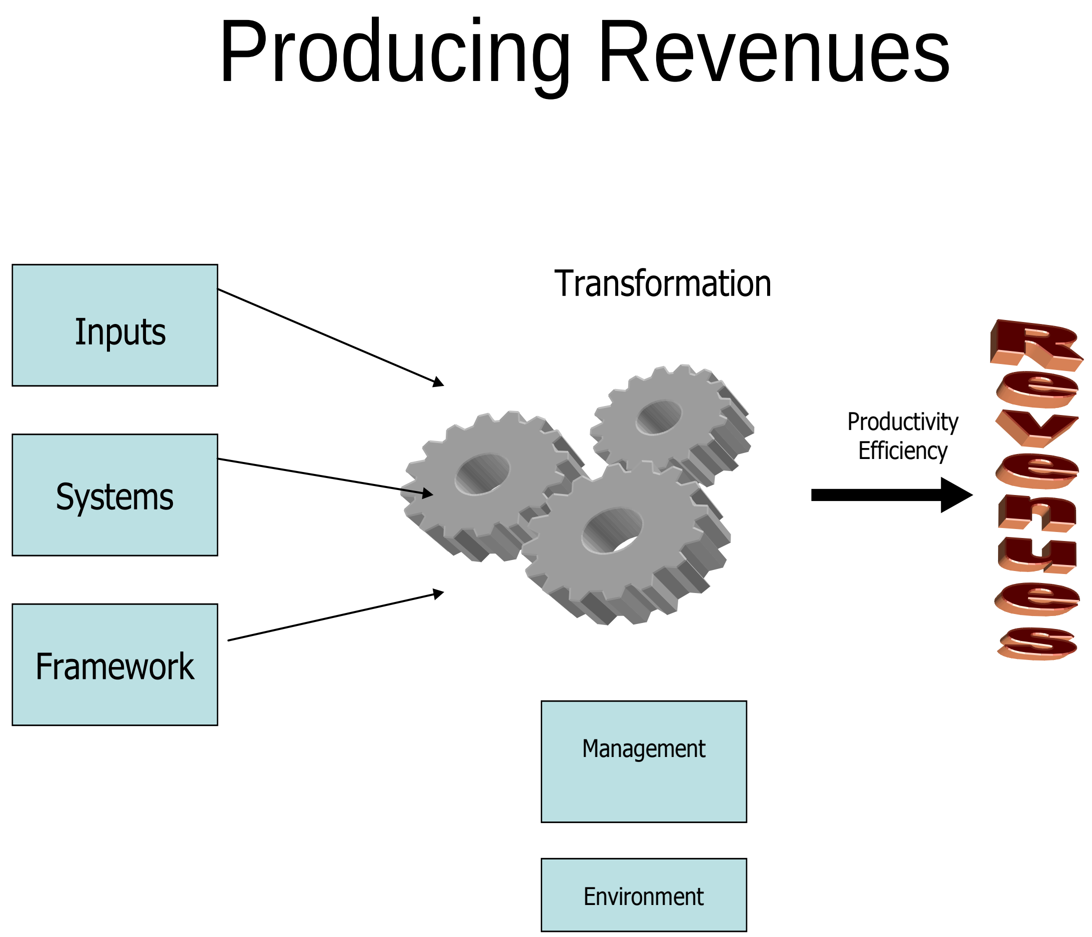
1 Introduction

Purpose

The purpose of this exercise is to highlight in an internationally comparative framework the overall and specific performance of the Moldovan tax system. This exercise will help authorities to assess the overall effectiveness of the tax system, accounting for tax policy, tax administration, and tax compliance. The result is a series of standards that can be useful in establishing specific goals, measures, and steps for improving the tax system.

Methodology

The benchmarking methodology, whether applied to tax systems or to business processes and organizational development in private business, is based on a production approach. In tax benchmarking, there are inputs, such as human resources and other budgetary resources, transformation processes, and outputs. The output of the tax system is the amount of revenues generated. When optimized, these are the revenues to be collected according to law. From an efficiency point of view, these revenues should be collected at the lowest feasible cost, both in terms of the costs of tax administration, as well as in terms of taxpayer compliance. This production schema is presented in picture form in the follow graphic.



The benchmarking methodology works from right to left, inspecting first revenue collections, as well as the revenue productivity and overall tax administration efficiency in the production of these revenues. Next, the transformation process is inspected, with a focus on business processes, organizational management, and the environment in which the tax system operates. The benchmarking process then inspects the inputs, especially in terms of the adequacy of human resources and IT systems and programs. The framework analysis essentially comprises the set of tax laws and related legislative concerns that affect tax system operation.

The tax benchmarking methodology views tax system operations and performance from two related perspectives. From the first perspective, we compare a variety of performance, structure, process and operations and organization measures in Moldova with those in many other countries of the world. The measures or benchmarks we use to compare Moldova in this study are largely those developed in Gallagher, Mark et al (2001), *Aplicación de Mejores Prácticas Internacionales al Desempeno de la Administración Tributaria de Guatemala: Un Estudio de Benchmarking*. These comparisons help to establish the degree of normalcy of the Moldovan tax system: where it excels, falls short, or meets normal operating expectations. To make the analysis local in scope, we also compare Moldovan data to the experiences in other Former Soviet Union (FSU) countries and Central and Eastern European (CEE) countries.

The methodology also compares tax administration operations and organization to what are generally considered "best practice," although in some cases, common or good practice might be a more appropriate term. While there is no exhaustive catalogue of these practices as applied around the world, these practices nevertheless make up the basis of the recommendations made by international experts, such as from the IMF or from USAID, that can be found in many reports and studies.

Guide to the rest of this report

Chapter 2 of the report takes a very global view of the tax system in Moldova, both in terms of the competitiveness of the tax system, and how taxes are collected and paid. This perspective compares Moldova's tax system with tax systems around the world. This provides the reader or user with an international comparative perspective, based on international benchmarks or standards, useful in assessing overall system performance. This chapter is bolstered by a large number of graphs that are presented in Annex A.

Chapter 3 presents lower-level tax system benchmarks, based on international practices, and compares Moldova's tax system to these international good practices. Chapter 4 analyzes the operations of the STI with respect to international good practices. Chapter 5 analyzes a number of organizational issues with respect to taxation in Moldova, while Chapter 6 reviews the resources, systems, and legal framework governing tax administration and tax compliance in the country. Finally, Chapter 7 provides a listing of our recommendations for how the collecting and paying of taxes in Moldova can be improved, simplified, or made more efficient. Most of these recommendations refer specifically to changes that should be implemented within the STI. Annex A, as mentioned, compares tax collection performance and structure in Moldova with that in the rest of the world, based on 18 internationally available comparative indicators. Annex B presents the most recent organizational chart of the STI, while Annex C provides a listing of all equipment now installed in STI.

2 Global perspective

This section presents in brief the overall assessment of the Moldovan tax system based solely upon the macro-level tax benchmarking indicators that are presented in Annex A to this report. These data come from the USAID-funded Fiscal Reform and Economic Governance project's effort in *Collecting Taxes*.

Competitiveness of the Moldovan Tax System

Overall levels of taxation in Moldova are not particularly high, nor low, when looked at from a very macroeconomic perspective. For instance, total tax revenues, including social contributions, come to 34% of GDP, which is not particularly high for FSU or Central and South East European (CEE/SEE) countries. When we consider only the major taxes collected by domestic tax agencies around the world, and excluding import duties and social contributions, we find that at 17% of GDP, these taxes are not a particularly heavy burden in Moldova.

The Moldovan tax system is rather competitive from an international perspective. The top tax rate on personal income, at only 18%, is far below the international average top rate of 30% and it is competitive with most of the rest of the Former Soviet Union. The Moldovan rate is also lower than the average for CEE/SEE countries, and indeed, it is much lower than the 50% in Slovenia or the 40% in Poland.

Moldova's corporate income tax rate, at 20%, is below the average for the rest of the world as well as for the FSU. Moreover, the recent change to exclude retained earnings from the calculation of the corporate income tax makes Moldova's corporate tax system one of the most competitive in the world. The 20% tax on corporate profits is about the same rate as charged by governments in CEE/SEE.

The VAT rate of 20% is a bit above that in the rest of the world, but this likely has little impact on Moldova's international competitiveness, as it does not affect relative prices of the country's factors of production, nor does it add directly to the costs of doing business. The 20% VAT rate is essentially the same as the average for CEE/SEE and FSU countries.

The "tax wedge" on labor in Moldova, at 22%, is only slightly greater than the average tax wedge around the world.[2] Still, if this tax wedge could be decreased, it might possibly help to improve employment conditions in the country. International studies show that there is a connection between the tax wedge and unemployment. Moldova's moderate tax wedge may be contributing to continuing and persistent high unemployment, even in the face of economic growth.

In short, we can conclude that the Moldovan tax system, in terms of overall level of taxation, nominal tax rates, the recent change in business taxation, and the tax wedge, is rather competitive, encouraging both investment and the creation of jobs.

Revenue productivity and efficiency

The personal income tax productivity in Moldova, given the structure of the tax, is relatively low. The country's personal income tax productivity is only 0.25 compared to the international average of 0.39. However, there is quite a wide distribution in this indicator, and the worldwide median value is only 0.27, or just slightly higher than in Moldova. Still, Moldova's personal income tax productivity of 0.25 is below that for the FSU as a whole, at 0.31. This means that improved application of the general structure of the personal income tax in Moldova could result in a 15% increase in revenues from this tax, simply by matching FSU revenue productivity (i.e., moving from 0.25 to 0.31).

Moldova's corporate income tax revenue productivity is about equal to the worldwide average, but only half that of the FSU countries. This is likely to worsen considerably as the new decision to exempt retained earnings from taxable profit is implemented.

Regardless of the measure used (gross compliance or revenue efficiency), Moldova's STI does a good job of collecting VAT revenues. Indeed, VAT productivity, at 0.70, and the VAT gross compliance ratio, at 84%, are among the highest in the world in those categories. The reasons for

[2] The tax wedge is an attempt to estimate the overall taxation of labor by calculating the difference between workers' pay and the full costs of employing them, including personal income tax and social contributions obligations. The tax wedge is expressed as a percentage of gross salary.

this high productivity are discussed in later sections of this report, but an important tool that the STI uses is the reporting of fiscal invoice information in the VAT declaration process.

A good indicator of overall revenue productivity and efficiency is the overall cost of collections measure. Moldova, at 1.3%, falls just slightly above the worldwide average of 1.2%.[3]

Two other major factors related to tax administration productivity are the depth of the tax administration into the general population and, more specifically, into the taxpayer population, expressed in terms of its human resources or staffing. Compared to international experiences, the STI staff is not particularly large. Indeed, in Moldova, there are 0.53 tax administration staff per 1,000 inhabitants. The worldwide average for tax administration staff size is 0.87 per 1,000 persons in the population. For the FSU, the average staff size is 1.14. Of course, the tax staff is much lower in Azerbaijan (0.24) but this can be explained by the fact that that country relies almost entirely on revenue from the oil sector.

The number of active taxpayers per tax administration staff is relatively high. For instance, of the FSU countries for which we have data, Moldova's taxpayer to tax official ratio is the highest, at 611, compared to an average of only half that. The worldwide average number of active taxpayers to tax officials is 575, but this number is as high as it is because of a few countries, such as the U.S. and Croatia, which both have a large number of active personal income taxpayers. Moldova's ratio of taxpayers to tax officials is high for the same reason, i.e., the country has a relatively large number of people included in the personal income tax system.

The structure of the personal income tax is such that the tax is imposed on people with rather low incomes. For instance, persons who earn less than half of the per capita GDP of the country are subject to personal income tax. This is not extremely unusual in poor countries. Still, it is not an effective source of tax revenues and it imposes considerable administrative burden on companies that must maintain records for all these lowly paid workers. Raising the personal deduction might be one way of drastically reducing the number of persons included in the personal income tax system, streamlining both tax administration and business compliance activities, while causing little loss of revenue.

The Paying Taxes comparative system

The World Bank's Doing Business website has a sub-site for Paying Taxes. This site presents a number of indicators for a very large set of countries. Two of the indicators presented on this site that are of most usefulness for this study are the number of payments that businesses must make to tax authorities during the year and the amount of effort, measured in work time, they must expend to be in compliance with tax legislation. The following table presents these data for Moldova, FSU, and geographical average values from around the world.

[3] This figure encompasses only revenues administered, and costs incurred, by the STI.

Table 1: Paying taxes

Paying Taxes

	Payments (number)	Time (hours)
East Asia & Pacific	27.4	271.5
Eastern Europe & Central Asia	46.3	451.5
Latin America & Caribbean	48.7	366.9
Middle East & North Africa	25.1	236.8
OECD	15.1	183.3
South Asia	30.6	305.5
Sub-Saharan Africa	38.7	321.2
FSU	52.1	595.5
Moldova	**49**	**218**
Armenia	50	1,120
Azerbaijan	38	952
Belarus	124	1,188
Estonia	10	81
Kazakhstan	9	271
Kyrgyz Republic	75	202
Latvia	7	219
Lithuania	24	166
Russia	22	448
Ukraine	99	2,085
Uzbekistan	118	196

From this table, it is clear that Moldova is internationally competitive with respect to the administrative burdens placed on business in complying with taxes. In the FSU countries, Moldova is bested, in terms of number of hours required for compliance, by Estonia, Kyrgyzstan, Lithuania, and Uzbekistan. At the same time, Moldova outperforms the regional averages for each of the groupings except for the OECD countries.

Structure of the Moldovan revenue system

Total tax revenues in Moldova come to about 34% of GDP, which has grown in recent years, from about 30% in 2005. Revenue growth, after inflation, has been robust in the last several years, with 2007 registering the slowest annual growth at only an estimated 3% in real terms. The single most important reason for this increase in government tax revenues is the growth in the importance of the VAT. VAT has grown from 10 % of GDP in 2004 to 14% in 2007, when VAT receipts came to almost 39% of total government revenues. At the same time, income taxes have remained as stable contributors to the government coffers, while the importance of excises has declined slightly. Foreign trade taxes have also remained steady in their contribution to overall government revenues.

The revenue structure and their trends over the past four years are presented in Table 2 below.

Table 2: Revenue trends

	2004	2005	2006 e	2007 p
		Millions of MDL		
Revenues	10,164	12,823	16,045	18,340
Tax revenues	9,547	11,888	14,891	16,930
CIT	780	709	1,079	1,143
PIT	797	962	1,128	1,243
VAT	3,428	4,623	6,194	7,122
Excises	910	1,172	1,071	1,246
Foreign trade taxes	496	681	828	856
other taxes	317	327	342	373
Social contributions	2,493	2,972	3,691	4,204
Health fund contributions	326	442	558	743
Non-TAX revenues	617	935	1,154	1,410
NBM profit transfers	6	74	163	313
GDP	32,032	37,652	44,069	49,708
CPI inflation		10.0%	14.1%	13.1%

	2004	2005	2006 e	2007 p
		Percent of GDP		
Revenues	31.7%	34.1%	36.4%	36.9%
Tax revenues	29.8%	31.6%	33.8%	34.1%
CIT	2.4%	1.9%	2.4%	2.3%
PIT	2.5%	2.6%	2.6%	2.5%
VAT	10.7%	12.3%	14.1%	14.3%
Excises	2.8%	3.1%	2.4%	2.5%
Foreign trade taxes	1.5%	1.8%	1.9%	1.7%
other taxes	1.0%	0.9%	0.8%	0.8%
Social contributions	7.8%	7.9%	8.4%	8.5%
Health fund contributions	1.0%	1.2%	1.3%	1.5%
Non-TAX revenues	1.9%	2.5%	2.6%	2.8%
NBM profit transfers	0.0%	0.2%	0.4%	0.6%
		Percent of total revenues		
Revenues	100.0%	100.0%	100.0%	100.0%
Tax revenues	93.9%	92.7%	92.8%	92.3%
CIT	7.7%	5.5%	6.7%	6.2%
PIT	7.8%	7.5%	7.0%	6.8%
VAT	33.7%	36.1%	38.6%	38.8%
Excises	9.0%	9.1%	6.7%	6.8%
Foreign trade taxes	4.9%	5.3%	5.2%	4.7%
other taxes	3.1%	2.6%	2.1%	2.0%
Social contributions	24.5%	23.2%	23.0%	22.9%
Health fund contributions	3.2%	3.4%	3.5%	4.1%
Non-TAX revenues	6.1%	7.3%	7.2%	7.7%
NBM profit transfers	0.1%	0.6%	1.0%	1.7%
		2005	2006 e	2007 p
Growth in revenues (deflated)		16.2%	11.0%	3.0%

On an internationally comparative basis, we see that Moldova collects relatively low shares of GDP in personal and corporate income taxes, while it collects a relatively high share of GDP in VAT. These shares are presented in a comparative framework in Annex A.

Compared to other FSU countries, too, Moldova's VAT produces a larger than average share of GDP in public revenues, while income taxes produce below-average revenues as a share of GDP.

In 2004, STI-collected VAT revenues were equal to about 48% of those VAT revenues collected by Customs. Since 2004, the STI's VAT collections, net of refunds, declined to around 40% of Customs' VAT collections. The trends in domestic (STI) VAT collections and collections at Customs on imports from 2005 to 2007 are presented in Table 3. Net VAT revenues from domestic transactions increased by 64% between 2005 and 2007, while VAT on imports increased by 57%.

Table 3: VAT on domestic and international transactions

Year	TOTAL	STS collections	Customs collections	refunded	STS/Customs
			Millions of Lei		
2005	4623.2	1577.6	4051.8	1006.2	38.94%
2006	6191.6	2074.2	5202.6	1085.2	39.87%
2007	7588.9	2594.1	6359.7	1364.9	40.79%

The following table relates VAT collections on imports to total imports during the period 2005 to 2006. It also reports VAT refunds with respect to exports. It is interesting to note that over this period, both VAT revenues as a percent of imports and VAT refunds as a percent of exports increased somewhat.

Table 4: VAT collections and refunds with respect to imports and exports

	2005	2006	2007
Customs VAT (Lei millions)	4051.8	5202.6	6359.7
Percent imports	14.3%	15.6%	15.5%
Refunds (Lei millions)	1006.2	1085.2	1364.9
Percent Exports	7.4%	8.2%	8.6%

The share of VAT collections that come from domestic transactions, net of refunds, is relatively low in Moldova compared to other lower income countries. This is understandable. Imports in Moldova come to over 90% of GDP, a proportion that is only matched by a very few countries around the world. Despite this large trade sector, domestically collected VAT revenues in the past three years have grown more rapidly than import-based VAT, and fully account for the increase in the VAT Gross Compliance Ratio (from about 69% to 84%) over this period.

Although tax revenues have been growing as a share of GDP over the recent past, the absolute after-inflation growth rate in 2007 was the lowest in several years. Indeed, revenue growth in 2007 seems to have come about almost entirely due to continuing economic growth. At the same time, the VAT has been the most dynamic revenue source for the Government, though VAT revenue seems to have hit its peak and it is very unlikely to grow at similar rates in the future.

Recent developments put revenue targets at risk

Consistent with the objectives of the country's Poverty Reduction and Growth Facility program (PRGF) with the International Monetary Fund (IMF), is an explicit aim to maintain the revenues of the government, as a percent of GDP, at current levels. Concern must be raised here about the feasibility of meeting this objective over the next couple of years. A number of recent developments will likely adversely affect the ability of the STI to generate adequate revenues for the government.

In an attempt to lessen the burden of taxation on the Moldovan populace, the government has cut personal income tax rates in each of the past several years, from a high of 25% in 2002, to only 18% in 2006. While reducing tax rates on the highest income earners in the country is welcome by many taxpayers, it would normally be expected to result in lower tax revenues. This has not happened. Revenues from the personal income tax have remained at about 2.3 or 2.4% of GDP, and IMF projections indicate that this will remain so for 2008. It is not clear that this results as much from improvements in compliance, as it does from the affect of inflation on a progressive income tax structure.

In 2007, a presidential initiative was enacted to forgive overdue taxes of all taxpayers. This means that if a taxpayer had not paid the taxes it owed in 2006 or in earlier years, for whatever reason, it would no longer be required to meet this former obligation. The Government's strategy is that once this amnesty is fully in place, that one-time delinquent taxpayers, who now must apply for amnesty, will be brought into the tax net. The hope is that with a strengthening of some legislation and greater application of sanctions by the STI, these companies will now move from the gray sector and become fully functioning modern, law-complying firms who will now pay the taxes that are due. International experience does not provide much reason to expect that this strategy will result in improved compliance and greater revenue generation, however. Indeed, international experience leads one to expect that tax amnesties, such as this one, will lead to even less compliance in the future.

To ensure that the Government and the STI are able to get the desired results from this amnesty strategy, immediate efforts are in order and are discussed in Chapter 7 of this report.

Recent changes to the corporate income tax and to the personal income tax paid by sole proprietors (sole traders) will have important impact on government revenues. The tax on corporate income will now be zero, to the extent that all income is kept within the company as retained earnings. At the same time, any distributions or dividends that are paid by the corporation will be subject to a flat 15% tax on such personal income. Likewise, unincorporated businesses will have their personal income tax slashed to zero, except to the extent that their income is withdrawn from the business for personal purposes. Hence, officially the new corporate income tax rate is zero, although the new, net effective rate on distributions will be 15%.

The IMF anticipates that this change in the tax on business will result in a revenue loss of 1.8% of GDP. Reviewing the data presented in Table 2, above, this seems like a rather reasonable expectation.

Pinpointing strengths and weaknesses

Overall, the Moldovan tax system, while not particularly weak, is also not particularly strong. The revenue to administration costs could be brought down significantly, but more likely by increasing the revenue take rather than by decreasing costs. The size of the staff is not large, but the number of taxpayers that this staff is required to manage may be greater than is optimal. Policy measures that would reduce the number of personal income taxpayers in the system could be designed that would not likely result in significant loss in revenues, while enabling the STI to better focus its resources on more revenue productive sources, such as the corporate income tax.

It is likely that recent policy initiatives, such as the granting of tax amnesty and the exemption of retained earnings from the corporate income tax base, will, unless countered by strengthened and better focusing of tax administration capabilities, result in even lower revenue productivity. Recommendations in Chapter 7 of this study will specifically address this issue.

3 STI operational and organization benchmarks

The attributes and statistical benchmarks of modern tax administrations used to compare Moldova in the table below are those developed in Gallagher (2001) study, *Aplicación de Mejores Prácticas Internacionales al Desempeno de la Administración Tributaria de Guatemala: Un Estudio de Benchmarking*. In Table 5, below, the data shown in the second column replicate the "International Benchmark" data presented in Gallagher (2001). Moldova's status as of 2007, in comparison to each of the international benchmarks, is shown in the third column. Explanations for each indicator and benchmark are presented below the table.

Table 5: Tax Administration Benchmarks - Primary Indicators

Indicator	*International Benchmark*	*Moldova 2007*
General		
1. Number of tax administrators per 1000 national population	0.87 (1.14 in FSU)	0.53
2. Ratio of active taxpayers to tax administrators	575:1	611:1
Audit		
1. Use of performance indicators for audits and auditors	Yes	No
2. Audited taxpayers as % of total taxpayers, per year	1%	6.2%
3. Unified domestic and import audits	Trend	No
4. Ex post customs audits	Trend	No
5. Separation of taxpayers by size or nature	Yes	Yes
6. Percent of taxpayers in LTU	0.5% to 1%	0.052
7. Percent of revenues from large taxpayers	65%	40%
8. LTU staff as % of total tax staff	3%	2.92%

Payment and collections		
1. Banking system payments	Yes	Mostly
2. Percent of large taxpayers declaring via Internet	100%	0%
3. “Stop-filers” as % of active taxpayers	5%	-
4. Late payments as % of total tax receipts	5%	-
5. Administrative cost as % of total receipts	1%	1.3%
6. Share of adjustments and fines collected	80%	23%
7. Business days for VAT refunds	25	45
8. Institution that establishes revenue targets	Ministry of Finance	Ministry of Finance
Automated Systems		
1. Use of automated systems for daily operations	Yes	Partially
2. Existence and use of automated Management Information Systems (MIS)	Yes	No
3. Interconnectivity between Headquarters (HQ) and local tax offices	Yes	No
4. Backup systems for all uses	Yes	Yes
5. Operating taxpayer current account (also under enforcement)	Yes	Yes, but problematic
6. Clean and operating taxpayer registry	Yes	For companies Citizens, no
7. Automated audit case selection	Yes	No
8. Tax declaration entry with automatic error correction	Yes	No
9. Use of exogenous information (filers>vehicles>real estate)	Yes	Partially
10. Use of third-party databases	Yes	Limited
11. Data crossing among taxes	Yes	Yes
12. Late or stop filers system	Yes	No

Planning and coordination		
1. Appropriate use of planning, monitoring, and evaluation systems for tax organization	Yes	Yes
2. Coordination of data flows among tax administration, Ministry, and other agencies	Yes	Some
Human Resources		
1. % of employees with university or college degrees	70%	Most
2. Ratio between director and auditor salaries	2:1	3:1
3. Ratio between average tax administrator's salary and GDP per capita	2:1	1.5:1
4. Existence of administrative career plan	Yes	Yes
5. Existence of formal retirement plan	Yes	Yes
Sanctions and penalties		
1. Tax code	Trend	Yes
2. Tax fraud felony	Trend	Yes
3. Application of tax fraud felony sanctions	Little	Yes
4. Appeals tribunal	Yes	No
Organization, Institutional Credibility and Public Confidence		
1. Stability of top-level leadership	Fixed appoint.	Political appoint.
2. Professionalism of top-level staff	Excellent	Excellent
3. Tax fraud unit in tax administration	Yes	Yes
4. Unit for investigation of internal corruption	Yes	Yes
5. Diversity and quality of taxpayer services	Yes	Improving
6. Internal regulation	Yes	Yes

Explanations of benchmark Indicators

General

1. *Number of tax administrators per 1000 national population.* Self-explanatory.
2. *Ratio of active taxpayers to tax administrators.* Self-explanatory.

Audit

1. *Use of performance indicators for audits and auditors.* Self explanatory.
2. *Audited taxpayers as % of total taxpayers, per year.* Self explanatory.
3. *Unified domestic and import audits.* These are in-depth audits that cover all taxes for which the taxpayer is liable, including Customs duties.
4. *Ex post Customs audits.* These are audits conducted after merchandise has been cleared and released to taxpayers.
5. *Separation of taxpayers by size or nature.* This refers to the practice of most modern tax administrations to classify taxpayers as large, medium or small, and to further classify taxpayers by industry groups for special handling of each category.
6. *Percent of taxpayers in large taxpayer unit (LTU).* The international norm is to have between 0.5% and 1% of total active taxpayers managed by a large taxpayer unit.
7. *Percent of revenues from large taxpayer*. In most modern tax systems, receipts from large taxpayer account for about 65% of total tax revenues on average.
8. *LTU staff as % of total tax staff.* The international benchmark is to dedicate about 3% of total tax administration staff to servicing large taxpayers.

Payments and enforced collections

1. *Banking System Payments.* This involves tax payments through the banking system, which is usually more convenient for taxpayers; more accurate processing; and less expensive to the government than payments through the tax administration.
2. *Percent of large taxpayer declaring via the internet.* Again, this is highly desirable in terms of cost and reliable data. The higher the percentage, the better.
3. *"Stop filers" as % of active taxpayers.* This is the percentage of the number of registered taxpayers who have stopped filing the tax returns they were registered to file (VAT, Income Tax, etc.) in relation to the total number of active taxpayers. Management of delinquent stop-filers to keep this percentage as low as possible is a very important objective.
4. *Late payments as % of total receipts.* This is the percentage of the value of tax payments made after the due date for payment established by law, in relation to total tax revenue. Management of delinquent taxpayers to keep this percentage low is a very important objective.
5. *Administrative cost as % of total receipts.* This is a gross indicator of efficiency. How much it costs – salaries, equipment, fixed assets, etc. – for a government to impose taxation on its people in administrative terms. Internationally, costs vary widely, but rich countries have lower costs than poor countries in relation to how much they collect.
6. *Share of adjustments and fines collected.* The reference here is to the % of additional taxes and penalties proposed by auditors that are actually collected, after technical reviews; objections by taxpayers to proposed additional assessments; and appeals to administrative and judicial levels. The higher the percentage, the higher the quality of case selection and work quality of audits, as based on law and facts.
7. *Business days for VAT refunds*. The lower the average number of days, the better in terms of taxpayer service, taxpayer relations, and the image of the tax administration.

8. *Institution that establishes revenue targets.* Self explanatory.

Automated systems

1. *Use of automated systems for daily operations.* All modern tax administrations must employ reliable systems of automation for all major operations, such as document receipt, issuance of notices, filing and imaging, taxpayer services, collection and auditing cases, etc.
2. *Existence and use of automated Management Information Systems (MIS).*
3. *Interconnectivity between HQ and local tax offices.* All modern tax administrations provide on-line links/servers between Head Quarters and regional and local offices for all major aspects of operations. Those administrations that do not and have to resort to paper exchanges and processing are always the least efficient and least effective.
4. *Data and systems backups*. All modern public institutions must insure that their data and computer systems are backed up on a daily basis to avoid losing the vital data and systems of the entire country's tax system in case of a natural or other types of disasters.
5. *Taxpayer current account in operation.* A current account is an accounting of all the taxes that a taxpayer is responsible to file and pay which requires at all times up-to-date posting by automated means of all tax activities of the taxpayer, i.e., filings, payments, penalties, etc. for all types of taxes. The taxpayer current account is the heart of modern tax administrations. The taxpayer account in most developing countries is not up-to-date or reliable.
6. *Clean and up-to-date Taxpayer Registration System.* A modern and up-to-date taxpayer registration system is a pre-requisite for a taxpayer account. The taxpayer registration system in most developing countries is not up-to-date or reliable.
7. *Automated Audit case selection.* Audit selection, whether for income tax, VAT or other types of taxes, should be based on unbiased risk assessments based on statistically determined parameters. Such a system will help select for audit those firms and individuals that are more likely concealing information and therefore under-declaring their tax obligations.
8. *Tax declaration entry with automatic error correction.* This has reference to automated systems integrated with automated systems for processing tax declarations that will detect error and either make corrections automatically or set the declaration aside for human intervention and correction.
9. *Use of exogenous information (filers- vehicles – real estate).* Efficient and effective tax administrations must use databases about assets of taxpayers for income-and-tax consistency with ownership of assets.
10. *Use of third party databases.* The legal authority and ability of tax administrations to use automated systems of information to compare 3rd-party financial and other data to taxpayers' returns is of utmost importance to modern tax administration.
11. *Data crossing among taxes.* Crossing and comparing information of each taxpayer's taxes provide excellent leads for taxpayer compliance programs, e.g. VAT paid in customs and VAT paid on domestic transactions; real estate taxes and income taxes; and import duties and VAT.
12. *Late or stop-filer systems.* Management and compliance programs and systems to monitor and pursue late and stop-filers to keep this percentage as low as possible are very important objectives of modern, efficient and effective tax administrations.

Planning and coordination

1. *Appropriate use of planning, monitoring and evaluation systems for tax organization.* Efficient/effective tax administrations have a planning unit that leads in the development of coordinates strategic plans and annual work plans and establishes a culture that includes setting and continual monitoring of performance targets.
2. *Coordination of data flows among tax administration, Ministry, and other agencies.* The tax administration should have information-sharing agreements with the banking system, the Ministry of Finance, Customs and local governments – all of which can provide information about taxpayers valuable to tax administration such as value of imports, exports, bank deposits, international transfer pricing, and other information.

Human resources

1. *% of employees with university or college degrees.* A higher percentage - particularly in the technical and management ranks – enhances the efficiency and effectiveness of the overall administration.
2. *Ratio between director and auditor salaries.* In industrialized countries, the ratio is about 2 to 1, but the ratio in developing countries varies considerably.
3. *Ratio between average tax administrator's salary and GDP per capita.* Here again, the ratio in industrialized countries is about 2 to 1; so the average salary, while not high, is enough to attract highly qualified candidates to the tax administration's ranks. In developing countries, the ratio is higher but still too low to attract enough high caliber professionals.
4. *Existence of administrative career plan.* This refers to what is called a "civil service system" in many industrialized countries, with features such as formal recruitment, training and promotion programs based on qualifications and competition of candidates.
5. *Existence of formal retirement plan.* Self explanatory.

Sanctions and penalties

1. *Tax Code.* The ideal tax code is a single, comprehensive piece of legislation that defines all the legal rights, requirements and recourses for taxpayers and the tax administration alike. It defines all terms that are to be used in the tax system and establishes broad procedures; the organization structure; and the roles of related bodies, such as appeals tribunals.
2. *Tax fraud penalty.* A tax fraud law imposes criminal sanctions for tax evasion and intentional filing false documents with regard to income, expenses or other financial transactions with the tax authorities. Developing countries have only recently started to adopt tax fraud laws.
3. *Application of tax fraud felony sanctions.* Developed countries usually have a high voluntary compliance rate. Therefore, the tax fraud penalty has to be applied only sporadically and its applications are given heavy publicity in the news media. In developing countries which have recently adopted tax fraud laws, despite low voluntary compliance and high tax evasion rates, application of fraud felony sanctions have been weak at best or totally non-existent.
4. *Appeals tribunal.* Most industrialized countries have an appeals process where taxpayers are able to dispute the decisions of the tax authorities. The appeals process is an important institutional arrangement that helps to insure the protection of taxpayer rights, lends credibility to the overall tax system and helps to keep the tax authorities under constant review.

Organization, institutional credibility and public confidence

1. *Stability of top-level leadership.* Stability at the top is a critically important feature for consistent direction and leadership of modern, effective and efficient tax administration. In tax administrations of developing countries, instability is the norm, as directors general are replaced very often.
2. *Professionalism of top-level staff.* Self explanatory.
3. *Tax fraud unit in tax administration.* Tax administrations should have an internal organization unit to investigate cases of tax fraud. The investigators of such a unit require special investigative skills, different from those of auditors and other tax administration staff.
4. *Unit for investigation of internal corruption.* Tax administrations should have an internal organization unit to investigate allegations of corruption of tax officials. This unit should report directly to the top-level administrator.
5. *Diversity and quality of taxpayer services.* The most important responsibility of any tax administration is to attain and maintain a very high degree of voluntary compliance by taxpayers with their tax obligations. The variety and quality of services given to taxpayers to help them comply with their tax obligations voluntarily encourage voluntary compliance as much or more than enforcement programs.
6. *Internal regulation.* All public entities need to clearly specify in terms of internal regulations or rules the policies and procedures that must be followed in carrying out their functions. Procedural manuals issued to all employees of modern tax administrations are the handbooks that outline how these policies and procedures are to be carried out and provide uniformity in application by all personnel. In developing countries, such manuals usually do not exist or are outdated or obsolete.

4 Operations of the STI

This section describes and assesses the core functional processes and operations of the State Tax Inspectorate. Throughout the discussion, references are made to a variety of benchmark indicators of tax administration performance and structure. Primary indicators, comparing the situation in Moldova to the international benchmark or standard, are presented in Table 5, above. As mentioned, international comparative indicators for Moldova are presented in Annex B to this report.

It is important to remember that the STI is already initiating important changes to meet the objectives of its 2006-2010 Strategic Plan. Other events, including the recent tax amnesty, have had an effect on tax administration operations, but it still too soon to predict the impact. Still, the discussion below aims to provide a general picture of the current situation, statutory procedures and their application, and areas in need of improvement or simplification.

Audit

Performance

In 2007, the STI performed nearly 50,000 audits or "controls" covering more than 42,000 taxpayers, more than 6 percent of the active taxpayer population. More than 60 percent of these controls were of physical persons (entrepreneurs and farmers) which generated little additional revenue for the government. Total adjustments resulting from audits of physical persons came to less than 5 percent of total adjustments. The distribution of audit results by office is also very skewed. Audits and controls performed by Chișinau TTI and the large taxpayer unit accounted for almost 85 percent of total adjustments.

There is a substantial amount of non-productive audit activity. For instance, in 2007 operative audits, cross-checks and repeated audits account for 57 percent of total examinations, but only 1.8

percent of total proposed adjustments. The STI conducted more than 16,000 "operative" audits that yielded just MDL 0.82 per case. On the other hand, more than 15,000 "issue" audits yielded an average MDL 3,600 per case. This situation points up problems not only in how cases are selected, but also in how they are conducted.

Audit selection, planning and management

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 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.

MSTI's Audit Department is responsible for most audit selection and sets an annual audit plan for all TTIs. A computer-assisted audit selection system was introduced in 2003 for the selection of VAT and income tax audit cases. The system includes about 40 different risk factors based on available STI data to rank possible audit cases, but in practice, the Department applies only a fraction of these factors in the case selection process. Mostly, the tests are based on correlations between data items reported on VAT and income tax declarations, and between VAT reporting and customs reporting. Once this pre-selection process is complete, the Department makes a list of audit targets for each TTI, dividing the cases into several categories: for the highest priority cases, the TTI must audit 100% of cases; for the next highest priority level, the TTI must audit 75% of cases; for the next level, 50-60% of cases; and so on. The TTI then allocates cases to its audit staff according to these rules.

Not all audits are centrally selected, however. At the TTI in Bălți, for instance, two-thirds of the audit cases are assigned by the MSTI, while the remaining one-third are determined locally by TTI managers. However, it does not appear audit selection is based on any rigorous risk analysis. Most cases are selected ad hoc based on information tax officers have obtained informally concerning specific taxpayers or types of activity. Cases are not assigned based on probability of returns to audit.

Audit and control staff, especially those working in the LTU, seem to be quite knowledgeable of the Tax Code and its implementation. However, training will be needed for improved audit selection, audit management, auditor performance monitoring and goals setting.

Although managers indicate that the STI auditors conduct comprehensive audits, audits seem to focus on formal requirements and on the resolution of inconsistencies among tax reports. Auditors are authorized by law to apply more modern methods, such as indirect methods, but these do not seem to be widely applied. Audit and investigations staff could also benefit from improved methods for financial investigation to track down cases of deliberate tax evasion.

Audits should be conducted based on a clear set of steps, techniques, and instructions. STI staff, in all realms, rely on the Tax Code and prior decisions as the guides for conducting audit and controls.

Regulation of audit by the Tax Code

Although the Tax Code authorizes a wide variety of tax audits and controls, the specific methodologies for implementing these audits and controls are left to be established by the MSTI.

The Tax Code not only authorizes the STI to carry out audits and controls, it also regulates the STI from overly burdening taxpayers by specifically limiting the number of times the STI may make a field audit (i.e., on taxpayer's premises) over the course a calendar year, except under very specific circumstances. In addition, the duration of the on-site tax audit shall not exceed two calendar months. In exceptional cases, audits may extend beyond two months by an additional month.

According to the Tax Code, "tax liability" means a taxpayer's obligation to pay a certain amount to the budget as taxes, fees, penalties for late payments and/or fines. All these kinds of obligations are regulated by the Tax Code and tax bodies are responsible for managing them.

However, there are plans to remove provisions on the administration of fines and other sanctions from the Tax Code and place them in the new draft Contravention Code. In the current draft, the term for determination of violations is very short— just three months. Moreover, the draft proposes that sanctions be enforced by court executors as part of a structure subordinated to the Ministry of Justice. This new legislation, if passed, could create problems not just with respect to determination of tax liabilities, but also enforcement of them.

Collections and debt management

An effective collections and debt management program must be based on laws that facilitate the reporting and payment of taxes and provide tax authorities with appropriate powers to enforce the collection of tax arrears and write off uncollectable debts, and safeguards and due process protections for the taxpayer. The legal framework should be supported by administrative policies and procedures and automated systems to ensure that taxpayers are kept well informed with a clear understanding of their payment and filing requirements and the penalties associated with non-compliance. These include: automated systems for detecting and notifying taxpayers who are late in filing or have outstanding tax debts; automated systems for prioritizing and assigning collection cases; and, rules and procedures for establishing payment plans, freezing bank accounts, seizing and selling assets, and writing off uncollectable tax debts.

For the most part, the Tax Code of the Republic of Moldova provides clear and adequate guidelines for enforcing the collection of taxes. There are also in place statutory sanctions, including imposition of penalties and interest, for failure to file or pay. However, the Tax Code lacks clear and simple guidelines on the procedures for writing off tax arrears when those debts are deemed to be uncollectable. The STI is currently preparing language to address this deficiency, which when passed will be incorporated as an amendment into the Tax Code.

The core activities of collections and debt management are carried out by collections staff in the LTU and in the TTIs. Each day, the MSTI sends each TTI a "cut out" of the central FoxPro database listing payment arrears for that territorial administrative unit. The TTI then uses this list to select and assign collection cases. There are no clear criteria or automated systems for prioritizing collection actions. In general, cases are selected based on "collectability" of the debt, without regard for the size or age of the debt.

Determining which debts are collectable and which debts are not is complicated by the limitations of the technology currently in place. The FoxPro-based application currently used to capture arrears information only shows arrears balances and activity for the current year. If a tax officer or taxpayer wants to know when a debt originated or other historical activity, a report must be generated separately for each year until the desired information is found. Among other things, this makes it very difficult for the tax authorities to know how old a debt is, or for that matter when to deem it uncollectable.

The procedures used to enforce collections from delinquent taxpayers are somewhat arbitrary and do not really reflect a customer-oriented approach to tax administration. Once a debt has been established, the case is forwarded to the TTI responsible for the file. All tax arrears case files are referred to the TTI regardless of the amount. New files are reviewed by the local head of arrears or designated officer and assigned to a collections officer. The collections officer then secures an executive decision detailing the identity of the taxpayer, the violation and the amount owed, and this is delivered to the taxpayer, either by mail or in person. If in person, the tax collector goes directly to the taxpayer's location, delivers the decision, and demands payment in cash, without any advance notification. If the taxpayer cannot pay, the STI will issue an immediate order to freeze the taxpayer's bank account and/or take other measures to enforce collection of the money due. In some cases, the collections office will grant special payment arrangements, such as installment plans for agricultural producers who operate seasonal businesses.

The tax amnesty for pre-2007 arrears to the state and territorial budgets resulted in forgiveness of more than MDL 175 billion in past-due taxes, penalties and interest.

Since January 1, 2007 new arrears have arisen that were not covered by the amnesty. In 2007, approximately MDL 300 million in arrears were paid to the budget through enforced collections and negotiated payment arrangements. As of January 1, 2008 outstanding arrears to the National Public Budget came to MDL 471.1 million.

Automated systems for collections and debt management

In general, the level of automation is very low in the area of collections and debt management. There is no case management system to assign collection cases or record actions taken in the course of enforcing collections. There is no log of enforcement actions or taxpayer contacts (e.g., phone calls, letters, on-site visits, etc.) Nor are there automated systems for identifying and notifying stop- and late-filers. A collector in a given TTI can conceivably go to the IT Department and request a report on stop-filers or late filers, for which the IT Department has developed a special application on its "cut out" of the FoxPro database. However, the notifications system is not automated, per se, and notices are generated and sent out only on an *ad hoc* basis.

Late- and stop-filer notices, in addition to notices that inform taxpayers about filing dates, reporting errors, over- and under-payments, and other issues, encourage compliance by letting the taxpayer know that the tax administration is "watching." A notifications system also reduces the need for in-person contacts that disrupt business activities and create additional administrative costs for taxpayers and the tax administration alike.

Collections planning and coordination

As a result of a recent reorganization in the MSTI, an Arrears Management Division was created in the STI headquarters, unifying functions previously divided among three deputy chiefs. The Division's main responsibilities are two-fold: (1) analyzing trends in debt and collection statistics and designing programs to improve performance in debt collection and taxpayer reporting; and (2) elaborating procedures for writing off tax arrears that are deemed uncollectable. Among its most immediate challenges are developing an automated, risk-based application to classify and prioritize enforced collections cases, and passing new legislation establishing rules and procedures for canceling uncollectable debts.

With the reorganization, collections and debt management activities in all 41 territorial offices have now been brought under the Arrears Management Division. However, the Division does not, as yet, set annual collection targets either for the individual TTIs or for the STI as a whole. Most modern tax administrations develop an annual collection plan that sets targets and time standards for arrears to be collected and cases to be closed, based on historical data, projections and other factors. The Arrears Management Division should give high priority to developing such a plan to improve productivity and efficiency in collections.

There are currently 229 collectors spread across 41 offices. Staff sizes range from one collector in the Dubasa office, to more than 50 collectors spread among the five offices of Chișinau Municipality. The IMF's September 2007 report (STRATEGIES FOR STRENGTHENING TAX ADMINISTRATION) provides a breakdown of staffing, tax arrears cases, and arrears amount by STI office. Clearly, the current distribution of staff does not reflect an optimal division of labor. Some offices with smaller workloads and arrears amounts are staffed better than offices with larger ones. Furthermore, as of mid-September 2007, before the tax amnesty, less than 20 percent of the files exceeded MDL 1,000 in value. It is unclear at this stage how the debt write-off has changed this situation. Nevertheless, it is clear that most TTIs lack the critical mass of collections staff to operate effectively, and considerable efficiencies might be gained from consolidating these staff in a smaller number of offices with proportionately higher numbers where arrears amounts and caseloads are projected to be higher. This analysis should be incorporated into the development of the STI's annual collection plan, discussed above.

Appeals

The main mission of any administrative appeals office should be to reach a fair and impartial resolution of tax controversies without litigation, and foster voluntary compliance and public trust in the integrity and efficiency of the STI.

Taxpayers have the right to appeal decisions or determinations made by STI inspectors. According to the Tax Code, hey must submit their appeal within 30 days of receiving the STI inspector's determination.[4] The STI is required to respond to the taxpayer's appeal within 30 days of receipt. These appeals are received, in writing, within the territorial tax inspectorate or the LTU, by the audit department. In some instances, appeals have been passed to the audit department of the MSTI.

Conversations with some private sector individuals indicate dissatisfaction with the appeals process. The vast majority of appeals are decided in favor of the State. Indeed, in 2006, of 2,326 appeals cases, 95% were decided in favor of the State. This rate of appeals determined in favor of the State seems to indicate a suspicion of bias. This bias is provided added support when one considers that appeals have, until recently, been heard not by a separate appeals tribunal or specialized officers, but instead by tax auditors, who happen to work in the very same tax audit offices that issued the original tax audit decision that is being appealed.

Article 11 of the Tax Code stipulates that in cases of ambiguity in the law, that the STI should make decisions in favor of the taxpayer. In discussions with some officials in the STI, it seems that auditors and those hearing appeals do not practice this and instead, to avoid possible accusations of collusion with the taxpayer, prefer to make decisions in favor of the State, even when the basis of the decision is unclear.

Of course, taxpayers are free to proceed, after the appeals process, to the court system. Some private sector interlocutors have indicated that they feel they get a fairer hearing, but when one reviews the numbers, it becomes clear that in the vast majority of cases, court decisions are in favor of the State. In 2007, the courts decided on 457 tax cases brought by taxpayers against decisions of the STI. Of these 457 cases, 395 were in favor of the STI or the State, while only 62 were in favor of the taxpayer. In terms of taxpayers bringing suit, this 14% win rate for taxpayers is a bit higher than that in the STI internal appeals process, but not by much.

Until recently, the appeals process internal to the STI was subordinated to the Head of Tax Audit. Under this arrangement, the division responsible for taxpayer audit was also responsible for receiving appeals for review of those audits. With the latest reorganization in MSTI, the appeals function was moved from the audit division to a new division responsible for "tax anti-fraud and appeals." The new arrangement marks little improvement over the previous situation, placing the appellate process squarely in the hands of the department charged with pursuing fraud and evasion. Nor does it appear that much has changed at the operation level: appeals continue to be handled by audit staff in the TTIs and there are no plans to change this in the near future.

After the appeal

According to Chapter 17 of Title V of Tax Code, a decision of the tax body or an action performed by its officials can only be appealed by the person against whom such decision was taken or action performed, or by his agent.

[4] According to Article 268 of the Tax Code, appeals against decisions of tax authorities should be filed within 30 days of the date the decision is served. However, in discussions with the STI in 2007, some STI staff had told the authors that appeals had to be submitted within seven days.

Appeals against the decision of a tax body or action of a tax official shall be filed at the tax body that issued the decision or whose official performed the action.

The decision issued regarding the appeal can be contested at the MSTI or appealed in the competent court. In cases where the appeal is made to the STI, this appeal is submitted to the tax body that took the decision, which has to forward the appeal to the MSTI within three days with the attached audit report and relevant decisions being enclosed.

In Moldova, when the taxpayer is unsatisfied with the decision taken in the appeals process, the next step is to take the case to court. While the taxpayer, on average, loses about 93% of all appeals cases, the loss rate declines only slightly, to 87%, in cases brought to court. Still, regardless of the result, it is expensive for both the taxpayer and the tax administration to have to hear appeals and then to have to do battle in the courts. Many countries around the world have an instance between internal appeals and court. In some cases, this is referred to as a Tax Tribunal or a Tax Appeal Tribunal. This is not a legal court, rather it is another office of the State. It is outside of the tax administration, however. In other countries, including the United States, there is a separate function, tied to the tax administration, but with considerable autonomy, that can serve to fill the role between internal appeals and courts. This is referred to as “tax mediation.” Current legislation in Moldova does not include provisions concerning tax mediation.

Outside of tax legislation there is a law on mediation that governs disputes between private parties, but it reserves some mechanisms for other kinds of litigation. At the moment, the idea is to create a mediation/arbitration structure within Ministry of Finance to oversee the resolution various types of disputes. In the authors’ opinion, it is necessary to have a dedicated tax mediation structure because tax disputes are very specific and require special knowledge and skills. Tax mediation could reduce court expenses both for taxpayers and for tax bodies.

Internal control and anti-fraud (internal)

A new division for Security and Internal Audit was recently established in MSTI headquarters, reporting directly to the Head of the STI. The main responsibility of the internal audit section is to carry out the MSTI’s annual inspection plan for each tax office. The internal security section coordinates the STI’s anti-corruption efforts and undertakes investigations of cases in which tax officers are found to be in violation of the law.

Under current rules, each STI tax office is subjected to an inspection every two years. All inspections are on-site and occur at a predetermined time. The inspection focuses on potential violations by tax officials of laws and procedures. Violations include failure to follow established procedures or obtain appropriate approvals, failure to enforce collections against delinquent taxpayers, falsification of documents, and collusion with taxpayers, to name a few. The sanctions imposed for a tax officer found to be in violation range from warnings, to dismissal, to financial penalties.

Most tax office inspections take about three weeks and involve between 8-12 internal audit staff. Once completed, a summary of the inspection is submitted to the MSTI’s executive council, led by the Head of STI, which makes a final decision on actions to take. The Division is currently considering options for revamping the internal audit program to decrease the number of on-site inspections and focus more on automated tracking and monitoring of tax offices’ activity. The STI is also beginning to implement a government-wide action plan that requires a permanent internal audit presence in each territorial unit of a public institution.

Taxpayer certification

Taxpayers require certifications that show they are in good standing. A taxpayer compliance certification is required by law before a taxpayer can access a variety of public services, such as importing goods under certain regimens or participating in public tenders. Taxpayers seeking certification that they are current with all of their tax obligations must file a request with their TTI. There is little procedural control over the issuance of these certifications, and there have been allegations that TTI officials have fraudulently issued them to delinquent taxpayers. On the other hand, some taxpayers allege that they have had to pay bribes in order to get the certifications they require and deserve.

Taxpayers with operations in only one region can quickly get a certification, when the process is not corrupted, since there is a FoxPro-based application that produces the up-to-date taxpayer current account. However, if the taxpayer has operations in several regions, the TTI where the request for certification has been made must make queries to the other TTIs to get the status of the taxpayer's obligations before issuing a legitimate taxpayer certification. Since the MSTI has complete access to the full FoxPro database, it could issue the certification, but it refuses to do so since this is not its responsibility.

Taxpayer registry

The STI administers approximately 675,000 active taxpayers, including about 85,000 legal persons and nearly 590,000 physical persons registered either as sole proprietors or farmers. Of these, about 20,000 companies are registered for VAT and about 350 are registered as large taxpayers. (The threshold for VAT registration was recently raised to MDL 300,000 in annual turnover.)

An additional 1.3 million people are registered in the STI's system and verified as citizen taxpayers, most of whom have their income tax withheld from their salary checks but are not required to file annual tax declarations. Complicating matters, there are more than 5 million records for citizens in the STI's registry, most of these either duplicates or records for deceased individuals that should no longer be in the system. Efforts have been made, albeit piecemeal, to clear these entries out of the taxpayer registry.

Currently, there is one set of procedures for registering companies for direct taxation, and a separate, unlinked process for registering companies for VAT. For direct tax purposes, a company's business registration also serves as its taxpayer identification number (TIN). In fact, the procedures for obtaining business and tax registration are intertwined. First, a company must apply for a state identification number at the Registration Chamber of the Ministry of Information Development. While this is in process, the company must go to the TTI within the jurisdiction of its headquarters and submit an application form accompanied by the same documents presented in support of its business registration. The TTI will review the application and crosscheck information with the Registration Chamber. The Chamber then issues a registration certificate with a state identification number. The TTI then issues a TIN assignment certificate indicating the taxpayer's TIN, or "fiscal code." By law, the TIN must be assigned within 3 days of application to the tax authorities.

All information, including taxpayer's name, TIN, state identification number, date of registration, and any subsequent changes, is sent to the CPU and entered into the STI's central database. Registration information is updated almost daily and posts to both the Informix and the FoxPro databases.

Any taxpayer with taxable turnover exceeding MDL 300,000 over 12 consecutive months must register as a VAT payer. The threshold is lowered to MDL 100,000 if the taxpayer receives payments via bank transfer from Government-recognized financial institutions. VAT registration is also required of taxpayers who import services, as well as taxpayers that make capital expenditures outside Chișinau and Bălți. The STI can cancel a taxpayer's VAT registration if the total value of taxable deliveries does not exceed MDL 100,000 for 12 consecutive months.

To register for VAT, the taxpayer must complete and submit a special registration form to the STI, no later than the last day of the month when the turnover threshold was exceeded. The registration and all associated obligations take effect on the first day of the next month. Upon registration, the STI issues a certificate of registration indicating the taxpayer's name and legal address, the registration date, and his tax identification number

Payment mechanisms

Payments of national taxes and fees to the treasury can be made either via bank transfer or in cash at an STI tax office. Payment of local taxes and fees is made to tax collectors at the offices of local public authorities, though responsibility for administering those local taxes rests with the STI.

Taxpayers cannot yet make electronic payment via the internet, but an e-declarations portal is currently being developed with support from the United Nations Development Program (UNDP) and may open up opportunities for introducing internet-based payment in the future.

Document delivery, management and central processing

The procedures for delivering reports to the tax authorities could benefit from targeted improvements. Taxpayers often must line up for hours waiting to deliver their tax declarations to the TTIs because the STI must provide a time-stamped copy of each declaration and because of peak days of activities that result from current reporting requirements. This is extremely costly to taxpayers in terms of time and productivity lost. Such receipts are not required in most modern tax systems, without any apparent loss of integrity. Alternatively, STI could receive the documents, issue a receipt and send it by mail to the taxpayers. The latter approach is already built into the UNDP-funded e-declaration portal and can be implemented for mailed declarations as well.

All tax-related reports must be delivered in hard copy to the TTI where the taxpayer is registered. At the end of each day, clerks at the TTI organize the batch of reports received that day and send the batch by special post to the MSTI's Central Processing Unit (CPU) in Chişinau. Data entry for *all* declarations and other tax-related reports submitted to STI offices is done at the CPU. The CPU's main responsibility is to ensure that data is entered exactly as it appears on the documents received from taxpayers. All data is entered and posted to a local Informix database server when data entry is complete. Once the daily batch is completed and posted, all data is transferred over to the FoxPro database and central Informix database. The FoxPro database has applications that check for errors in the data entered, but no error correction, per se, is done at this stage. Only after data are transferred to the TTIs does anyone check for errors and initiate corrective actions.

Unfortunately, the FoxPro database is not web-accessible. Therefore, "cutouts" of the central FoxPro database are sent as database format (.dbf) files to each of the TTIs, each with its own FoxPro-based database. The cutout database contains data only on taxpayer activity in that particular territorial unit. Once transferred, the TTI can examine errors or other discrepancies picked up by the FoxPro application. For each correction or modification, there must be a strict "document of evidence" initiating the correction. A tax officer cannot simply enter the database and correct an error. Either the TTI must prepare a special document ordering the correction, or the taxpayer must submit a "correctata" (repeat declaration), both of which go, once again, to the CPU for processing.

Centralized declarations processing is an important efficiency-enhancing feature of many modern tax administrations. In Moldova, further efficiencies could be gained by permitting taxpayers to deliver reports directly to the CPU, and by allowing automated error correction for routine taxpayer errors. Coupled with changes to the rules and procedures for obtaining time-stamped receipts, these changes would eliminate unnecessary document preparation and handling that wastes time and money.

Another efficiency-enhancing measure would be to allow companies to use accepted accounting software to record and report their VAT fiscal invoice data to STI. By law, a company is required to report to the STI, as part of its monthly VAT declaration, all of its purchases and all fiscal invoices issued for those purchases in a "VAT Annex." Currently, this reporting is done manually by companies, sent to the CPU, then re-entered by CPU clerks and posted to the Informix database. This sequence of steps creates a huge burden for both the taxpayer and STI.

Indeed, the CPU dedicates more than 60% of its time to entering invoice data from companies' VAT Annexes. Moving to accepted accounting software could eliminate hours of data compilation per month for each taxpayer. If fully implemented, it would also slash the work of the CPU in half.

Although the STI is responsible for the collection of social contributions for the National Social Insurance Fund (CNAS) and the National Mandatory Medical Fund (CNAM) and for reporting on salaries and withholdings for personal income tax, not all social contributions reporting is made to the STI. CNAM, for example, requires employers to submit certain additional forms,, some of which on a weekly basis. Some of these forms request information that is already being reported to the STI. Moreover, some of these forms are not available to taxpayers in electronic format. Instead, taxpayers are filing CNAS or CNAM-related reports on a weekly basis and some of these forms are, in fact, completed by hand.

Taxpayer assistance

Taxpayer assistance services are provided in all TTIs, largely to assist taxpayers in obtaining necessary forms and in completing and submitting tax reports and declarations. The LTU also provides dedicated taxpayer services for large taxpayers.

Plans are underway to create a national call center and assorted online services, including e-declarations. These measures should greatly reduce the need for face-to-face contact between taxpayers and tax officers, but additional measures should be taken to limit or prohibit such contacts except in special cases.

The STI should also seriously consider the establishment of an office of the Tax Ombudsman. Its main responsibility would be to ensure that taxpayer rights are defended, that taxpayers subject to controls or audits knows their rights and responsibilities, and to provide a means for the taxpayer to register complaints with the tax bodies.

5 Organization

Tax administration is under the overall supervision of the Head of the State Tax Service (STI). The STI comprises the Main State Tax Inspectorate (MSTI), 41 Territorial Tax Inspectorates, the Large Taxpayer Unit, and sub offices. Tax administration is also performed by tax officers located in municipal offices. STI has a total of about 2,200 employees, of which about 350 work in the MSTI, while the rest are in the other offices around the country.

MSTI's recent reorganization

The MSTI is just now going through reorganization, based in large part on recommendations made by IMF peripatetic advisory missions. While the former structure was in large part functionally based, it was also hybrid in that certain functions continued to be based on tax type rather than cross institutional. The new structure attempts to move more toward the complete functional organization form. This new structure is not yet tested in Moldova, but it is much more consistent with what is considered by many to be the international best (or good) practice, in terms of tax administration organization.

The new MSTI organizational chart is in Annex B.

The reorganization is based in a large part on recommendations that the IMF has been making over the past several years, and is succinctly discussed in the September 2007 IMF report (STRATEGIES FOR STRENGHTENING TAX ADMINISTRATION). The reorganization seeks to reduce overlapping accountabilities, remove ordinary operations from headquarters, and move more toward the concept of functional rather than tax-type organization.

The IMF report suggests that the MSTI comprise:

- Head, directly in control of a number of functions (internal control), planning and reform, legal and tax policy, and appeals)
- Deputy Head for program design, responsible for taxpayer services, including registration, arrears and returns, and audit and VAT refund.
- Deputy Head for support services, responsible for human resources, administration, finance and accounting, and information technology.
- Deputy Hear for operations, responsible for oversight of local tax offices or TTIs, the LTU, tax fraud investigation, the new call center, and the data processing center.

The organizational structure that the STI has chosen to implement varies somewhat from the IMF recommendations, but not greatly. The new organizational structure for the MSTI chosen for implementation comprises:

- Head, directly in control of internal control, planning and finance, and human resources. (and Chișinau TTI)
- Deputy Head for policy, responsible for
- Deputy Head for execution, responsible for legal, antifraud, and
- Deputy Head for support services, responsible for records, administration of the STI, information technology, and
- Deputy Head for Chișinau STI.

A clear distinction between the IMF recommendations and the STI choice for reorganization is that the IMF had recommended that Chișinau TTI be included with all the TTIs under the responsibilities of the Deputy Head for operations. Given that 65% of all collections by STI take place within the territorial area of Chișinau, it seems quite reasonable that the Head of Chișinau TTI be separated out this way and that the Head of Chișinau TTI report directly to the Head of the MSTI.

The role of the MSTI in the new organization is mainly overall management and leadership of the entire STI. It is meant to establish targets, develop methods, and oversee overall performance of the entire system. Still, MSTI does carry out some execution functions. For instance, MSTI is responsible for operating the Central Processing Unit, which receives all tax declarations (reports) and enters them into the centralized taxpayer database.

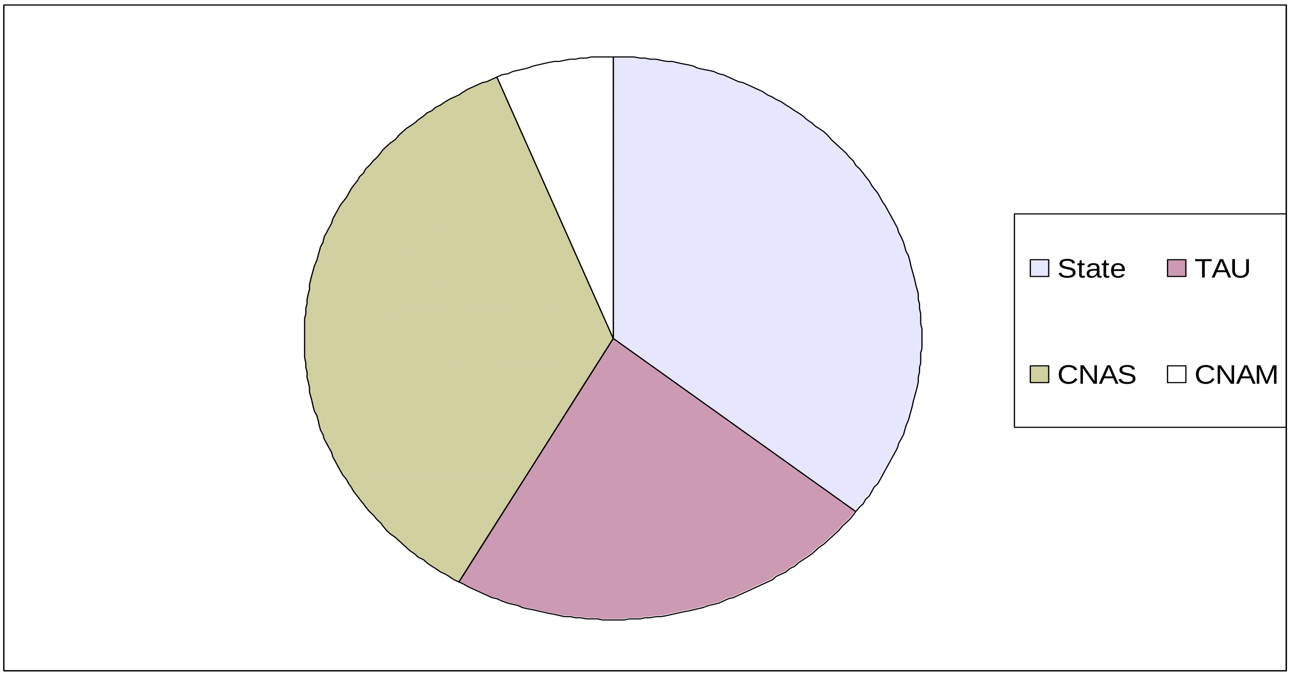
Certain important functions are appropriately based in the MSTI. These include, for instance, those sections responsible for supervising and in some instances implementing legal actions, developing and refining fiscal control methods, and developing and maintaining information technology throughout the organization. The MSTI also directly manages, under the Deputy Head for Execution, the operations of the Large Taxpayer Unit, though there is also a Director for Large Taxpayers, who is subordinate to the Deputy Director. The LTU operations are part of the STI.

The local level

In 2007, approximately 64% of all revenue collected by the STI was collected within the Chișinau municipal area. The second most important revenue producer was the municipality of Bălți, which was far behind at only 6% of total revenue. Chișinau revenues come from both the local TTI as well as the LTU. Bălți also has both a local TTI and a LTU branch. The Center for Combating Economic Crimes and Corruption (CCCEC) collected less than 0.20 % of all domestic tax revenues in the country.

The STI collects money for the State Budget (SB), for municipalities or Territorial Administrative Units (TAU), for the Social Insurance Fund, and for the Mandatory Medical Fund. The funds that are collected for these units, in shares, are presented in the following pie chart.

Figure 1: Beneficiaries of the STI revenue collections



It is interesting to point out that although 65% of all STI-collected revenues are collected within the Chișinau municipal area, only 55% of all local taxes, i.e., revenue accruing to the TAUs, is collected within Chișinau. Indeed, if we compare revenues for each TAU to total revenues collected in the TAU, the TAU share comes to 28%, on average. The lowest share, however, is in Chișinau, where the revenue share is the lowest in the entire country, at only 18%. The TAU enjoying the highest share of total revenues collected on its territory is Basarabeasca, which received a 43% share in 2007.

An important aspect of reorganization must include a review and improvement of the operations of the TTIs and the LTU offices. The IMF recommendations, while meant to address the overall STI, seem to have been applied only at the MSTI level. There is little discussion of organization of functions, responsibilities, reporting and resources at the local levels, other than a brief discussion related to the LTU and the need to move more taxpayers into the LTU's purview. A more complete organizational review should be conducted that specifically looks into relations between the MSTI and TTIs, as well as to the organization and operations of the TTIs and the LTU. The IMF makes some recommendations for analysis into TTIs' organization, but these analyses have not yet been conducted. The next section of this paper addresses some of these issues.

The IMF September 2007 report suggests that there may be "too close" a relationship between TTI officials and the governments of the TAUs. This relationship might possibly result in TTIs focusing more on collecting taxes that accrue to the TAU instead of focusing resources and efforts on generating revenues that would benefit the State Budget. This is the classic problem of "dual subordination." The IMF recommendation is that the close relationship between the TTIs and the TAUs might better be severed, with the TTIs' loyalty being directly to the overall revenue system.

This problem highlighted in the IMF report has occurred in many other countries, especially in former socialist countries. The IMF recommendation in the case of Moldova might cause other, unanticipated problems. For instance, if the TTIs focus on overall revenue generation, or on enforcement of the most important taxes, they are likely to focus on revenues that might only benefit the State Budget, at the cost of the budget of their respective TAU. The issue goes far beyond issues of managing the local tax offices, to the broader concept of intergovernmental fiscal relations, local taxation, and distribution of competencies, especially the decentralization of revenue administration authority itself.

Center for Combating Economic Crimes and Corruption (CCCEC)

In addition to the STI, the CCCEC also is responsible for some tax administration and collection operations. Mainly, the CCCEC investigates suspected crimes of economic fraud and corruption, including cases where tax evasion may have occurred. While this agency may have an important role to play in the economy in terms of combating such criminal behavior, its de facto role in collecting tax revenue for the State is extremely limited. Indeed, CCCEC collections for the State in 2007 amounted to only 0.18% of all revenue collected by the STI.

The team was unable to undertake an assessment of CCCEC activities, but did receive comments from private businesspersons. Generally, businesspersons complained that CCCEC audits and controls were arbitrary and that CCCEC inspectors were less capable than STI auditors. However, this opinion was not universal among those private businesspersons with whom the team met.

Large taxpayer unit

The large taxpayer unit (LTU) has 65 officers that manage 352 taxpayers. All told, large taxpayers account for some 40 percent of total taxes and fees collected in Moldova. The LTU provides the full range of services for its clients, including taxpayer services and assistance, tax audits, and enforced collections. Feedback from private sector interlocutors is rather positive about the LTU. Taxpayers report fair treatment and good service.

LTUs around the world often have two distinct reasons for existence. One is to provide better service to and maintain better control over the country's largest taxpayers. This ensures that the large taxpayers can comply with tax rules with minimum effort, while also ensuring that these same large taxpayers pay the amount of tax that is truly due.

LTUs operate differently from country to country, but most tend to focus on audit, collections, and taxpayer services. This is consistent with the LTU mission in Moldova. Where Moldova differs from the other countries' LTU experience is that Moldova's has relatively few taxpayers who also represent a rather limited revenue take. For instance, the "normal" contribution of large taxpayers in countries that operate LTUs is around 65% of total tax revenue. This is particularly so in poorer countries, where wealth tends to be more concentrated. For instance, in Guatemala, 0.86% of taxpayers are responsible for over 80% of the government's revenue. In Kenya and Cameroon, the large taxpayers serviced by each country's LTU provide for about 60% of government revenues. Even in New Zealand, the large taxpayers (only 0.02% of the taxpaying public, including personal income taxes) account for 55% of tax receipts.

6 Resources

This section discusses some of the resources available to the STI for the execution of its functions, namely IT, certain IT applications, and human resources. It also discusses key features of the Tax Code, which both establishes the legal framework for taxation in Moldova and provides the legal and organizational tools for its implementation.

IT and applications

Equipment

The STI has recently purchased a large amount of hardware, which it has distributed to MSTI offices, the LTU, and to the TTIs. Some staff continue to share computers, but most professional staff now have their own computers. New servers, printers, desktops, routers and other peripherals have been bought within the past two years. Many were installed in late 2007. An inventory of STI equipment is found in Annex C.

The two databases problem

A major challenge within the STI is the fact that it runs two databases on two different platforms. The first, FoxPro, implemented in the early 1990s, is DOS-based and is not web-accessible. All the applications built around this database are only fully functional within the MSTI. The TTIs cannot access the entire taxpayer database via the FoxPro-based applications, but can apply these applications only on their limited "cut out" databases. This means, for instance, that the TTIs cannot issue certain documents that taxpayers need, such as the compliance certificate, because they are unable to access their taxpayers' files on the cutout databases of other TTIs. Nor can they access the main FoxPro database resident in the MSTI.

The second database, installed later with support from a former USAID tax project, is built on the more modern Informix platform. The declarations entry system for the entire STI is built on the Informix system and is located at a single central processing unit across the street from MSTI headquarters. Unfortunately, the contractor developed few of the applications that were required before the project ended. As a result, the STI was left with an excellent data entry system on a then state-of-the-art database, but no tools to access it.

The FoxPro-based applications are generally of good quality but are only accessible at the MSTI. Furthermore, certain applications have critical weaknesses, including the taxpayer current account. The taxpayer current account is an important tool for both tax enforcement and for providing effective service to taxpayers. MSTI has a comprehensive taxpayer current account reflecting tax balances, including outstanding liabilities, penalties and interest, for all registered taxpayers. However, as mentioned above, each TTI only receives a cutout of the MSTI database and cannot access their taxpayers' files on the cutout databases of other TTIs. This means, in effect, that a taxpayer with operations in multiple locations cannot find out his overall tax standing unless (i) he goes directly to the MSTI, or (ii) waits for his TTI to request, receive and reconcile the data from the other TTIs maintaining records on him. Since the relevant applications remain inaccessible on the web, this process can take days to complete.

To make STI's system fully functional and web accessible, the respective applications must all be developed for the Informix database. Once these applications are available, tested, and fully operational, STI intends to retire its FoxPro database and move exclusively to the Informix database.

The migration to a fully web-accessible system, based on the Informix database, also has its technical challenges. Although all the required applications can be built and made web accessible, access to internet services is still hampered by an inadequate data-communications backbone through the country. The Center for Special Telecommunications (CST) has a comprehensive plan to extend and modernize the national telecommunications infrastructure over time. In the meantime, the new Informix-based applications will have to be designed to function both on the web, and in batch mode.

Interconnectivity between MSTI and TTIs

Currently, there is no "interconnectivity," per se, between MSTI and the TTIs. Each TTI has its own local "cutout" database. Each has its own internet service provider through which it communicates with MSTI and other tax offices. Because none of these databases is web-accessible, all data must be transferred in batch mode, mostly using database format (.dbf) files. From the central FoxPro database, each TTI is sent a daily batch file reflecting updates to its cutout database. The TTI has applications on its local database that allow it manipulate this information. Any modifications or corrections, however, must be sent to the MSTI's central processing unit in Chișinau for processing.

Data sharing with other government agencies

STI regularly exchanges data with a variety of external agencies, including Customs, Treasury, CNAS, CNAM, the State Registration Chamber, and CCCEC, as well as the National Bureau of Statistics (NBS), which according to some businesses interviewed requires substantial reporting of its own. However, there is no inter-connectivity among these agencies' respective databases. Every day, the STI receives a record of all bank payments made to the treasury as a database format (.dbf) file on CD-Rom. Data entry clerks in the central processing unit (CPU) enter this information line by line and post it to the Informix database.

Similarly, each quarter CNAS will e-mail STI copies of all "4BAS" declarations submitted by companies reporting contributions paid for their employees (CNAS administers the social insurance benefits, but STI is responsible for collecting the contributions). The process is similar for obtaining data from Customs, but the information requirements tend to be much more complex (e.g., data on vehicle imports, imports of specific goods, importers' transactions with Customs, etc.).

Similar procedures apply to *ad hoc* data requests. If STI requires certain information from CCCEC, for example, CCCEC will prepare and send STI the requested information as a .dbf file, either via email or on CD-Rom, which information is entered and posted at the CPU.

Website

The STI's public website (http://www.fisc.md) is presented in three languages—Russian, Romanian and English—although the English version features less information than the other two. The website offers a wealth of information, including tax legislation, news on changes in regulations, downloadable tax forms and instructions, and a copy of the STI's annual report. However, much of this information is incomplete or otherwise is not kept up to date. The English version of the Tax Code, for example, has not been updated since July 2002; the Russian and Romanian versions have not been updated since February 2007, despite multiple amendments to the Code since that time.

Clearly, careful attention was put into the design and content of the website, but maintenance of that content has been inconsistent. To make the site more user-friendly and provide a real service to taxpayers, the site should be reviewed to ensure information is updated, legislation, all applicable forms and instructions are on the site and clearly organized, and contact details for taxpayer assistance services (including the new national call center) are prominently displayed. As a recommended additional feature, the STI might consider preparing a list of "Frequently Asked Questions" and answers to those questions to be posted on the website as well.

E-declarations portal

A UNDP-funded project is current developing an e-declarations portal for the STI in cooperation with a local company specialized is systems development. At writing, the portal had been designed, developed and was undergoing testing with real data. The "go live" date for the e-declarations portal is March 2008, but the STI is concerned that taxpayers still do not have the digital certificates required to effect an electronic signature. Taxpayers are required by law to purchase digital certificates from CST, at US$180 (approximately MDL 2,070) per non-transferable certificate. Given the price tag, STI is planning to pilot-test the new portal first with large taxpayers, and then roll it out to the broader taxpayer population as alternative options are developed.

One option currently under discussion is to develop a system that allows a taxpayer to complete and sign his tax declaration, then generate a barcode that captures the complete information on the declaration. The barcode can then be sent by mail or electronically to the STI, which will be equipped with the technology needed to read and process the information.

Human resources

As of mid-February 2008, the State Tax Service had 2,196 total employees spread across 41 offices, 50 fewer staff than were reported one year earlier.

The Main State Tax Inspectorate has 344 employees, including staff of the central processing unit and about 65 employees in the large taxpayer unit. The remaining employees, numbering almost 1,900 overall, are spread across a network of 35 territorial units. The five offices of Chișinau municipality have more than a quarter of those 1,900 staff. The remaining staff are allocated to the TTIs in direct proportion to each territory's population.

Functionally, staff of the 35 TTIs were distributed as follows in 2007:

- Services related to taxpayer records: 472
- Services for physical persons: 380
- Tax audit/control: 483
- Enforced collections: 229
- Management, internal accounting, and other specialists: 211
- Administration: 123

According to the MSTI's Human Resources Department, roughly 60 percent of STI employees have higher education, and most are qualified tax specialists having received STI-sponsored training either internally or externally.

The Human Resources Department, located within the MSTI, handles recruitment, selection, hiring, promotion, and compensation and benefits for all STI employees. Recruitment is based on open competition for positions, with the exception of the director level, which is by appointment. The grounds for terminating employees are stipulated in the Law on Public Servants and include termination for absence, poor performance, and using the authority of a tax officer for personal gain. New hires receive the STI's internal regulations and a copy of the public service code of ethics as part of a new-employee package at the start of employment.

Remuneration within STI is subject to the civil service scale in place for all pubic servants in the Republic of Moldova. Benefits include health insurance and a pension plan (for employees with 15 years of public service at retirement age). Salaries vary depending on level of education, years of experience, and position or function within the STI. As a general rule, an entry-level officer earns a little over MDL 1,000 per month, about 10 percent less than per capita GDP in Moldova. A junior auditor or a new officer with a university degree might command a higher entry salary, e.g., MDL 1,500 per month, slightly higher than GDP per capita. Furthermore, modest increases are granted at different lengths of service (i.e., at 2 years, 5, 10, 15 and 20 years). Additional, ad hoc incentives and awards are granted for employee performance, but mostly non-financial due to budget constraint. To put this into perspective, in industrialized countries, the ratio between an average tax administrator's salary and GDP per capita is 2 to 1, not particularly high but high enough to attract and retain qualified candidates. In Moldova, the ratio falls slightly short of this, at 1.5 to 1. With the inflation rate in double digits, the fixed salaries that the STI offers become even less attractive with each passing year.

Certain, more senior positions requiring special technical or managerial skills are more attractively compensated. Based on responses from officers surveyed during interviews for this study, a senior auditor with 7-10 years of service to the STI might earn around MDL 2,500 per month (MDL 30,000 per annum); and, a departmental head in MSTI might earn between MDL 3,000-3,500 per month, roughly three times the salary of an entry-level officer.

The rigidity of the civil service scale poses challenges for the STI in attracting talent to its ranks. Recently, for instance, the IT Department advertised externally for several new positions, but received no applications despite a broad pool of qualified candidates in the job market. Eventually, these positions were filled internally, but with junior personnel with limited experience. The IT Department has become accustomed to losing its staff to the private sector as soon as they have been trained.

Allocation of human resources

This section looks at human resource allocation, briefly, in one Territorial Tax Inspectorate (TTI) and also at the overall allocation of resources among all the regions.

In Bălți, the TTI has a total of 87 employees, of which 8 are fully dedicated to managing the property tax (this is a local revenue collected only in Bălți and Chișinau), while the remaining 79 tax officials manage the rest of the tax system. Total revenues in 2007 collected by this TTI came to MDL 567 million, while property tax collections came to only about MDL 1.5 million. The imbalance is clear. Tax collections per tax official not working on property taxation came to MDL 7.16 million, while for officials dedicated solely to property tax, revenues only came to MDL 0.19 million. The difference in productivity of 38 to 1 is stark and only underscores the need for a review of resource allocation.

The STI operates in 35 regions or zones of the country. The most important region, in terms of both staffing and revenues, is Chișinau. Indeed, 65% of STI-collected revenue is collected in Chișinau. The STI allocated or assigned 1,898 staff to tax operations in these 35 regions or zones in 2007. The revenue productivity differences among these staff are quite diverse.

Of course, it is clearly understood that revenue productivity will vary. There are many reasons for such differences. For instance, for the sake of simply establishing its presence around the country, the STI may wish to post employees in regions even where there is little to be gained in state revenues. In addition, since the STI is responsible for collecting taxes for TAUs, its presence has been required even though productivity has been low. Nonetheless, it is worthwhile to review the differences in revenue productivity.

Table 6, below, shows revenue productivity for each STI tax office. Revenue productivity, not surprisingly, was highest in Chișinau, amounting to over MDL 15 million per tax official. Second highest was in Bălți, where revenue productivity was less than half that of Chișinau. The lowest revenue productivity was in Soldanesti, where revenues came to only MDL 1.3 million per tax official. Indeed, revenue productivity in Chișinau was more than eleven times that in Soldanesti.

Table 6: Revenue productivity by region and zone

	Revenues (0000)	Staff	Revenue per staff member (000)
STI m.CHISINAU	8,276,785.5	519.0	15,947.6
STI mun Balți	667,165.6	87.0	7,668.6
STI Anenii Noi	121,384.8	39.0	3,112.4
STI Basarabeasca	34,809.0	18.0	1,933.8
STI Briceni	106,109.2	39.0	2,720.7
STI Cahul	197,627.1	65.0	3,040.4
STI Cantemir	64,809.2	31.0	2,090.6
STI Calarasi	86,954.5	33.0	2,635.0
STI Causeni	96,490.2	34.0	2,837.9
STI UTA Gagauzia	259,430.6	117.0	2,217.4
STI Cimislia	65,827.2	31.0	2,123.5
STI Criuleni	72,971.5	37.0	1,972.2
STI Donduseni	70,390.7	31.0	2,270.7
STI Drochia	131,352.0	38.0	3,456.6
STI Dubasari	35,733.7	16.0	2,233.4
STI Edinet	125,378.4	52.0	2,411.1
STI Falesti	84,323.7	35.0	2,409.2
STI Floresti	114,188.9	39.0	2,927.9
STI Glodeni	72,743.6	27.0	2,694.2
STI Hincesti	124,852.1	49.0	2,548.0
STI Ialoveni	130,841.5	36.0	3,634.5
STI Leova	43,090.4	32.0	1,346.6
STI Nisporeni	51,817.9	26.0	1,993.0
STI Ocnita	64,943.5	31.0	2,095.0
STI Orhei	161,498.0	63.0	2,563.5
STI Rezina	141,199.7	34.0	4,152.9
STI Riscani	72,446.5	35.0	2,069.9
STI Singerei	94,870.7	30.0	3,162.4
STI Soroca	137,810.4	53.0	2,600.2
STI Straseni	119,730.2	41.0	2,920.2
STI Soldanesti	37,666.3	28.0	1,345.2
STI Stefan Voda	77,923.1	32.0	2,435.1
STI Taraclia	67,189.3	30.0	2,239.6
STI Telenesti	52,946.7	34.0	1,557.3
STI Ungheni	139,653.0	56.0	2,493.8
TOTAL for STIs	12,210,823.0	1,898.0	6,433.5

Training function

The Human Resources Department coordinates annual training programs in consultation with various STI departments and territorial units. An organization-wide training center is currently being set up at the facilities of Chișinau's Botanica tax office.

The Department's annual training budget, MDL 446,600 in 2008, allows for training of up to 400 employees per year. The training program is designed based on an annual needs assessment and takes into account suggestions from managers, departmental heads and past years' trainees. Each training is between five and ten days in length. Last year, several employees were trained in using accounting programs. The training will be offered again this year for TTI staff, particularly for those responsible for audit and control. The Department also encourages departmental heads to go for management training at the Public Administration Academy. In general, however, there are no systematic training curricula for different specializations, and most training is ad hoc and administered largely by TTI managers to their staff.

Although the MSTI and TTIs provide training for staff in a variety of areas, there are important ways in which such training should be improved. For instance, there is no distinction between training designed specifically for auditors and training designed for enforced collections staff, yet these two functions are quite distinct, applying different resources, with different goals, and requiring different skills and knowledge sets.

Legal framework

All legal aspects related to taxation are incorporated in the country's Tax Code. The Tax Code includes all articles of law with respect to substantive taxes and fees, the administration of taxes, the legal rights, recourses, procedures, and sanctions and penalties, as well as the establishment and regulation of the entities of the state responsible for tax administration. This Tax Code meets international best practices; indeed, it is superior to the legal framework for taxation in place in most countries, because all aspects of taxation are found within this one, comprehensive and coherent piece of legislation.

Any efforts to change taxes, modify taxation, alter how taxes are applied, change the organizations responsible for tax administration, change taxpayer rights and responsibilities, or change the rights and responsibilities of the tax authorities must be incorporated into the Tax Code by amendment.

The benefits of such a comprehensive, coherent Tax Code are quite clear. A unified Tax Code, such as Moldova's, enhances transparency, as all involved know precisely where in the Tax Code to refer in order to substantiate decisions and actions. We commend Moldovan authorities for the quality of the overall Tax Code. We recommend it as a model for other countries to review, and we recommend that any legal changes the government may contemplate not be included in separate law, but be incorporated directly into the Tax Code.

7 Recommendations

The Moldovan tax system is based on a sound legal basis. Tax administration still has many challenges and there are many ways that it can be improved, but we recognize here that there has been considerable progress. Compliance with the VAT is very high and has been increasing steadily over the past four years. Personal income tax compliance is not up to international standards, but revenues generated by the tax have been steady even while the tax rates have been cut; this means that compliance has been improving.

The STI is seeking to strengthen many of its systems, which are archaic and simply can no longer serve the public's nor the STI's needs. These efforts will result in improved compliance while improving taxpayer services.

Donor assistance from USAID, IMF, and the UNDP are providing assistance to the STI in its modernization efforts, but the tasks are great and the opportunities plentiful. The STI must coordinate these efforts and seek to maximize benefit.

There is little point to making a series of recommendations unless they are consistent with an overall set of strategic objectives. The STI has a strategic plan for the 2006-2010 period that provides objectives in many areas. For the purpose of clarity and succinctness, and based upon the analyses in this study, we propose that the following objectives should be the near- to mid-term objectives, and these drive the development of our recommendations.

The STI should seek to lower the cost-to-collections ratio. Given the overall size of the State in Moldova, the robust revenue performance of the recent past, and the importance of maintaining fiscal balance, the STI should seek to maintain the current ratio of tax revenues to GDP.

Since the corporate income tax will no longer be a revenue producer for the State, STI must seek ways to raise revenues from other sources.

Since VAT revenue has been extremely strong, important increases in government revenue are unlikely to come from this source. The STI should concentrate on improving collection of other taxes, particularly on raising revenue compliance of the personal income tax, as well as improving the collection of excises.

The cost of collection is not extremely high in Moldova, but there are many opportunities to reduce this. We propose some recommendations that could lead to lower costs, without harming revenues.

Revenue-raising efforts, while important, must not be at the expense of overburdening the private sector; it should not reduce national competitiveness. Therefore, the recommendations in this report will seek to both raise compliance, while reducing the administrative burdens the tax system imposes on business and individuals. In some instances, we propose actions that are mostly designed to reduce taxpayer compliance burden, without specifically seeking to raise revenue productivity.

Improve STI core processes

Audit selection

The risk-based audit selection system needs to be improved in the following ways:

- Empirical analysis should be conducted to show the probabilistic relations between taxpayer behavior and taxpayers' imperfect compliance. Such analysis can be based on tax system information, but with standards or norms calculated for a taxpayer's number of employees, total revenues, assets base, geographic region, industry, international trading, and other such factors.
- Audit selection should be supplemented with information external to the tax system. For instance, taxpayer purchases of vehicles, real estate, international air tickets, credit card activity, and similar "big ticket" items should be immediately captured by the STI and incorporated into the audit selection and audit management processes.

<u>Improvement of the automated audit selection system should be of highest priority.</u>

Audit case management system

The STI should develop case management systems (CMS) for all audit cases. The CMS would allow auditors, audit managers, and other STI management to be able to track the actions being taken in any and all audit cases as they occur. The CMS can help to improve audit, audit oversight, audit performance, and even reduce the opportunities for error and corruption in audit practices.

Development of the audit CMS should be done within the next two years.

Implement performance indicators for audit

Every audit case should be assessed for risk, cost, and likely financial return. Auditors should be assigned to these audit cases on this basis, and auditors' performance should be judged according to how well their cases perform with respect to these pre-assessments.

Enforced collections case management system

Similar to the above recommendation, the STI needs to develop a CMS for all enforced collections actions. The concept of a collection CMS should also include case management for all debt management, agreed debt repayment programs, and monitoring of arrears.

Developing the collections CMS should be done within the next two years.

Implement performance indicators for enforced collections

Every enforced collections case should be assessed for risk, cost, and likely return. Enforced collections officers should be assigned to collections cases on this basis, and staff performance should be judged according to how well their cases perform with respect to these pre-assessments.

Training for audit and enforced collections

A broad training program should be developed to strengthen these two functions. The training can overlap, but there is a need for specialized training in audit and specialized training in enforced collection. Some of the recommended training courses include, but are not limited to:

- Modern audit selection based on risk assessment and using both endogenous (from the tax system) and exogenous (external to the tax system) data for audit selection.
- Audit management to asses the risks and expected returns from audits, allocate audits to audit staff, set priorities in audit planning, set audit and auditor performance criteria, and evaluate auditor performance.
- Indirect methods for assessing revenues, exempt and non-exempt sales, export values for VAT refunds, and methods for linking corporate income to undisclosed personal uses of corporate funds. The indirect methods techniques go beyond auditing a company or a person's accounting books to determine unreported income. Indirect methods is permitted as an audit tool by the Tax Code.
- Financial investigations in tax audit.
- Modern enforced collections management, and selection of collections cases based on risk-related criteria, including age of debt, size of debt, likely recoverability of debt, and use of exogenous information.

Improve the appeals process

Taxpayer appeals suffers from governance problems. Taxpayers simply feel, and the numbers seem to corroborate this, that they cannot get a fair hearing in the STI. Appeals must be recognized as a specific and a special process within the STI, but not one that reports to other operational units. Instead, appeals should be strengthened, centralized, and report directly to the Head of the STI. Appeals should not be included in the same department as tax audit or even anti-fraud. Appeals staff should be expertly trained in audit and all tax procedures, with specialists in the major tax areas. Appeals staff must be made to understand the importance of Article 11 of the Tax Code, which requires the STI rule in favor of the taxpayer in cases of ambiguity.

<u>Reform of the appeals process is of high priority and should begin to be addressed in 2008.</u>

Taxpayer reporting and other requirements

Declarations delivery process

Taxpayers should no longer be allowed to deliver their tax reports or declarations in person to the TTIs, the CPU, or any other STI office. Instead, they should be required to either deliver their reports to the CPU by mail or by e-declaration. If by mail, taxpayers should send their declarations via certified post to provide an official receipt with the date of the mailing.

<u>This requirement need not wait for the e-declaration system to be operating. This should be implemented immediately.</u>

Unify all reporting related to withholding and payroll taxes

All reporting required of taxpayers with respect to personal income tax withholding from salaries and payment of social contributions, specifically information required by CNAS and CNAM, should be combined into a single set of forms, all available in electronic form and available on the STI website. Taxpayers should be allowed to submit these forms, or most of them, electronically. All forms should be sent directly to the STI and the STI should be responsible for data processing and for providing information to CNAS and CNAM.

Simplify the VAT reporting requirements

Two important changes with regard to VAT reporting can benefit both the STI and the taxpayer. First, the STI should only require VAT taxpayers to file comprehensive reports every quarter (i.e., every three months), not every month; at the same time, monthly payments of VAT should be maintained. Second, the STI should accept electronic versions of the VAT Annex. Both of these reforms would require changes to the Tax Code, as well as redesigned processes.

Review structure of the personal income tax

A major area of concern is that there are simply too many taxpayers in the Moldovan tax system. The tax system requires active record keeping for about 675,000 taxpayers, many of them small businesses and farms and few of them making a significant contribution to the tax take. Add to this the 1.3 million citizen-taxpayers subject to the personal income tax. Most of these citizens are at the lower income levels and contribute little to public revenues, but their accounts must be nevertheless be maintained. A restructuring of the personal income tax could remove thousands of taxpayers from the rolls, reducing the administrative burdens on employers, employees, and the

STI. Several regional neighbors have taken this step in recent years, including Russia, Slovakia, and Estonia.

The Moldovan personal income tax reaches very far down the income ladder, affecting very lowly paid wage earners, for whom reporting and record keeping are required, both for private business and the STI. The overall structure should be analyzed with an eye toward reducing the number of low-paid wage earners, while seeking to maintain revenues. This restructuring should be implemented with a specific plan to strictly enforce the personal income tax on those taxpayers who remain in the system.

Such a review should be conducted using a microsimulation model. This is a computer model that mimics the performance of the personal income tax, based on real data. The model would allow the STI to simulate the impacts on persons and households at differing income levels, from changes in the tax structure, such as altering the structure of marginal tax rates, adjusting the personal deduction, or changing the family deductions.

Since the Government of Moldova is already planning to adjust the personal income tax next year, and is considering introducing a "flat tax" system, we suggest that this review be performed immediately.

Eliminate all reporting related to the business income tax

Since the tax rate on corporate income has been reduced to zero, there is no revenue reason for continuing to require companies and sole traders (individual entrepreneurs) to continue to provide such information. If the State deems that it still requires such information for economic planning reasons, then the State should decide exactly the data it would require from economic agents and not require that they report more than is necessary. In addition, any continuing requirement for such information should be reduced to a single report per year to minimize the administrative burden.

Should there be a need to assess the impact of eliminating the tax on business incomes on private investment and economic growth, such an analysis can be conducted based on information that is already being provided by the private sector to the STI and other agencies.

Extend VAT relief for large capital investments to Chișinau and Bălți

Recent legislation provides VAT relief for capital investments of private enterprises in areas other than Chișinau and Bălți. Our understanding is that this was done to encourage investment in Moldova's lesser developed regions. This type of relief is an important reform, is consistent with international best practices, and can contribute to the enhancement of national competitiveness. However, most of the country's economic activities and tax collections are generated in Chișinau and Bălți and so restricting this relief to all areas but these two limits the potential for economic impact.

We recommend that the operations of this relief be closely monitored throughout 2008 and that by the end of 2008 serious consideration be given to extending this relief to the entire country, including Chișinau and Bălți.

Organizational change

Appeals director should report directly to Head of STI

The appeals section should be independent of any other STI operations and definitely not included within the same organizational unit that investigates tax fraud cases.

This is an immediate priority.

Expand large taxpayer unit

We concur with the IMF recommendation that the number of firms being serviced by the LTU should be increased. The target of raising the number of large taxpayers from 350 to 500 is appropriate. At the same time, this increase in large taxpayers must be matched by increases in staff, particularly audit staff. Large taxpayers should be fully audited ideally on an annual basis (i.e., every 12 months) or at least every 18 months. The STI's strongest audit staff should be assigned to the LTU.

An LTU is often seen as a core around which all tax administration processes and organization can be modernized. This does not seem to be the case, yet, in Moldova. The team believes steps should be taken to:

- Make the LTU truly a center of excellence within the STI.
- Staff the LTU with the STI's most qualified and best trained staff.
- Make the LTU truly customer focused. Taxpayers should want to be in the LTU since this would add prestige and facilitate their compliance and lower uncertainty and compliance costs.
- Provide greater stability of LTU membership (i.e., do not drop a taxpayer from the LTU simply because receipts from that taxpayer fall below a specific threshold for a year or two). This, of course, will require changes to the Tax Code.

Rationalize operations of the TTIs

We recommend that the STI undertake a complete review of the work being carried out in the TTIs. This review would consider all options, including:

- Reducing the number of staff in TTIs.
- Focusing TTI operations and staffing on tax audit and enforced collections.
- Consider closing a number, perhaps half, of the TTIs around the country.

<u>This recommendation should be undertaken in the medium term.</u>

Do not fund the IT enterprise with "earmarked" taxes

The STI is considering options for removing the IT function from its core organization structure and outsourcing this function to a state-owned enterprise that would be set up specifically to service its IT needs. The STI is considering funding this function by "earmarking" a portion of revenues coming from excises. The reasoning behind this concept is that it would: 1) provide a steady revenue flow to fund IT operations, and 2) it would facilitate hiring good IT staff since it could pay salaries higher than those authorized in the civil service system.

We consider this as only one of many possible solutions, but take issue with how the enterprise would be funded, i.e., as an "earmarking" of a portion of excise tax revenues. Linking the funding of the IT function to the collection of one set of taxes does not seem ideal since there is little reason to believe that future IT needs will consistently be related to this amount, even if in 2008 the amount seems appropriate. Also, this form of funding would remove IT spending from the normal budgeting process, which would reduce transparency.

While we concur that taking measures to hire staff at competitive salaries is important, the payments to the IT enterprise should be made within the confines of the STI's operating budget. Specifically, the STI should carefully cost out these services, within a strategic framework, and then allocate normal and capital budget resources to this function.

Increased autonomy for tax administration

We recommend that the STI consider going beyond simply "outsourcing" its IT function, to establishing in STI's stead a new, semi-autonomous revenue authority (SARA). The SARA concept would grant the tax administration greater autonomy to determine its budget, administer its internal systems, and introduce competitive, performance-based personnel compensation, among others.[5] It is not our recommendation that the SARA actually be created, merely that the feasibility of creating a SARA should be investigated and discussed.

This is not an immediate priority, but it should be considered at the same time that the STI is considering setting up a new enterprise for the IT function.

Taxpayer relations and services

Reduce taxpayer contact with STI staff

Taxpayers visit STI tax offices with little control over their comings and goings or oversight of their contacts with tax officials. While there is a clear need for improved taxpayer information, forms availability, and guidance, and while taxpayers need a way to get information and some services from the STI, face-to-face contact between taxpayers and tax authorities should be kept to a minimum. Other means are currently being developed to provide and enhance taxpayer assistance services, including the national call center and local taxpayer service offices in each TTI. Following are additional recommendations to consider before operationalizing these new services:

- Once the Call Center is fully operational, taxpayers should be severely restricted from having direct contact with STI officers.
- Once the TTIs have established the local taxpayer service office that will provide Internet access for taxpayers in an "Internet café" style, taxpayers should no longer be able to go to STI staff for forms and to ask routine questions.

Establish the office of the ombudsman in the STI

The STI should establish an office of the Tax Ombudsman. The Tax Ombudsman's main responsibility would be to ensure that taxpayer rights are defended, that taxpayers subject to controls or audits know their rights and responsibilities, and to provide an means for the taxpayer to register complaints with the STI, including reporting improper behavior by STI or CCCEC officers.

This is high priority and should begin to be addressed in 2008.

Taxpayer education and information to affect taxpayer culture

The STI needs to strengthen and expand its efforts to inform taxpayers about the tax system, how taxes are used to benefit society, and how taxes are collected from society. A permanent campaign should be developed, based on a clear set of messages, that will include delivery mechanisms and public relations media.

[5] For a detailed study of the SARA concept and international experience with SARAs, see Mann, Arthur, ARE SEMI-AUTONOMOUS REVENUE AUTHORITIES THE ANSWER TO TAX ADMINISTRATION PROBLEMS IN DEVELOPING COUNTRIES? A PRACTICAL GUIDE. Prepared for the USAID-funded worldwide Fiscal Reform in Support of Trade Liberalization project, August 2004.

Such an education program would include, *inter alia*: television spots, pamphlets, classroom materials and curricula for schools.

The expansion of taxpayer education should also be geared toward specific outreach programs meant to provide specific information, such as taxpayer rights and obligations, the rights and obligations and authorities and limitations of tax officials, and information with regard to how, where, and when to deliver specific tax reports and evidentiary materials.

Implement the call center

The team strongly supports establishment of a national call center that will be the focal point for responding to taxpayer queries and providing specific information for taxpayer compliance.

Once the call center is fully operational, the STI should greatly reduce the access of taxpayers to STI facilities, offices, and officers.

Advance rulings

The Tax Code does not allow the STI to provide “advance rulings” to taxpayers. Advance rulings are official responses to taxpayer queries on specific situations, the answer to which can have important implications on investment decisions. The STI should have the authority and the capacity to provide answers to specific questions that taxpayers may have that can materially affect business decisions, and these advance rulings must be binding—that is, the tax administration cannot subsequently change its ruling.

Advance rulings are an important way to introduce more transparency into the tax payment process and improves business decision making. Advance rulings are available in many of the world’s most important tax administrations, including the United States, India, and Malaysia.

<u>This is an intermediate term priority.</u>

IT-specific recommendations

Automated systems have been developed for certain activities in the STI, such as for data-entry error detection, for identifying arrears and applying penalties and interest, and for generating the taxpayer current account. These systems all work quite well.

However, automation is particularly weak in a number of areas. Audit selection systems are not automated and utilize limited STI data. Audit management, including audit assignment and case management, is done for the most part manually. There is no case management system to assign collection cases or record actions taken in the course of enforcing collections. Nor are there automated systems for identifying and notifying stop- and late-filers.

Without a computerized personnel management system, personnel files for all STI employees are kept in folders in a cabinet in the Human Resources Department’s headquarters office at the MSTI. There is no way to track an employee’s work history or performance electronically, and all personnel actions—salary increases, promotions, hiring and dismissal—must be organized manually by a small Human Resources Department staff.

While all of these automation deficiencies deserve attention, following are our highest priority recommendations in the IT area.

Develop web-accessible applications for key processes

The biggest impediment to efficient and effective data management is the use of two separate, incompatible databases. In particular, the STI needs to move away from the FoxPro system, which is not web accessible, and build the required applications to move exclusively to the Informix system, which offers that accessibility.

Web-accessible applications should be developed for the taxpayer current account and for the issuance of taxpayer compliance certifications. These applications should be available to taxpayers, based either on using a personal identification number or, when absolutely necessary, electronic signature.

Make the taxpayer current account web accessible

The taxpayer current account is currently only available from the FoxPro database. The STI should develop a new taxpayer current account application that will draw directly from the Informix database and that will be web accessible. This new application would be available to all STI employees, regardless of location, as well as to individuals. Individuals should have a personal identification number to access this current account.

This is high priority and should be developed immediately.

Use "web services" to improve data sharing with other government agencies

In order to guarantee the interaction with other government departments and with "one-stop shops" (OSS), the STI should, in cooperation with these other agencies, use the "web services" in its systems development. "Web services" allow different information systems to communicate and exchange information automatically. Authorized agencies would be able to access the STI web service, which then connects to the database, without having access to information (such as taxpayers' identification) that is not previously authorized. This would allow agencies such as the National Bureau of Statistics (NBS) to access data it requires directly from the STI without requiring businesses to report separately to NBS information that they have already provided in their tax reports.

The STI would also be able to access information from other agencies in a similar manner. For instance, external data that could be used in audit selection and audit preparation could be made routinely available through the web service of the partner agencies.

Four years ago, the STI developed a web service, which the Registration Chamber's application is currently using for verifying tax debts of a company's founders. In a sense, the STS databases are already shared with the Registration Chamber. This relationship between the Registration Chamber and STI allows the Registration Chamber to fulfill its responsibilities of verifying debts of company founders and of issuing registration certificates and the State Identification Number, which also represents the taxpayer identification number, or "fiscal code."

The above mentioned web service will need to be modified or a new one will need to be developed to include possible changes in legislation regarding simplified procedures of expunging defunct or fictitious companies or legal persons from the State Register.

This recommendation should be implemented over the next three years, but should begin immediately.

Make the taxpayer certification process web accessible

With the Informix-based current account application, issuing multi-region-based taxpayer certifications will be simple. The STI should develop a transparent, controlled, and accountable certification process that allows immediate issuance of certifications. The compliance certificate should be available to taxpayers from the internet, where they can request and download certificates themselves. In cases where taxpayers do not have internet access, the anticipated local taxpayer service offices planned to be set up in each TTI should allow taxpayers to come in, access the internet and print official taxpayer compliance certificates.

This should be implemented in 2008.

Migrate to new electronic database

The STI should consider over the next years to move from the dual system of using FoxPro and Informix databases to a new, next generation database. FoxPro, as discussed, is very old technology and is not web-accessible. Informix is also old and the company that developed it is defunct and no updates or workarounds are being developed.

This migration should be carefully planned. The migration to a new database must include either the development or the purchase of commercial off the shelf software applications for tax administration.

We recommend that this migration take place over the next three to four years.

Develop STI-wide IT disaster plan

The STI has no IT disaster plan at the moment. Such a plan is required for the following types of disasters, among others: fire, earthquake, flood, war, civil unrest.

This is a very high priority.

Clean citizens taxpayer registry

There are about 5.0 million citizens registered in the STI's citizen taxpayer registry, yet the country does not even have this many citizens. The STI should develop and implement procedures for cleaning the citizens taxpayer registry. Certain codes are known to be invalid (000) and many people have been registered numerous times.

This should be a high priority for the STI, though we do not anticipate it taking a very long time nor a great deal of effort. Still, it will require the culling of about five million records.

Legal framework

Sanctions should remain in the Tax Code

The Sanction section of Title V of the Tax Code should remain in the Tax Code and should not be moved or relegated to sections of the new Administrative Code. The current Tax Code is a coherent, consistent, and comprehensive legal instrument that facilitates understanding, clear definition of terms, and clear assignment of responsibilities. Moving this portion of the Tax Code into the new Administrative Code would be a mistake.

Do not develop a tax procedure code

There is no legal need for the development of a separate tax procedures code, as is currently being contemplated. Instead, we suggest that tax procedures, which are already authorized by the Tax Code, should be operationalized through the development of new and more detailed STI procedural manuals. These manuals should strictly adhere to what is permitted in the Tax Code, but should be informative about how specific procedures should be implemented. We suggest that such procedural manuals be prepared for all the major tax business processes, but starting with audit and controls, enforced collection and debt management, and appeals.

Develop tax mediation legislation

Tax mediation can be an important step to increasing a sense of fairness among taxpayers (a necessary ingredient to improved taxpayer compliance) while also reducing costs to the tax administration. Tax mediation should be established outside of the STI (unlike the tax appeals function, which should be a part of the STI). Tax mediation would be a voluntary but terminal alternative to taxpayers or the STI pursuing disputes through the court system.

A Tax Mediation body should be established by law, within the Tax Code. Some have indicated that the Tax Mediation body be established within the Ministry of Finance, but this might be inappropriate since in order for tax mediation to operate well, it must be seen as impartial. A Tax Mediation body established within the Ministry of Finance is the second-to-worst location that could be selected (the STI would be the worst).

<u>A full design, including budget, should be developed, then legislation drafted. Implementation should begin in late 2008 or 2009.</u>

Consider authorizing TAUs to collect their own revenues

The Government of Moldova might consider the following as part of a longer-term development initiative:

- Investigate the possibility of allowing TAUs to establish their own tax administration operations, while allowing TTI staff to focus only on collecting revenues for the State Budget, the Mandatory Medical Fund (CNAM), and the Social Insurance Fund (CNAS).
- Alternatively, investigate the feasibility of restructuring intergovernmental fiscal relations by eliminating the distinction between local and state revenues, by eliminating source-origin revenue sharing, and introducing alternative revenue sharing and transfer systems.

Annex A: Comparative benchmarking indicators

About the indicators

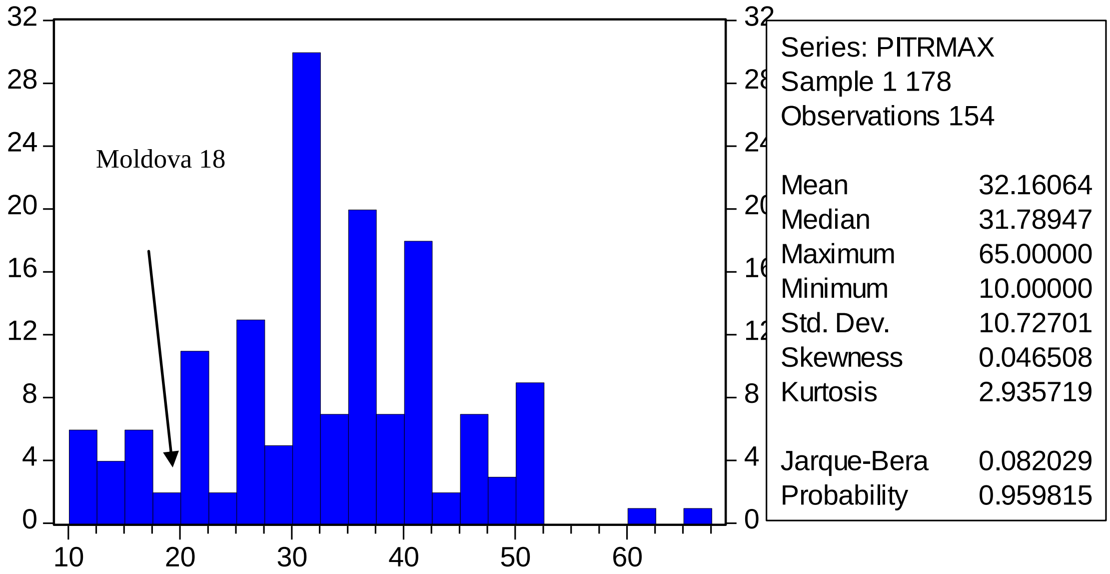
The *Collecting Taxes* database contains performance and structural indicators about countries' national tax systems. The database contains quantitative revenue performance indicators, i.e., how well does a particular tax perform in generating revenues for the treasury, given its overall rate structure. Among the performance indicators is also an indicator of how well the overall tax system produces revenues, given the costs of administering the tax system. The database also provides tax rate information, such as the general value-added tax rate or the normal corporate income tax rate. Other indicators describe the main features of tax administrations, while economic indicators are also included so that performance, rate competitiveness, and structure can be easily compared given levels of development and other factors.

The entire *Collecting Taxes* data system compiles and presents 27 indicators or variables. These indicators include revenue performance, tax structure, and tax administration indicators.

Below, we compare tax collection performance and structure in Moldova with that in the rest of the world, based on 18 of the 27 *Collecting Taxes* indicators or variables. First, we present for each variable—say, the general VAT tax rate—a histogram that graphically shows the variable's distribution among the countries of the world. Then, to make the analysis more local in scope, we also compare Moldovan data for each of the variables to the experiences, first, in other Former Soviet Union (FSU) countries (Table 7) and, second, in Central and Eastern European countries (Table 8).

Personal Income Tax maximum rate (PITMAXR)

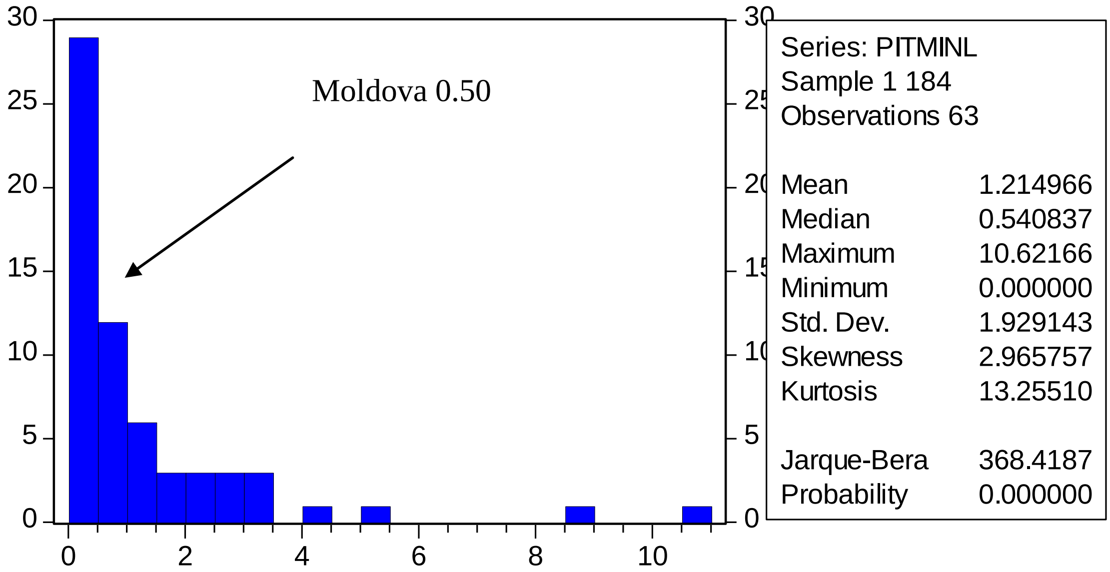
This is a **tax structure** indicator. It is the highest tax rate applied under the personal income tax system on the richest income class of taxpayers.



Personal income tax minimum income level (PITMINL)

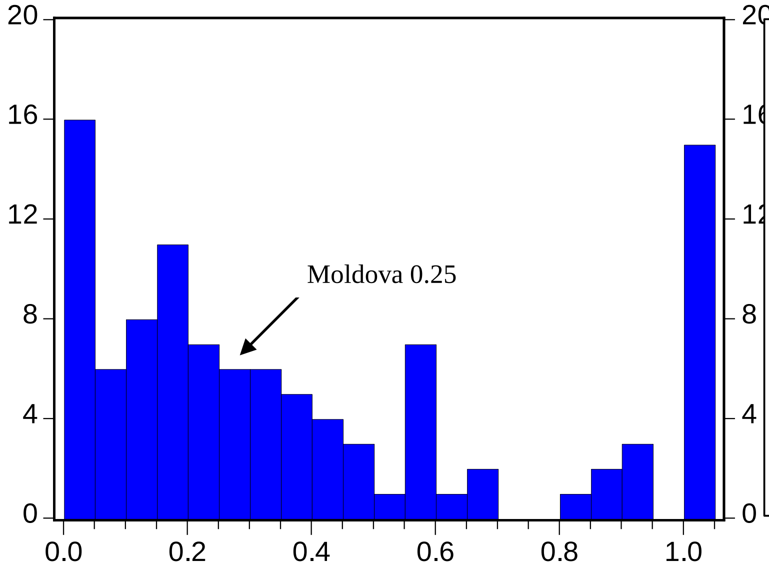
This is a **tax structure** indicator. It is the multiple of the lowest level of income upon which the personal income tax is imposed divided by per capita GDP. For instance, if the lowest level of income that is subject to personal income taxation is $30,000 and the per capita GDP is $40,000 then this indicator will be 0.75.

When the country applies a single personal income tax, say a "flat tax", to all income, without a zero tax bracket, the PITMINL indicator is "0".



Personal income tax revenue productivity (PITPROD)

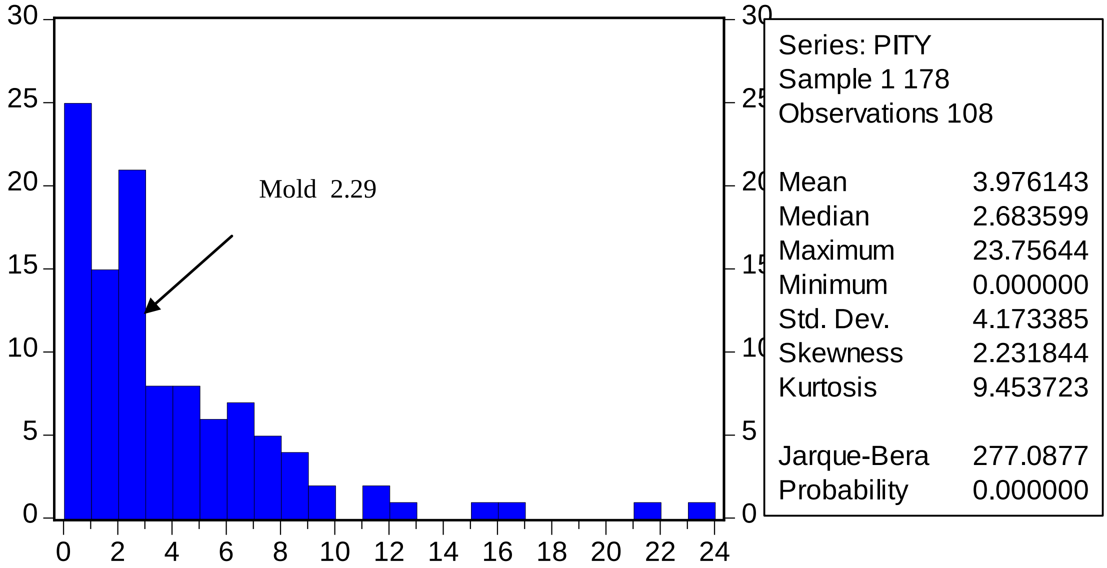
This **performance** indicator attempts to provide some sense of how well the personal income tax in a country does in terms of producing revenue. It is calculated by taking the actual revenue collected divided by GDP, then divided by the PERSONAL INCOME TAX maximum tax rate, then weighted (multiplied) by the PITMAXL indicator.



Series: PITPROD	
Sample 1 178	
Observations 104	
Mean	0.390798
Median	0.265066
Maximum	1.000000
Minimum	0.000000
Std. Dev.	0.336776
Skewness	0.755208
Kurtosis	2.207501
Jarque-Bera	12.60744
Probability	0.001829

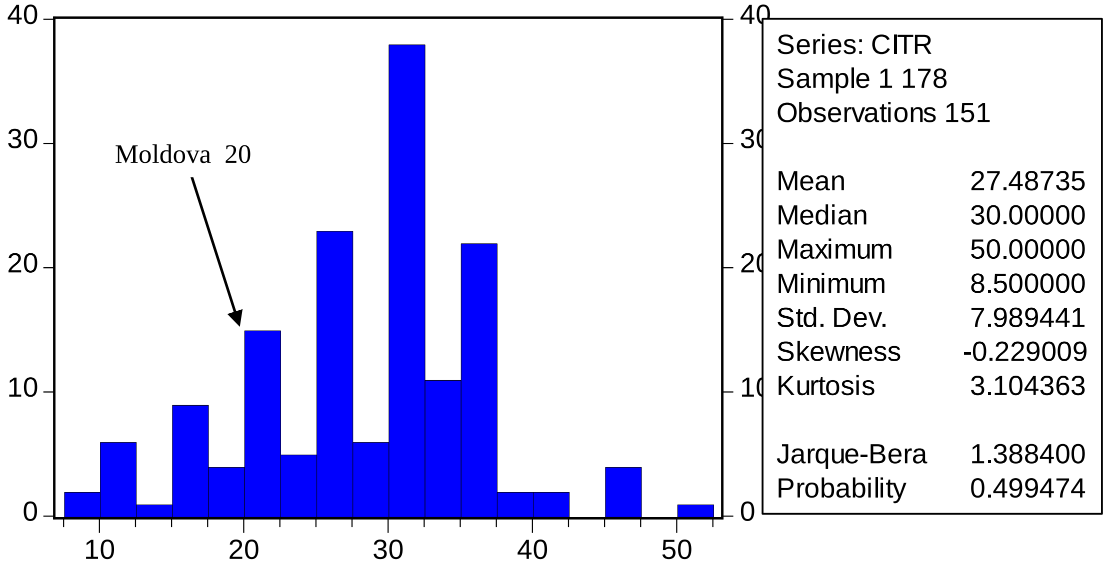
Personal income tax revenues (PITY)

This is a **reference** indicator. It is the level of personal income tax collections as percentage of GDP.



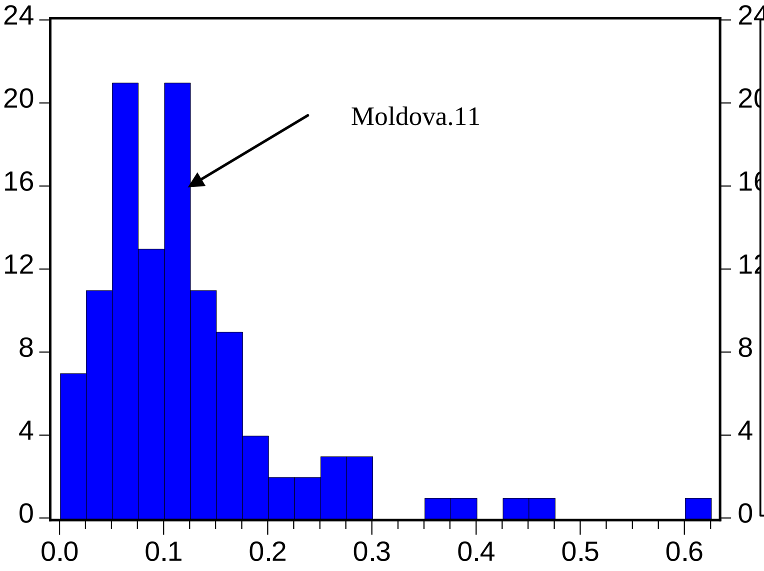
Corporate income tax rate (CITR)

This is a **tax structure** indicator. It is the general rate applied for the corporate income tax. In most countries, only one corporate income tax is applied to corporate profits. In most countries, business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.



Corporate income tax revenue productivity (CITPROD)

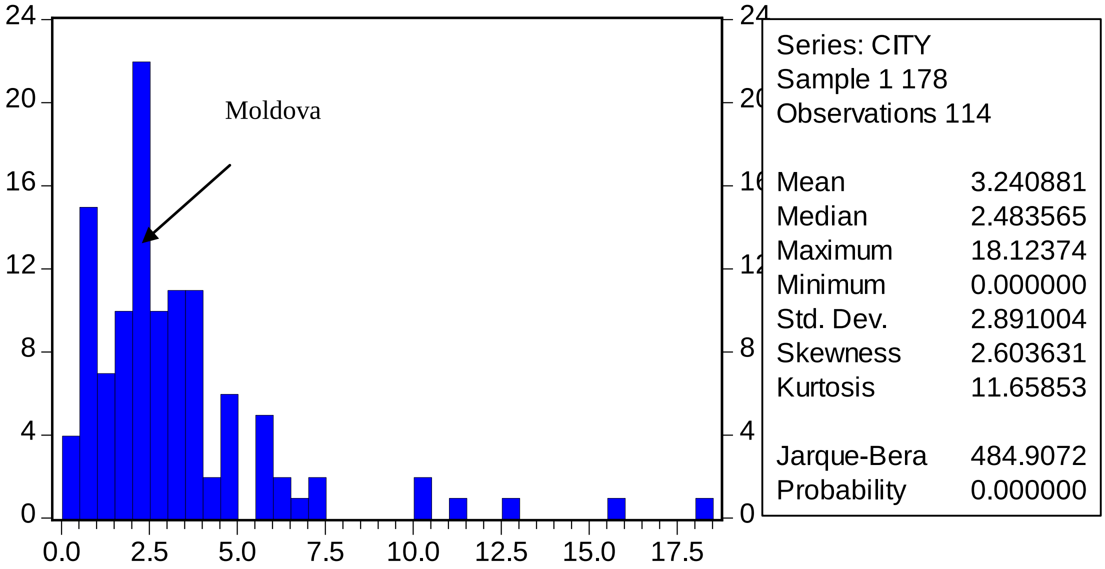
This is a tax revenue **performance** indicator. It represents how well the corporate income tax does in terms of revenue collection, given the tax rate. It is calculated by dividing the total corporate income tax revenue by GDP and then dividing this by the corporate income tax rate. For instance, if corporate income tax revenues came to 10% of GDP and the corporate income tax rate were 20% then the CITPROD value would be 0.50.



Series: CITPROD	
Sample 1 178	
Observations 112	
Mean	0.122472
Median	0.103958
Maximum	0.604125
Minimum	0.000000
Std. Dev.	0.097178
Skewness	2.171245
Kurtosis	9.267671
Jarque-Bera	271.3243
Probability	0.000000

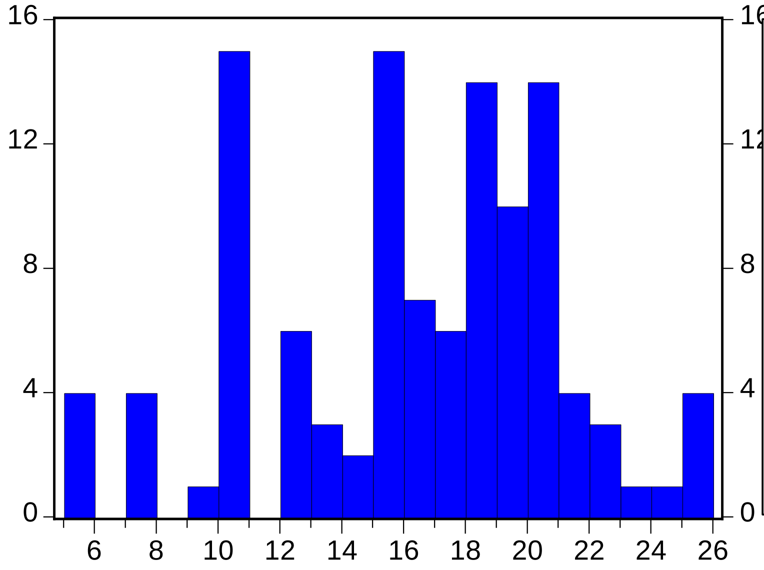
Corporate income tax Revenues (CITY)

This is a **reference** indicator. It is the level of corporate income tax collections as percentage of GDP.



Value-added tax rate (VATR)

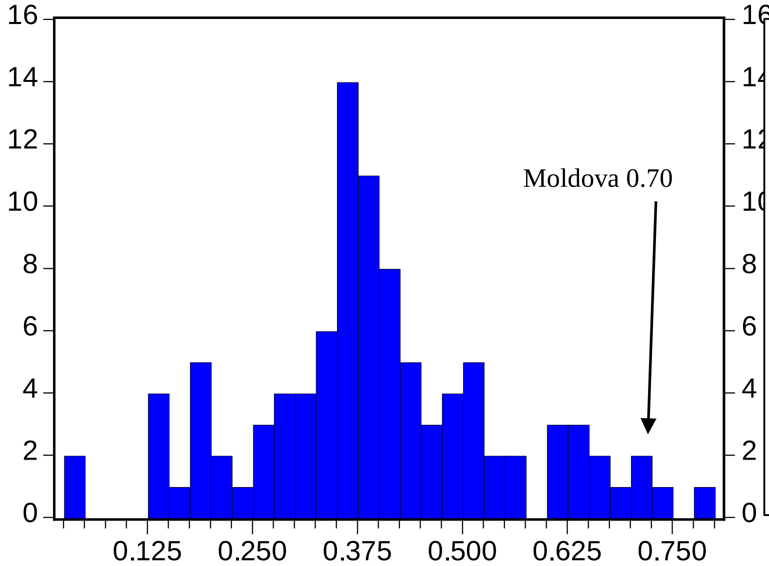
This is a **tax structure** indicator. Most goods and services are taxed under the value added tax system at the general rate. Most countries have a variety of reduced rates for certain basic goods, such as basic foodstuffs. In addition, all countries have a zero rate on exported goods.



Series: VATR	
Sample 1 178	
Observations 114	
Mean	15.85921
Median	16.75000
Maximum	25.00000
Minimum	5.000000
Std. Dev.	4.758851
Skewness	-0.389671
Kurtosis	2.588765
Jarque-Bera	3.688324
Probability	0.158158

Value-added tax Productivity (VATPROD)

This is a tax revenue **performance** indicator. It is a measure of how well the VAT produces revenue for the government, given the VAT rate. It is calculated by dividing the VAT collections by GDP and then dividing this by the VAT rate. For instance, if VAT revenues come to 10% of GDP and the VAT rate is 20%, then the VATPROD value will be 0.50.

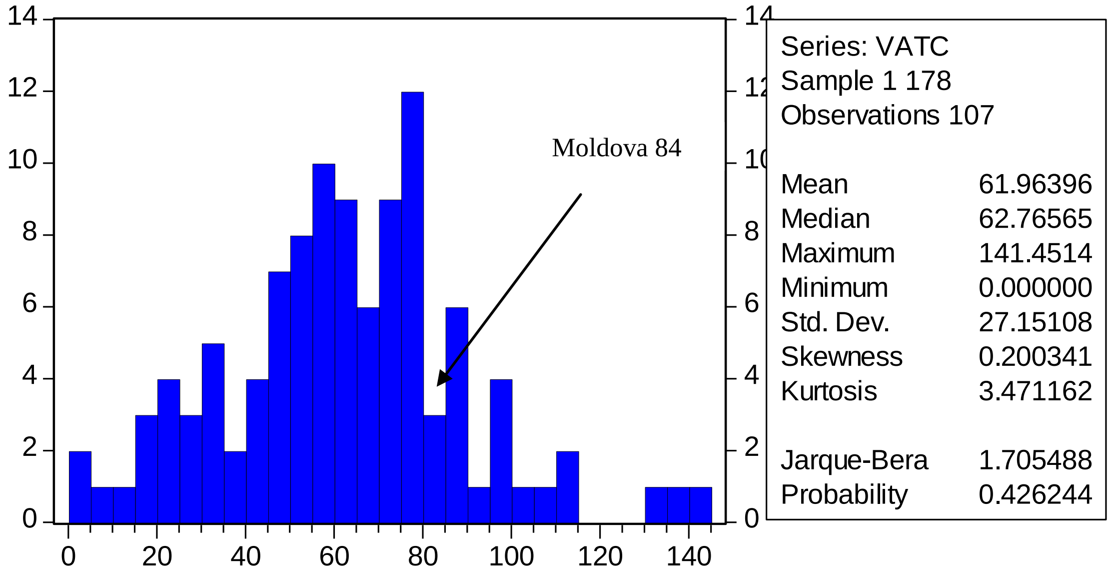


Series: VATPROD	
Sample 1 178	
Observations 99	
Mean	0.397077
Median	0.379778
Maximum	0.775764
Minimum	0.027223
Std. Dev.	0.152541
Skewness	0.168708
Kurtosis	3.035932
Jarque-Bera	0.474955
Probability	0.788614

VAT Gross Compliance Ratio (VATGCR)

This is a tax revenue **performance** indicator. It is a measure of how well the VAT produces revenue for the government, but is a bit more refined than the VATPROD indicator, since it takes into account the fact that VAT is mostly only applied to final home consumption by households and individuals. It is calculated by dividing VAT revenues by total private consumption in the economy and then dividing this by the VAT rate. For instance, if VAT revenues come to 5% of private consumption and the VAT general rate is 20%, then the VATGCR would come to 25. In other words, the VAT Gross Compliance Ratio is actual VAT collections divided by potential VAT collections, expressed as a percentage.

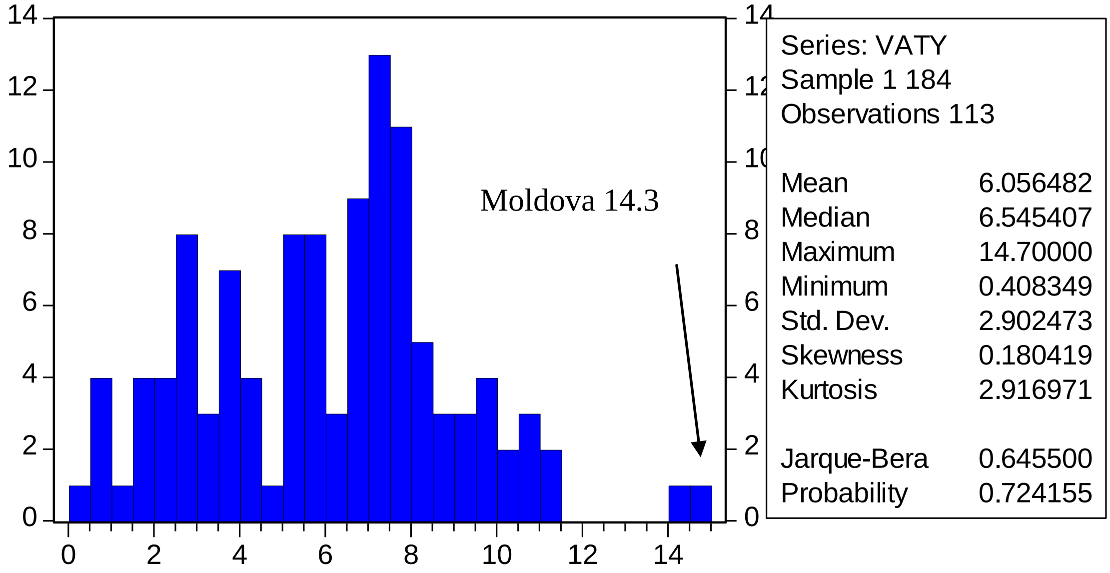
The VAT gross compliance ratio is similar to the VAT c-efficiency, or the collection efficiency, except that the VAT c-efficiency relates VAT collections to aggregate consumption expenditures rather than just private consumption.[6] Since almost all government consumption around the world is the payment of government wages and salaries, the VATGCR might be seen as a somewhat "tighter" indicator of performance.



[6] See *The collection efficiency of the value added tax: theory and international evidence*, by Joshua Aizenman and Yothin Jinjarak, available at: http://econ.ucsc.edu/faculty/aizenman/VAT_Collection_efficiency.pdf

VAT Collections (VATY)

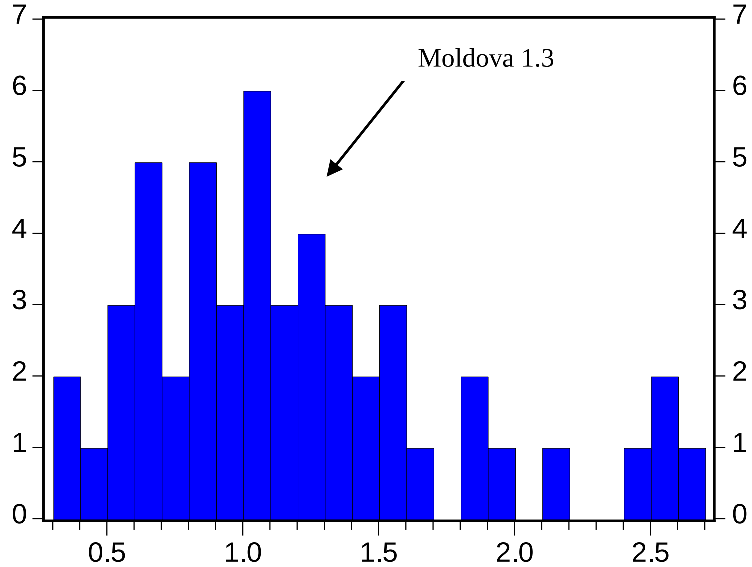
This is a **reference** indicator. This is the level of VAT collections as a percentage of GDP.



Tax Administration Costs (COST)

This **performance** indicator relates the cost of administering the tax system to the total revenues collected by the tax administration. For instance, if a country's tax administration budget comes to $2.0 million and it collects $20.0 million, this variable will be 10%, or $10 to every $100 collected.

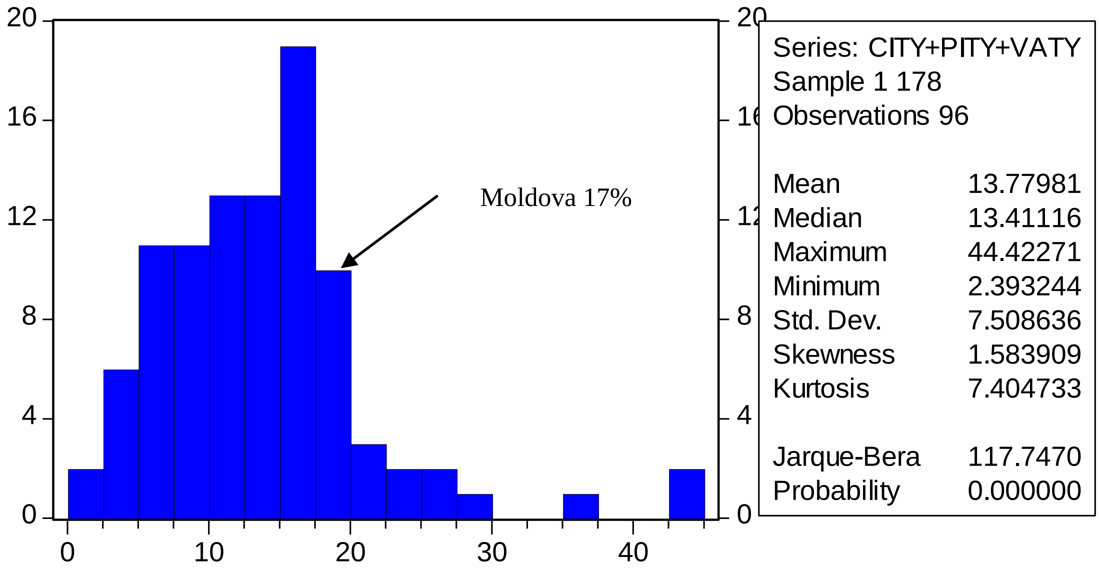
The lower this cost indicator is, the more efficient the overall tax system is in collecting all taxes. This cost effectiveness indicator can be affected by the revenue productivity of the major taxes.



Series: COST	
Sample 1 178	
Observations 51	
Mean	1.181861
Median	1.030952
Maximum	2.620000
Minimum	0.380000
Std. Dev.	0.571961
Skewness	0.955962
Kurtosis	3.347819
Jarque-Bera	8.024915
Probability	0.018089

Total Major Tax Revenues

This is a **reference** indicator. This is total taxes and related non-taxes collected by the tax administration and customs as percentage of GDP.

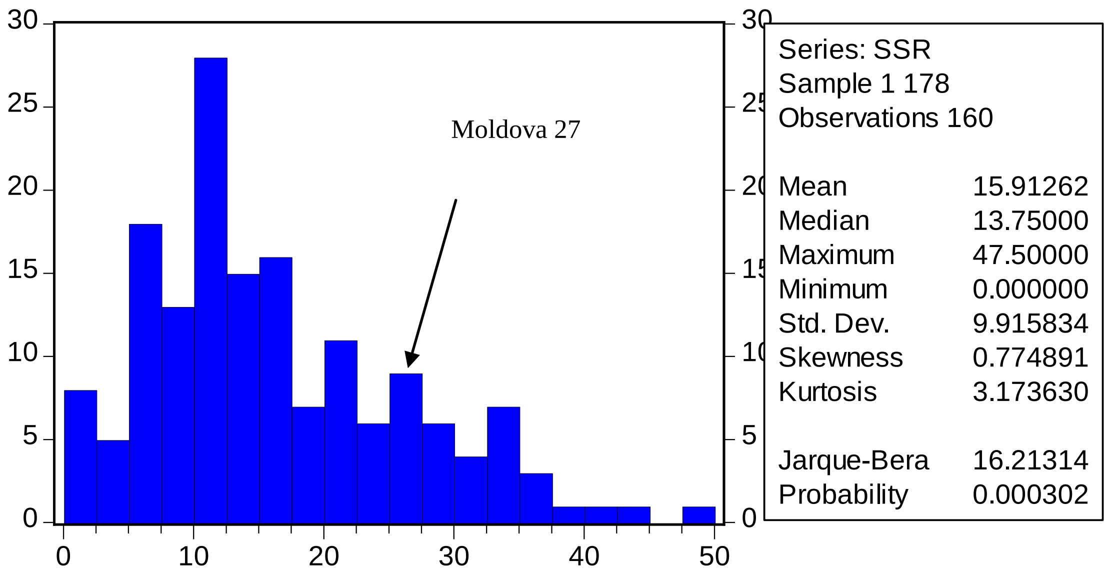


Social Contributions rate (SSR)

This is a **tax structure** indicator. There is no revenue performance indicator associated with this tax.

This is the payment of legally mandated social security and public pensions, employment security, basic public health care coverage, and disability and other social programs that are imposed on the earnings of or the payments to labor. It is the combined value of the mandatory contributions made both the employer and the employee, usually withheld from employee compensation. It is expressed as a percentage of gross salary, though there may be some slight variation in this from country to country.

In many countries, the social contributions may rise with income, and usually only apply on income up to a certain level. In general, social contributions are only applied to salaries or "earned income" and are not applied to interest earnings, capital gains, and other miscellaneous income. Most countries do impose social contributions on self-employed income, and the rate applied is often about the same as the combined employer-employee rate. Nonetheless, we report here on the tax on employers and employees.



Tax Wedge (WEDGE)

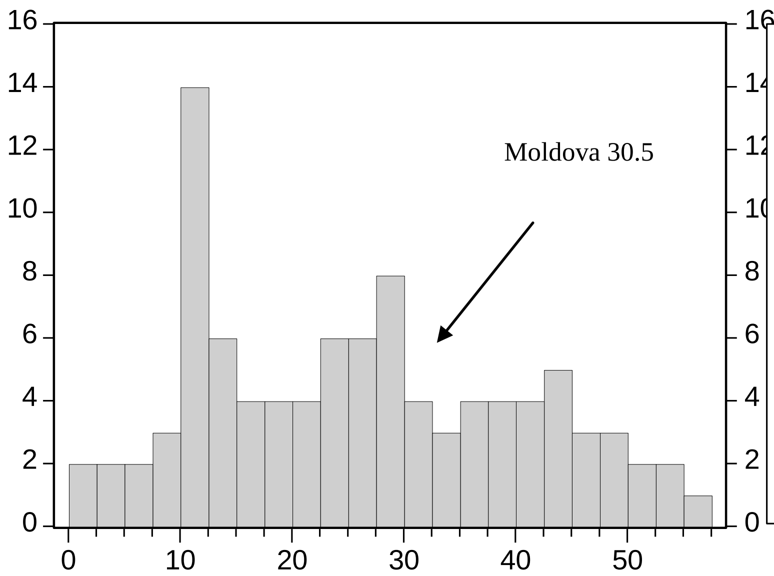
This is a **tax structure** indicator. There is no revenue performance indicator associated with this tax.

The tax wedge is an attempt to estimate the overall taxation of labor, represented as a percentage of gross salary. It combines social contributions with personal income tax.

The Organization for Economic Cooperation and Development (OECD) provides the tax wedge estimates for OECD countries and a few others. An as yet not published research paper of the World Bank makes calculations of the tax wedge for a number of other countries, particularly for countries in Central Asia. For almost all other countries, the Fiscal Reform and Economic Governance calculated the tax wedge. All three sources attempt to capture the taxes that are applicable to below average wage earners without dependents.

The calculation of the tax wedge by the Fiscal Reform and Economic Governance Project is done in one of two ways:

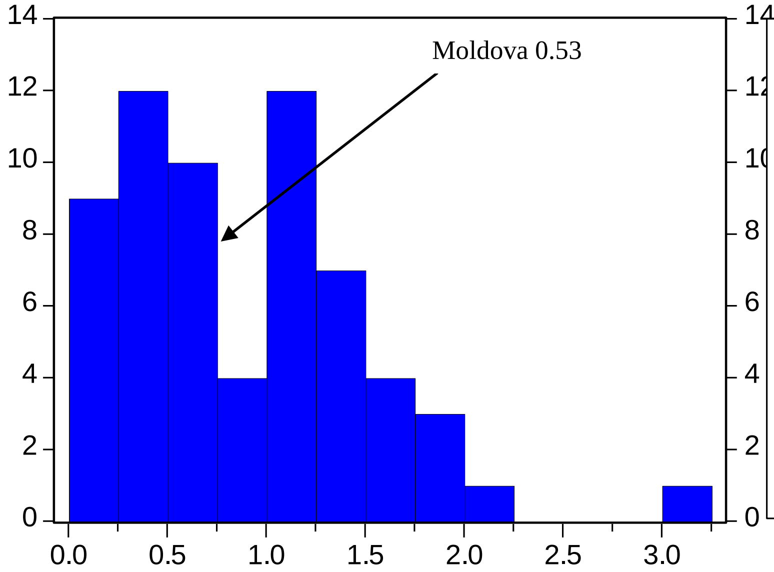
- If the PIT minimum level income tax is greater than per capita GDP, then the tax wedge is the same as the social contributions rate.
- If the PIT minimum level income tax is applied at some fraction (say, half) of GDP per capita, then this rate is applied, pro rate, to the per capita GDP and added to the social contributions rate. For instance, say the minimum PIT rate is 10% and it is applied to income equivalent to one-half of per capita GDP, then the applicable PIT rate being applied is 5%. Add this 5% to the social contributions rate, say 20%, and the tax wedge calculation is 25%.



Series: WEDGE	
Sample 1 184	
Observations 96	
Mean	25.79528
Median	25.25000
Maximum	56.00000
Minimum	0.000000
Std. Dev.	14.17009
Skewness	0.233811
Kurtosis	1.999409
Jarque-Bera	4.879414
Probability	0.087186

Taxmen per population

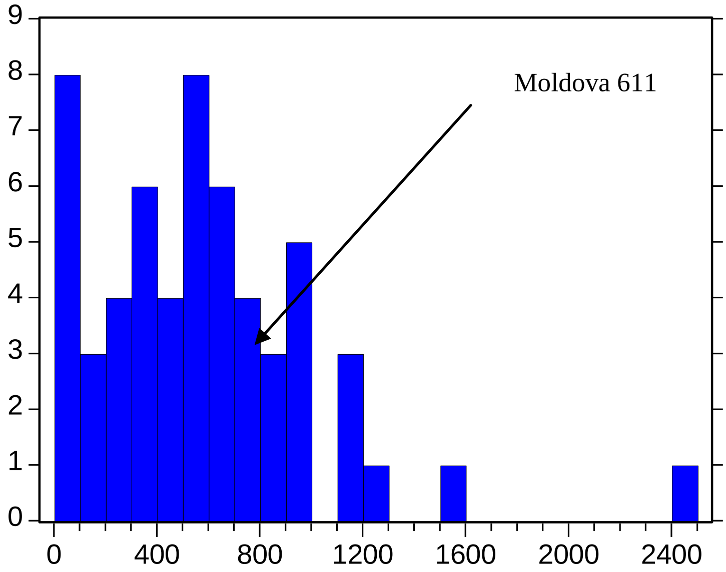
This is the total number of tax administration staff per 1,000 inhabitants in a country. This is a measure of the relative size of the tax administration. "Too large" a tax administration might prove unwieldy and inefficient, while "too small" a tax administration might prove too ineffective in applying tax laws.



Series: TAXMEN	
Sample 1 178	
Observations 63	
Mean	0.865516
Median	0.831648
Maximum	3.013043
Minimum	0.000000
Std. Dev.	0.604252
Skewness	0.847973
Kurtosis	3.953386
Jarque-Bera	9.936084
Probability	0.006957

Number of Taxpayers per Tax Staff (PAYERTOSTAFF)

This is a **tax administration structural** indicator. It is a measure of the size of the tax administration's staff given the number of active taxpayers in the country. An active taxpayer is a person, business, or other entity, that files tax declarations or reports on a regular basis. In countries that rely heavily on the personal income tax, where taxes are withheld from salaries, and most individuals are required to file with the tax administration, this indicator can be expected to be relatively large. In countries where personal income tax is not important and where the VAT is important, the number of active taxpayers relative to the number of tax administration staff is usually lower.



Series: PAYERS	
Sample 1 178	
Observations 57	
Mean	575.0331
Median	520.0000
Maximum	2471.650
Minimum	45.70064
Std. Dev.	431.6038
Skewness	1.642763
Kurtosis	7.929965
Jarque-Bera	83.36070
Probability	0.000000

Tax Staff (TAXSTAFF)

This is a **tax administration structural** indicator. This is a measure of the size of the tax administration, with respect to the size of the country's population. TAXSTAFF is the total number of staff of the tax administration per 1,000 national population. For instance, if the tax administration in a country has 1,000 employees and the country's total population is 1,000,000 persons, then the TAXSTAFF ratio will be 0.001, i.e., one tax staff member for every 1,000 people in the country.

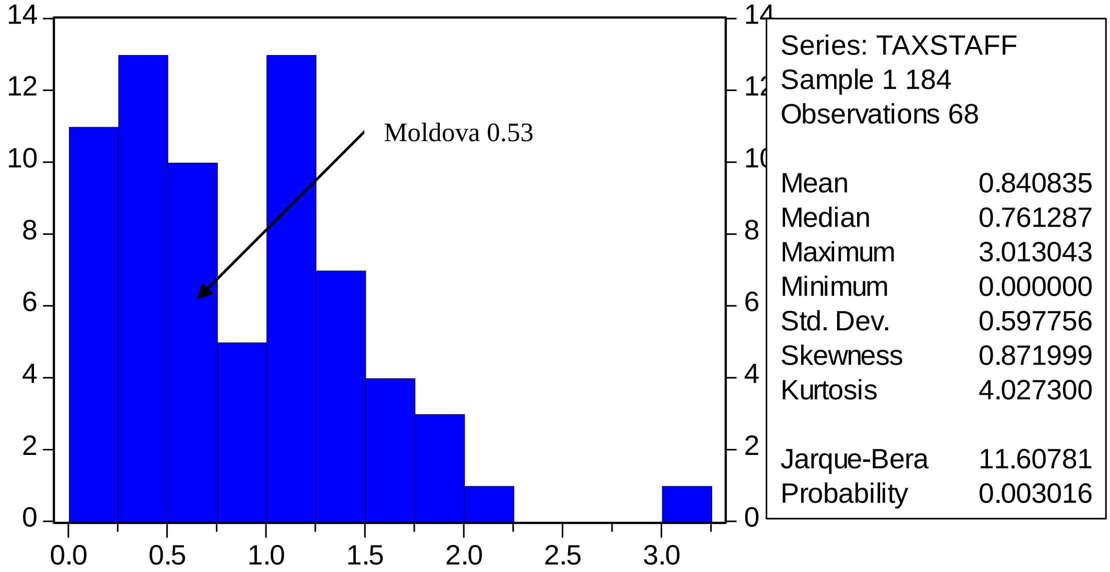


Table 7: FSU comparative table

Macro level Collecting Taxes Indicators for Moldova and FSU

country	**vatr**	**vatc**	**Vatprod**	**citr**	**citprod**	**pitminr**	**pitmaxr**	**pitmaxl**	**pitminl**
Armenia	20	43	0.33	20	0.11	10	20	1.3	
Azerbaijan	18	65	0.23	22	0.35	14	35	5.8	
Estonia	18	88	0.47	24	0.06	32	32	1.0	
Kazakhstan	15	60	0.31	30	0.38		20	13.3	
Kyrgyz Republic	20	42	0.35	20	0.06		20	3.2	
Latvia	18	66	0.42	25	0.08		25	1.0	
Lithuania	18	58	0.38	15	0.14		33	1.0	
Russia	18	79	0.38	24	0.27		13	1.0	
Tajikistan	20	46	0.34	25	0.02		13	1.3	
Turkmenistan	20			20			10		
Ukraine	20	57	0.40	25	0.23		13	1.0	
Uzbekistan	20	53	0.27	12			30	1.0	
Moldova	**20**	**84**	**0.61**	**20**	**0.09**	**10**	**18**	**2.3**	**1.4**
Average	19	60	0.40	22	0.2	16	22	2.8	
Max	20	88	0.61	30	0	32	35	13	
Min	15	42	0.23	12	0	10	10	1	

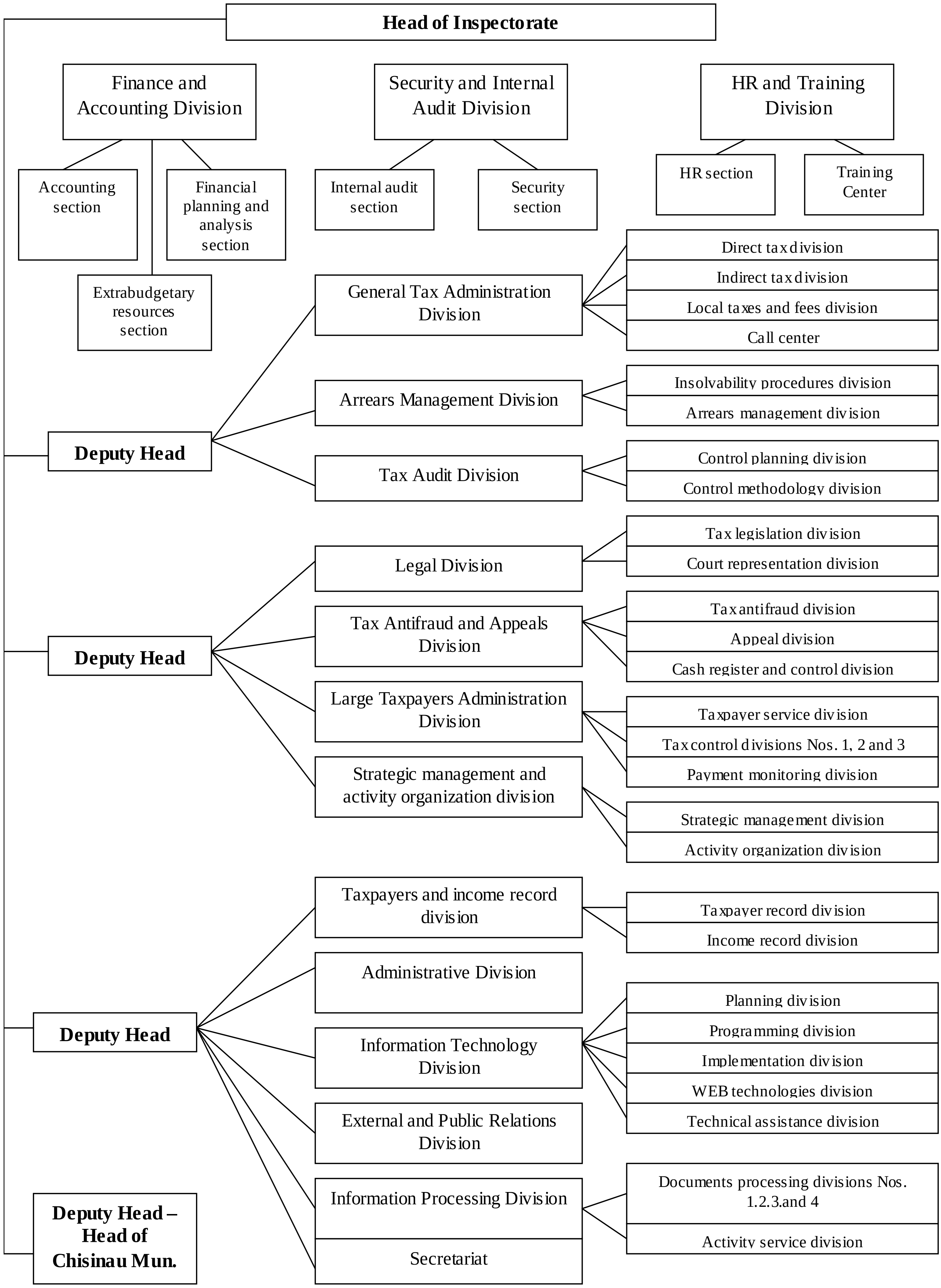
	pitprod	**ssr**	**Wedge**	**vaty**	**city**	**Pity**		**taxstaff**	**payerto staff**
Armenia	0.08	15	25	6.6	2.1	1.2			
Azerbaijan	0.38	25	39	4.2	7.7	2.3		0.24	98
Estonia	0.18	10	42	8.5	1.4	5.6		1.68	275
Kazakhstan	1.10	30		4.7	11.3	1.7			
Kyrgyz Republic	0.27			7.1	1.3	1.7			
Latvia	0.23	33		7.6	2.0	5.7		2.17	219
Lithuania	0.21	26	26	6.8	2.1	7.0		0.89	559
Russia	0.25	20		6.8	6.4	3.3		1.16	
Tajikistan	0.11			6.8	0.6	1.1			
Turkmenistan		31							
Ukraine	0.33	33		8.0	5.7	4.2		1.29	46
Uzbekistan		33		5.4					
Moldova	**0.27**	**27**	**31**	**12.3**	**1.9**	**2.6**		**0.53**	**611**
Average	0.31	26	33	7.1	3.9	3.3		1.14	301
Max	1.10	33	42	12.3	11.3	7.0		2.17	611
Min	0.08	10	25	4.2	0.6	1.1		0.24	46

Table 8: Central and Eastern Europe comparative table

Country	vatr	Vatc	vatprod	citr	citprod	pitminr	pitmaxr	pitmaxl	pitminl
Albania	20.0	65	0.41	23.0	0.11	5.0	30.0	20.41	0.57
Bosnia and Herzegovina, VAT	17.0	91	0.63						
Bosnia and Herzegovina, Federation of				10.0	0.03	10.0	10.0	1.00	0.79
Bosnia and Herzegovina, Republika Srpska				10.0	0.06	10.0	15.0	7.98	0.85
Bulgaria	20.0	82	0.57	15.0	0.16	20.0	24.0	1.33	0.40
Croatia	22.0	112	0.64	20.0	0.12	15.0	45.0	5.34	0.38
Czech Republic	19.0	76	0.37	24.0	0.20		32.0	1.16	
Hungary	20.0	61	0.42	16.0	0.13		36.0	1.00	
Macedonia, FYR	18.0	69	0.54	15.0	0.06		18.0	2.71	
Poland	22.0	55	0.35	19.0	0.08		40.0	2.91	
Romania	19.0	46	0.35	25.0	0.10		40.0	11.97	
Serbia	18.0	72	0.59	10.0	0.09	12.0	12.0	1.00	0.00
Slovak Republic	19.0	73	0.42	19.0	0.14		19.0	1.00	
Slovenia	20.0	68	0.37	25.0	0.09		50.0	3.17	
Moldova	**20.00**	**84**	**0.61**	**20.00**	**0.09**	**7.00**	**18**	**2.35**	**0.50**
CEE/SEE average	19.50	72.83	0.47	19.31	0.11	12.00	28.54	4.69	0.50
Max	22.0	112.4	0.6	30.0	0.2	20.0	50.0	20.4	0.9
Min	17.0	46.9	0.4	10.0	0.0	5.0	10.0	1.0	0.0

	pitprod	Ssr	Wedge	vaty	city	Pity	cost	taxstaff	payertostaff
Albania	0.64	39.70	41.84	8.15	2.45	0.94	0.89	0.48	50
Bosnia and Herzegovina, VAT				10.67					
Bosnia and Herzegovina, Federation of		43.50	45.62	NA	0.93		1.36	0.54	65
Bosnia and Herzegovina, Republika Srpska		34.30	35.78	NA	0.60		1.17	0.52	609
Bulgaria	0.16	12.30	24.34	11.44	2.45	2.98		1.03	388
Croatia	0.40	37.20	45.50	14.10	2.40	3.40	0.68	0.83	1184
Czech Republic	0.15	47.50	42.60	7.11	4.69	4.09		1.47	556
Hungary	0.19	41.50	51.00	8.40	2.10	6.70	1.14	0.93	606
Macedonia, FYR	0.44			9.73	0.89	2.91		0.62	96
Poland	0.18	32.52	43.70	7.74	1.60	2.52	2.62	1.30	608
Romania	0.87	30.00		6.70	2.60	2.90		0.69	520
Serbia	0.46	35.80	47.80	10.59	0.86	5.58		0.90	253
Slovak Republic	0.14	24.00	38.50	8.01	2.70	2.59	1.26	1.13	491
Slovenia	0.38	39.85		7.49	2.18	6.02	0.93	1.36	920
Moldova	**0.27**	**27.00**	**30.5**	**12.28**	**1.88**	**2.55**	**.30**	**0.53**	**611**
CEE/SEE average	0.37	34.85	41.67	9.18	2.03	3.69	.26	0.91	488
Max	0.9	47.5	51.0	14.1	4.7	6.7	2.6	1.47	1184
Min	0.1	12.3	24.3	6.7	0.6	0.9	0.7	0.48	50

Annex B: MSTI Organization Chart



Annex C: STI ICT equipment

№	Type	Destination	Year of Procurement	Units	Main CPU characteristics	RAM	HDD-Gb
1	IBM eServer Open Power 720	Cadastru, IFPS,DPI Informix	2005	2	4x 64-bit RISC architecture 1.65GHz	32Gb	2x HDD 72Gb
2	Blade Center H - IBM Blade Server HS21 - IBM Blade Server HS21 - IBM Blade Server HS21 - IBM Blade Server HS21	 DNS Server Email Server Business Object Cadastru WEB Server Cadastru Fisc.md Test.fisc.md Internet Portal	 2006 2006 2007 2007	 4 2 2 3	 2x Intel Xeon Dual Core 2.33 GHz 1x Intel Xeon Dual Core 2.33 GHz 2x Intel Xeon Dual Core 5160 3.0GHz 1x Intel Xeon Dual Core 5160 3.0GHz	 4Gb 2Gb 8Gb 4Gb	 2x HDD 73.4Gb 2x HDD 73.4Gb 2x HDD 73.4Gb 2x HDD 146Gb
3	Tape Autoloader - IBM Total Storage 3581	Backup	2005	1	Number of tape cartridges – 8, 1tape – 400Gb		
4	Storage Server – IBM TotalStorage DS4300 Turbo		2005	1			30x HDD 146Gb
5	IBM xSeries eServer 206	Active Directory	2005	2	Intel Pentium-4 3.4Ghz	512MB	HDD 73.4Gb
6	IBM xSeries eServer 206m	Servere raioane	2006	40	Intel Pentium-4 3.4Ghz	1Gb	HDD 73.4Gb
7	IBM xSeries eServer 345	Baza Foxpro Baza Informix	2004	2	2x Intel Xeon Processor 3.2 GHz	1Gb	2x HDD 73.4Gb
8	IBM xSeries eServer 346	System for evidence of alcohol excise stamps	2005	1	2x Intel Xeon Processor 3.2 GHz	2Gb	6x HDD 73.4Gb
9	IBM xSeries eServer 306m	LAN	2006	1			
10	System x3250	Facturi fiscale	2006	1	x3550 Intel DC Xeon 5050, 2x2Mb L2, 2GB94x515Mb=Chikill	3,0GHz, -667 MHz,	2x73GB NS SAS
11	IBM xSeries eServer 365	System of evidence of excise stamps	2006	1	2x Xeon MP Processor 2.2 GHz	2Gb	6x HDD 73.4Gb
12	IBM xSeries eServer 336		2006	1	2x Intel Xeon Processor 3.4 GHz	2Gb	2x HDD 73.4Gb
13	Server NCR	Special mail system	1998	42			
14	Switch	Connectivity purposes	1998	10			

№	Type	Destination	Year of Procurement	Units	Main CPU characteristics	RAM	HDD-Gb
			2003 2004 2007	84 4 30	 Gigabite Allied Telesin		
15	Calculatoare	workstations	2001 2003 2004 2006 2005 2007	180 250 100+30 50 6 215+2 875+15 0	Dell GX 240 Dell dimension 2350 HP Compaq D330, DC5000 IBM S51 IBM A60 IBM A51 Fujitsu Siemens P3500		
16	Printere: Matriciale Laser		1998 2002 2003 2005 2007 2004 2006 2007	120 22 115 70 160+20 100 170 110+33	Epson FX-1170 Epson Fx-1180+ Epson Fx-2190 Epson Fx 2190 Epson Fx 2190 Kyocera Mita FS 1920 Kyocera Mita FS 1920 Kyocera Mita FS 3900DN		