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REFORM AND MODERNIZATION OF THE TAX SYSTEM OF THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF THE CHALLENGES OF THE DIGITAL ECONOMY

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Abstract: *The digital economy, with its rapid growth, poses significant challenges to the the traditional tax systems globally, including in Moldova. As e-commerce, online services, and digital platforms expand, traditional tax frameworks, designed for activities within national borders and based on physical presence, reveal vulnerabilities. Moldova faces an urgent need to reform its tax system to address these challenges effectively.*

This study analyzes essential measures to modernize Moldova's fiscal framework in line with the digital economy's realities. Using an integrated approach, it examines the impact of digitization on tax revenue collection, identifies gaps in current legislation, and assesses opportunities for fair and efficient taxation of digital activities. Methodology includes literature analysis, comparative case studies of reforms in emerging economies, and simulations predicting tax reform impacts in Moldova.

Findings reveal that targeted reforms can increase revenues and ensure a fair distribution of tax burdens between local and international companies, including tech giants. Modernizing tax administration through advanced technologies and establishing a robust legal framework can enhance compliance and mitigate tax evasion risks. Swift action is essential to prevent fiscal losses and sustain long-term budgetary health.

The study proposes concrete reforms: introducing a taxation regime for digital services, creating legal mechanisms for cross-border digital revenues, and leveraging technology to implement these measures. These recommendations, based on international best practices and tailored to Moldova's context, contribute to global debates on digital taxation and provide clear guidance for Moldova's fiscal future.

Keywords: *digital economy, tax reform, taxation, tax framework, compliance, tax administration.*

JEL Classification: *H20, H21, H25, H32, O33, K34.*

INTRODUCTION TO DIGITAL TAXATION

Digital taxation, in the context of international taxation, reflects a set of tax regulations and policies developed to address economic activities carried out through online technologies, digital platforms and electronic commerce. [2] The advance of the digital economy globally has enabled companies to generate substantial revenues in international markets without having a significant physical presence in those jurisdictions. This phenomenon has generated fundamental challenges for traditional tax frameworks, originally designed to tax entities with a clearly defined physical location. Thus, the need to adapt tax legislation to the new digital realities is becoming more and more obvious. [4]

In this context, digital taxation is emerging as an ever-evolving field, characterized by complex negotiations between states and international organizations that aim to balance stimulating innovation and at the same time ensuring fair and efficient taxation. Among the main aspects of digital taxation are the introduction of special taxes, applied to revenues generated by certain digital services, such as online advertising, trading of user data and digital intermediation. One problematic element lies in establishing the rules that dictate where and how the profits generated by digital companies should be taxed. Cross-border economic activities, facilitated by complex corporate structures, make the application of traditional tax legislation more complicated and raise considerable difficulties in ensuring tax compliance. [14]

The role of international tax cooperation is essential for the development of a common regulatory framework for the taxation of the digital economy. [10] In this sense, the Organization for Economic Cooperation and Development (OECD) and the G20 have initiated major projects, among which the most significant is the proposal of a framework on two main directions: Pillar One (Pillar One), which aims to redistribute tax rights, and Pillar Two, which provides for the introduction of a global tax minimum. These initiatives have the potential to redefine international taxation rules, striking a balance between tax obligations and supporting the global digital economy. [6]

THE EVOLUTION OF FISCAL REGULATIONS FOR DIGITAL COMPANIES GLOBALLY AND THE NEED TO IMPLEMENT DIGITAL ECONOMY TAXATION REGULATIONS IN THE REPUBLIC OF MOLDOVA (RM)

Tax regulations for digital companies have undergone substantial evolutions in recent decades, marked by major initiatives initiated under the auspices of the Organization for Economic Co-operation and Development (OECD) and the G20. These initiatives aimed at adapting international tax legislation to the realities of the digital economy, characterized by business models capable of generating significant income without a clear physical presence in various jurisdictions. [2]

A defining moment in this evolution was the year 2013, when the OECD and the G20 launched the Action Plan against Base Erosion and Profit Shifting (BEPS). The first action in this plan focused on the fiscal challenges generated by the digitization of the economy. [10] The business model specific to the digital economy allows companies to operate and obtain substantial profits without a physical presence, thus generating considerable loopholes in the application of traditional tax regulations. In 2015, the OECD published the final report for Action 1, underlining the need for new solutions in the taxation of the digital economy, but without proposing a single solution. Instead, the report recommended options such as taxes on digital services, changing profit allocation rules and revising the concept of "significant economic presence." [5]

In the period 2016-2020, the lack of a global agreement led several countries to unilaterally introduce taxes on digital services (Digital Services Tax - DST). States that have implemented DST include France, Italy, Spain, the UK and India. These measures target revenues generated by digital activities such as online advertising and digital intermediation, seeking to directly tax the earnings of companies in the absence of a physical presence. [4]

To facilitate the involvement of emerging economies, the OECD and the G20 launched the Inclusive Framework in 2016, which allows all countries to participate in discussions on the implementation of BEPS. This initiative has the goal to develop common solutions aimed at ensuring fair and efficient taxation of the digital economy globally. Within this expanded format, debates and collaborations were initiated on digital company taxation measures, paving the way for a global framework. [2;5]

In October 2021, more than 130 states, including all G20 countries, reached a consensus on a global framework for taxing the digital economy. This agreement includes two major components: Pillar One, which proposes to allocate the taxing rights of approximately \$100 billion of multinationals' profits to the jurisdictions in which their markets are located, and Pillar Two, which provides for a global tax minimum of 15% for large multinational companies. [10]

The signatory countries have begun the process of adapting their national legislation to implement this global framework, with the aim that the new rules will become operational in the coming years. However, some issues remain, such as the exact definition of the profits to be redistributed and the mechanisms to avoid double taxation. Full implementation of the agreement will require complex coordination between jurisdictions and is expected to take several years, during which continued international dialogue will play a crucial role. [2;5]

In the RM, the implementation of digital economy taxation regulations is vital to capture the revenues generated by online economic activities and to ensure a fair competitive environment between domestic and international companies. As the global economy becomes increasingly digitized, companies generate substantial profits through activities conducted exclusively online, without a physical presence in the countries where they operate. The traditional fiscal system of the RM, which requires a physical presence for taxation, faces difficulties in capturing these revenues. That is why an adapted tax framework is required, which reflects the profound changes in the digital economy and allows a fair and equitable taxation of digital economic activities. [2;4]

In the absence of adequate regulations, international digital companies could benefit from an unfair competitive advantage over Moldovan companies, which are taxed according to conventional tax rules. By applying a fair taxation framework for all economic entities, the Government of the RM can not only protect and support the development of national companies, but also reduce the risk of erosion of the tax base, a phenomenon by which revenues generated in large markets are reported and taxed in jurisdictions with lower tax rates, to the detriment of the countries where the actual economic activity takes place. [14]

The adoption of a set of tax regulations for the digital economy would allow the Government to adequately tax those economic activities that have so far been either under-taxed or untaxed. This would significantly contribute to increasing tax revenues, essential for financing public services, including in areas such as education, health and infrastructure. At the same time, the regulations will reduce opportunities for tax avoidance, promote tax compliance and ensure that all companies meet their tax obligations in every jurisdiction where they do business. [4; 14]

In addition to the benefits for budget revenues, a clear and predictable regulatory framework for the taxation of revenues from digital activities will provide a climate of certainty for companies interested in investing in the digital economy of the RM. This aspect is essential for attracting foreign direct investment and for developing a stable and innovation-friendly business environment. At the same time, the implementation of these regulations will strengthen the country's fiscal capacity and allow it to actively participate in international initiatives regarding digital taxation, thus contributing to maintaining the economic competitiveness of the RM in a digitalized global economy. [2;5]

DIFFICULTIES ENCOUNTERED BY EMERGING ECONOMIES IN ADAPTING TO NEW FISCAL REGULATIONS IN THE FIELD OF DIGITAL TAXATION

Emerging economies face a series of difficulties in adapting to the new fiscal regulations in the field of digital taxation, challenges that can be analyzed from several perspectives. A first category refers to limited institutional capacity, which includes poor fiscal and administrative infrastructure; many emerging economies lack the technology and administrative resources to effectively implement and monitor complex fiscal regulations such as those related to digital taxation. This limitation, combined with the lack of specialized personnel and advanced IT systems, creates difficulties in the correct collection and reporting of taxes. [2;4]

Second, emerging economies face challenges from the complexity of international regulations. The global norms proposed by the OECD, such as Pillar One and Pillar Two, are complex and require substantial adaptations of national legislation. These economies may experience difficulties in understanding and applying these rules, which may lead to inconsistencies or delays in implementation. Another major challenge is asymmetric relations with multinational companies, as emerging economies often have little bargaining power vis-à-vis these large companies, which may threaten to withdraw operations or shift profits to jurisdictions with more favorable tax regimes, thus weakening the effectiveness of regulations and reducing national tax revenues. [5;14]

Also, tax avoidance and profit shifting represent a significant risk in the absence of well-defined legislation. Companies can exploit tax loopholes and use tax avoidance techniques such as shifting profits to lower tax jurisdictions. Emerging economies, faced with a lack of resources and expertise, are having difficulty combating these practices. At the international and regional level, lack of coordination can lead to discrepancies in the application of digital tax regulations, resulting in double taxation or tax avoidance. This phenomenon can reduce the effectiveness of measures and generate tensions in international relations. [4;5]

The economic and social impact of the new regulations is also significant. The implementation of digital tax regulations can generate considerable costs for local companies, who may have to invest more to comply with the new rules. These costs are more difficult for small and medium-sized enterprises to bear, thus affecting local economic development. In addition, taxes on digital services can be passed on to consumers, which can lead to higher prices for online services, affecting the affordability and adoption of digital technologies in emerging economies. [14;2]

Last but not least, the lack of expertise and specialized knowledge limits the ability of emerging economies to develop and implement effective tax policies and negotiate favorable international agreements, given the small number of tax experts and lawyers specialized in digital taxation. These difficulties reflect the complexity of adapting to new fiscal regulations in the field of digital taxation and underline the urgent need for international support and regional cooperation to help emerging economies overcome these challenges. [4;2]

Emerging economies also face the risk of limited institutional failure and an underdeveloped digital infrastructure, factors that significantly affect the ability to implement effective tax regulations for the digital economy. Limited institutional capacity reflects weaknesses in government and administrative institutions responsible for managing tax regulations, manifested by limited resources, insufficiently qualified staff, complex bureaucratic processes and outdated technologies. In these economies, the lack of specialized human resources is a major problem, as the implementation of a digital tax regime requires experts in international taxation, digital economy and tax law. However, attracting and retaining these specialists is often difficult for governments in emerging economies, thus limiting the ability to develop and enforce appropriate regulations. [10;13]

In addition, inefficient bureaucratic processes and administrative complexity can significantly delay the adoption and implementation of new tax regulations. Also, coordination between the various government agencies involved in tax, trade and technology is often lacking, which can create additional hurdles in regulating the digital economy. Moreover, the capacity to monitor and ensure tax compliance remains limited in many institutions in emerging economies, which facilitates tax evasion and reduces the efficiency of tax collection. The lack of a robust monitoring infrastructure makes it difficult to track and verify revenues generated by digital companies, especially when they operate in multiple jurisdictions. These challenges emphasize the need for modernization of tax institutions and international support to be able to adapt the tax systems of emerging economies to the demands of the digital economy. [4;2]

If we talk about insufficiently developed digital infrastructure, it significantly limits the ability to manage and monitor digital economic transactions. Digital infrastructure includes telecommunications networks, data centers, cyber security systems and other technologies essential to the conduct of digital activities. In emerging economies, the lack of a robust digital infrastructure can hinder the effective implementation of the tax regulations needed to tax digital activities. [10]

One of the main impediments is the absence of advanced technologies, which are essential for collecting and analyzing tax data in real time. This deficiency limits the ability of tax authorities to identify taxable income generated by digital activities and ensure tax compliance. Additionally, poor cyber security is another major vulnerability. Without effective security measures, tax systems are exposed to the risks of cyber-attacks, fraud and data leakage, thereby undermining taxpayers' confidence in the tax system and affecting voluntary compliance. [4;14]

At the same time, limited access to digital services restricts opportunities for the population and businesses to fully participate in the digital economy. In emerging economies with an underdeveloped digital infrastructure, restricted access reduces the scale of the digital economy and, by implication, the tax base. This affects the efficiency and impact of digital tax regulations, limiting the revenue that could be collected by the state. [10;2]

In the long term, the lack of adequate institutional capacity and a strong digital infrastructure in emerging economies can generate a number of significant consequences. First, tax collection will remain ineffective if these economies fail to modernize their institutional structures and invest in digital infrastructure. Inefficiencies in the collection of taxes from digital economic activities can lead to substantial losses of tax revenues, funds that could be allocated for critical public investments, such as infrastructure development and funding of essential social services. [4]

Another negative impact is related to tax evasion and erosion. In the absence of effective monitoring and enforcement mechanisms, multinational companies can take advantage of legislative loopholes and minimize the taxes they pay, which undermines public confidence in the tax system and exacerbates economic inequality. At the same time, a weak digital infrastructure can delay the adoption of new technologies in both the private and public sectors, affecting the country's economic competitiveness and reducing the chances of long-term growth. [2;14]

In the absence of solid fiscal revenues, emerging economies risk becoming increasingly dependent on external financial aid or loans to cover budget deficits, thus limiting political and economic autonomy and exposing themselves to risks associated with the instability of international markets. Also, the inability to implement digital tax regulations can create tensions with other countries, especially if they perceive the tax policies of emerging economies as unfair or if double taxation issues arise.

As other states continue to move forward in implementing digital tax regulations, emerging economies risk falling behind, causing a desynchronization with global trends and making it difficult for them to integrate into international value chains. This gap can limit these economies' access to new markets and negatively affect their economic development. [2;4]

These consequences underline the urgent need to invest in institutional capacity and digital infrastructure to facilitate an efficient and equitable adaptation to the realities of the digital economy. [10]

DIGITAL TAXATION IN EMERGING ECONOMIES: CHALLENGES AND PROSPECTS FOR THE RM

Digital taxation has the potential to significantly influence national tax revenues, generating both an increase in them and a restructuring of budgetary sources. By implementing effective regulations, governments can capture the revenues generated by digital companies that, until now, contributed insufficiently to the national budget. These revenues come from activities such as online advertising, sales of digital goods and services, and other economic activities carried out within a country. Thus, digital taxation expands the tax base by including new sources of tax revenue, thereby reducing budgetary dependence on traditional sources of income, such as income or profit taxes, which may decrease in the context of economic digitalization. [2]

Moreover, digital tax regulations help reduce tax base erosion, one of the main challenges of the digital economy. By combating the practice of shifting profits to low-tax jurisdictions, these regulations ensure that profits generated in the domestic market are properly taxed. In addition, proper taxation of digital income reduces the risk of tax evasion, contributing to more efficient tax collection and, implicitly, to increased tax revenues. [4]

As the digital economy expands, the share of revenues from taxation of digital services and activities will increase, changing the structure of tax revenues and reducing the importance of traditional taxes on goods, physical services or classic economic activities. Digital taxation can also redistribute tax revenues between different jurisdictions under new profit allocation rules. This redistribution can benefit economies that quickly adopt these regulations, but can pose challenges for countries that delay their implementation. [4]

Additional revenues generated from digital taxation also provide opportunities to finance public investment in digital infrastructure and support technological innovation. The investments thus made contribute to stimulating the long-term development of the national economy, favoring the growth and development of the digital sector. However, this approach also comes with challenges, as digital companies, both national and international, may incur additional compliance costs, which can influence investment decisions and affect economic growth. [2]

Depending on how it is implemented, digital taxation may cause companies to pass on additional costs to consumers or reduce investment in certain markets, which could negatively impact both the accessibility of digital services and economic growth. Participation in international initiatives, such as those proposed by the OECD and the G20, can provide an advantage by helping countries maximize their digital taxation revenues, avoiding double taxation and ensuring a fair distribution of taxing rights. [11]

More and more emerging economies have begun to implement or explore digital taxation to capture revenues generated by digital economic activities conducted within their territory. For example, in India, the "Equalization Levy" was introduced in 2016 as a 6% tax on online advertising services provided by foreign companies without a physical presence in the country. In 2020, this tax was expanded to include other digital services such as e-commerce at a rate of 2%. In Turkey, the Digital Services Tax (DST) was implemented in 2020 at a rate of 7.5% on revenues generated by various digital activities, including online advertising and online intermediation services, applying to both local and international companies serving the Turkish market. [2;10]

Nigeria in the same year introduced the concept of "significant economic presence" (SEP), whereby international digital companies become taxable in Nigeria if they reach a certain threshold of revenue from digital activities in the country. Kenya, for its part, implemented in 2021 a digital services tax of 1.5% applied to the gross revenues of digital service providers, both local and international, for services offered in the Kenyan market. In Indonesia, 10% VAT on digital services provided by international companies, such as streaming and software, was introduced in 2020, reflecting the country's effort to collect tax revenue from the digital economy.

These examples illustrate how emerging economies are adapting tax regulations to respond to the rapid growth of the digital economy and to ensure an equitable contribution of these activities to national tax revenues. [4;2]

The RM, like other emerging economies, is starting to explore ways to tax the digital economy, even if it has not yet implemented specific digital taxation measures at the level of those adopted by India, Turkey or Kenya. However, there are some relevant directions and initiatives that indicate an orientation towards the regulation of this sector. [4]

An important first step was the adoption of VAT legislation for electronic services, starting on April 1, 2020. This measure requires foreign companies that provide electronic services to Moldovan consumers, such as streaming services, software or online advertising, to register for pay VAT in the RM and pay VAT for the services provided. This measure aims to ensure a fair tax contribution from global digital companies and is similar to other states' approaches to taxing digital services. [13]

Although the RM has not introduced a specific tax on digital services (DST), the active participation in international discussions within the OECD and other relevant organizations reflects the country's interest in a globally coordinated approach to the taxation of the digital economy. These discussions aim to avoid double taxation and ensure a fair distribution of tax revenues obtained from digital activities. [11]

In parallel, the RM is investing in the modernization of the tax administration, a process that includes the digitization of tax procedures and the implementation of e-government technologies. These efforts are essential to support the effective collection of taxes from digital activities and represent a solid foundation for possible future digital taxation regulations. [4]

The government, together with various organizations from the RM, also started a series of analyzes and impact studies on the taxation of the digital economy. These studies have the role of evaluating the potential effects of the regulation of this sector and providing essential data for the elaboration of future legislative proposals. [4]

Although the RM does not yet have an extensive digital taxation regime, efforts to align with international standards and adapt tax legislation to the requirements of the digital economy indicate a direction of development. As the share of digital activities in the economy increases, these initiatives could accelerate, facilitating fair and sustainable taxation of the digital economy in the future. [11]

ANALYSIS OF THE COSTS AND BENEFITS OF IMPLEMENTING DIGITAL TAX REGULATIONS FOR EMERGING ECONOMIES

Implementing digital tax regulations in emerging economies presents both opportunities for economic growth and significant challenges. On the benefits side, broadening the tax base allows for the capture of revenues generated by international digital companies, thus contributing to increasing tax revenues that can be allocated to public investment and essential services. Well-designed regulations reduce opportunities for tax evasion, ensuring better compliance and increasing tax collection. These additional funds can support investments in digital infrastructure and digital literacy programs, strengthening economic competitiveness and encouraging the development of local startups. [4;2]

By adopting regulations in line with international standards, such as those proposed by the OECD, emerging economies can improve their trade and tax relations with other countries, reducing the risk of double taxation and loss of revenue by shifting profits to more favorable jurisdictions. Moreover, the taxation of digital activities contributes to fiscal equity, ensuring fair competition between local and international companies and thus supporting the development of local enterprises. [11;9]

However, the implementation of these regulations also involves significant costs. Emerging economies must allocate considerable resources to modernize administrative and technological infrastructure, an essential effort to manage new tax regulations and train specialized personnel. [4;2] For companies, compliance may involve additional costs related to updating accounting systems and tax reporting, costs that may particularly affect SMEs. In addition, multinationals may reconsider investments if they perceive the new regulations as too burdensome or unpredictable, which could reduce foreign direct investment and affect economic growth. [9]

In addition to the required administrative resources, limited institutional capacity in emerging economies can lead to inconsistent enforcement of the new rules and lost tax revenues. Weak institutions and lack of transparency can increase the risk of corruption, undermining regulatory effectiveness and public confidence in the tax system. Digital companies could also pass on the additional tax costs to consumers, which would increase the prices of digital services and limit the population's access to them. If regulations become too restrictive, companies may reduce the launch of new technologies and services in emerging economies, thus slowing digital transformation. [11;4]

The implementation of digital taxation regulations in emerging economies, including the RM, involves a detailed econometric analysis of the relationship between the costs and benefits of this initiative. We set out to develop an econometric model to evaluate the dependence between costs and benefits of the implementation of digital economy taxation in the RM. This is a multiple linear regression model that estimates the impact of implementation costs and other factors on the potential benefits of digital taxation.

In this econometric model, total benefits (***B***) are the dependent variable and represent the estimated benefits of digital taxation. These benefits include increasing tax revenues, improving digital infrastructure and boosting economic competitiveness. The independent variables, which influence these benefits, are defined as:

C1- implementation costs;

C2 - compliance costs for companies;

C3 - institutional capacity;

C4 - the impact on foreign direct investment (IISD).

Thus, the implementation costs (***C1***) refer to the resources needed to develop the administrative and technological infrastructure essential for the management of digital taxation, and the compliance costs (***C2***) include the expenses that companies, especially SMEs, have to bear in order to align with the new digital tax requirements. Institutional capacity (***C3***) reflects the administrative efficiency of the tax system, including investments in staff training and systems modernization. Finally, the impact on IISD (***C4***) indicates how digital regulations influence foreign investment flows, expressed as a percentage change in direct investment.

The proposed model is a multiple linear regression equation:

$$B=\beta0+\beta1C1+\beta2C2+\beta3C3+\beta4C4+\epsilon \tag{1}$$

where:

• *B* - estimated total benefits

• *C1, C2, C3, C4* - the independent variables defined above,

• *β0* - the intercept of the model, which represents the benefit when all costs are zero,

• *β1, β2, β3, β4* - the coefficients indicating the impact of each independent factor on the benefits:

β1 - reflects the change in benefits when implementation costs (*C1*) increase by one unit,

β2 - measures the influence of compliance costs on benefits,

β3 - indicates how the institutional capacity (*C3*) contributes to the benefit,

β4 - assesses the impact of changes in IISD on benefits.

• *ϵ* - the error term, capturing the variations not explained by the model.

To obtain accurate results, the coefficients of the model can be estimated using the least squares method, applied based on the economic data available for the RM. The validation of the model can be done by testing the statistical significance, using the coefficient of determination ***R2***, the ***F***-test for the overall significance of the model and the ***t***-tests for the individual significance of the coefficients.

However, the model also has some important limitations. First, its accuracy depends on the quality and availability of the data. Without sufficient and accurate data, estimations can be affected by errors. In addition, the linear model may not capture all the nuances of the complex relationships between costs and benefits, and external factors such as international legislative changes and technological developments may influence the relationship between variables in a way that is not captured by the simple linear model.

Thus, this multiple linear regression model provides an analytical framework to understand how costs and other independent factors influence the benefits of digital economy taxation in the RM. It can serve as a starting point for further research and the development of appropriate fiscal strategies in the context of the digital economy, provided that the available data allow a reliable econometric assessment.

In order to apply the proposed econometric model to the budget of the RM for 2024, a detailed estimate of the benefits and costs of implementing digital taxation is necessary, even if, in the absence of precise data, we can build a hypothetical scenario based on reasonable estimates.

The total benefits of digital taxation, marked ***B***, represent the estimated revenues that could be obtained from this initiative and include increased tax revenues, improved digital infrastructure and boosted economic competitiveness. We estimate that for 2024, digital taxation could bring the RM an increase of approximately 500 million MDL in tax revenues.

On the cost side, we identified several key independent variables: implementation costs (***C1***), compliance costs for companies (***C2***), institutional capacity (***C3***), and impact on foreign direct investment (***C4***). We estimated implementation costs at MDL 50 million, additional compliance costs for companies at MDL 20 million, and assessed Moldova's institutional capacity at an index of 0.7, indicating an intermediate stage of institutional readiness. We also assumed a 10% reduction in foreign direct investment flows due to the perception that the new tax regulations could be a burden.

The econometric model proposed to evaluate these variables uses a multiple linear regression equation, defined as follows:

$$B=\beta0+\beta1C1+\beta2C2+\beta3C3+\beta4C4+\epsilon, \quad (2)$$

where, the estimated benefits $\boldsymbol{B}$ are influenced by cost values and institutional capacity. Assigning hypothetical values to the regression coefficients – for example, $\boldsymbol{\beta0}$=200, to express a base benefit of 200 million MDL, $\boldsymbol{\beta1}$=2, indicating an increase of 2 million MDL for each million MDL invested in implementation, and $\boldsymbol{\beta2}= -1.5$, showing a decrease of MDL 1.5 million for every MDL million spent by companies on compliance. In this scenario, $\boldsymbol{\beta3}$ is 300, which means that an additional unit of institutional capacity would bring additional benefits of MDL 300 million, and $\boldsymbol{\beta4} =-100$, indicating a decrease of MDL 100 million for a 10% reduction in foreign investment.

Thus, the model looks like this:

$$B=200+2(C1)-1.5(C2)+300(C3)-100(C4) \quad (3)$$

Substituting these hypothetical values into the equation, the estimated result for total benefits is:

$$B=200+2(50)-1.5(20)+300(0.7)-100(-10)=1480 \text{ million MDL} \quad (4)$$

Thus, in this hypothetical scenario, the total benefits for the RM from the implementation of digital taxation would be approximately 1480 million MDL in 2024. These benefits would include both direct revenues from digital taxation and the positive effects of strengthening institutional capacity and adjustments due to compliance and the impact on foreign investment.

However, it is important to emphasize that these estimates are based on assumptions and should be validated with real data to ensure the accuracy of the model. Moreover, there are other external factors, such as international legislative changes and economic fluctuations, which could influence the relationship between costs and benefits. For an accurate analysis and well-founded decisions, concrete economic data are needed, reflecting tax revenues, administrative costs and the impact of investments.

This econometric model can be used as a starting point to assess the potential impact of digital economy taxation and to support the formulation of informed fiscal and economic policies in the RM.

The implementation of a digital economy taxation regime in the RM is a strategic necessity, considering the rapid evolution of the digital economy at the global level and its impact on the local market. Moldova needs to adapt its fiscal framework to capture the revenues generated by the digital economic activities carried out on its territory, thus reducing the risk of losing a significant part of the budget revenues to foreign jurisdictions. The adoption of a digital taxation regime will help align the country to modern economic realities, avoiding falling behind other economies that have already implemented such measures. [1;9]

A digital taxation regime could bring significant tax revenues to the RM, which would support the national budget and allow the financing of essential investments for sustainable development, including infrastructure, education and public services. Furthermore, clear regulation of digital taxation will prevent revenue losses by reducing tax evasion and profit shifting to other jurisdictions with more favorable tax regimes. Thus, Moldova can protect its tax base and ensure a fairer tax system, strengthening its financial stability. [5;3]

The implementation of such a regime will boost the development of institutional capacities and digital infrastructure, essential aspects for the modernization of tax administration. By developing the capacity to manage digital economy activities, Moldova can improve the efficiency of tax collection and bring more transparency to the management of public funds. This will have a positive impact not only on revenues, but also on taxpayers' confidence in the country's tax system. [2;4]

In addition to the fiscal impact, a clear and fair digital taxation regime will increase the competitiveness of the RM as a destination for foreign investments. Such a measure can attract investment in the digital sector and support the development of local businesses, thus creating employment opportunities and contributing to economic growth. At the same time, the clarity and fairness of taxation can prevent the negative effects of unclear or excessive taxation on the investment decisions of international companies, thus maintaining an attractive and stable business environment. [5]

The adoption of a digital taxation regime will align the RM with the international standards promoted by the OECD and the G20, facilitating international fiscal cooperation and reducing the risk of fiscal conflicts with other states. Thus, Moldova will strengthen its international economic relations and will be better integrated in the global economy, benefiting from the advantages of a harmonized fiscal regulation. [11;1]

Therefore, the introduction of taxation of the digital economy in the RM is not only a necessary step, but also an opportunity to consolidate budget revenues, reduce tax evasion and stimulate economic development in a sustainable way. Adapting to the new requirements of the digital economy can transform Moldova into a more stable and competitive fiscal state, able to face the challenges and capitalize on the benefits brought by the digitization of the economy. [14;7]

Analyzing examples of digital taxation implementation in emerging economies, each country has adopted specific strategies adapted to its economic context, institutional capacity and fiscal objectives. The models from ***India, Turkey, Nigeria, Kenya and Indonesia*** present elements that could also be relevant for the RM, providing a basis for a comparative analysis and for recommendations adapted to local needs. [1;13]

India has implemented an "Equalization Levy" applied to revenues from digital advertising and other services provided by international companies with no physical presence in India. This model is attractive for Moldova, being simple to implement and directly targeting the revenues generated by foreign digital companies, without significantly affecting local companies. Moldova could adopt a similar tax, thus capturing the revenues generated by global platforms operating on the Moldovan market. [5;14]

Turkey introduced a digital services tax (DST) applied to a wide range of services, including online advertising, the sale of data and digital intermediation. This model, more comprehensive than the Indian one, could inspire Moldova, if a wider taxation of digital economic activities is desired. However, such an approach would require strong institutional capacity for implementation and monitoring. [1;13]

Nigeria introduced the concept of "significant economic presence" (SEP), taxing international digital companies that reach a certain revenue threshold in the country. Moldova could adopt this model to establish clear criteria for international digital companies to be taxed on the local market, even if they do not have a physical presence. This would allow specific taxation of companies with a significant economic influence in Moldova. [14;5]

Kenya has implemented a DST applied to the gross receipts of digital service providers, both local and international, at a relatively low rate. Moldova could consider a similar approach, as this model is simple to administer and applies a low tax on gross receipts, facilitating compliance and implementation in a limited tax structure. [2;5]

Indonesia has expanded VAT to include digital services provided by international companies, applying VAT to services such as streaming, software and other online services. Moldova already has a VAT regime, and expanding it to include digital services would be a natural and efficient solution for capturing additional tax revenues, quickly integrated into the existing tax framework. [14]

Among the analyzed models, the Indian model (Equalization Levy) and the Indonesian model (VAT on digital services) are the most suitable for Moldova, considering the country's economic structure and institutional capacity:

• ***Equalization Levy (Indian model)***- this model is simple to implement and directly targets revenue from online advertising and other digital services provided by foreign companies, without introducing additional complexity into the tax system. Moldova could adopt this model to tax revenues generated by international platforms on the local market, especially those from digital advertising, a growing sector.

• ***VAT on Digital Services (Indonesian model)*** -the extension of VAT to include digital services is an efficient and relatively easy to integrate measure in the current fiscal framework. This would allow revenue to be captured from a wide range of digital services such as streaming and software, maximizing revenue without complicating the existing tax system. [2;5]

The RM would benefit significantly from the adoption of an ***Equalization Levy*** model similar to the Indian one, in combination with the expansion of VAT to include digital services, following the model of Indonesia. This approach would be relatively simple to implement, would bring substantial additional revenues and align Moldova with international fiscal trends. By implementing these measures, Moldova could capitalize on the growth of the digital economy, without introducing additional fiscal complexities and at the same time ensuring a stable and fair fiscal framework. [5]

However, digital taxation can significantly influence the decisions of multinational companies, having the potential to both discourage investment and stimulate long-term development, depending on how tax policy is designed. A well-balanced tax strategy that ensures the right balance between tax burden and legislative predictability, together with investments in digital infrastructure, can turn digital taxation into a tool to attract investment. [2]

In order to determine the optimal size of the digital tax in the RM, so as to generate additional tax revenues to the budget, it is necessary to take into account the structure of the digital market and the estimated revenues from digital economic activities. A suggested initial rate for the RM would be approximately **3%**, applied to revenues obtained from online advertising, brokerage services and other digital activities carried out on the local market by international companies. [5]

This rate would be moderate enough to ensure tax compliance and would be easily accepted by international companies, while also reducing the risk of rising costs for consumers. For example, if we estimate the total digital revenues in Moldova at 100 million MDL annually, a 3% tax could generate around **3 million MDL** for the national budget, without significantly burdening economic agents and without creating a major economic barrier. [3;13]

Thus, a rate of **3%** is recommended as a starting point, giving the tax authorities the opportunity to assess the impact of the tax and adjust its size based on the economic performance and feedback of the companies involved. [5;13]

For the RM, the adoption of a digital taxation regime must be approached with caution and a strategic vision. It is essential that tax measures are designed to maximize economic benefits, such as increasing tax revenues and stimulating innovation, while reducing risks that could affect the attraction of foreign investment. Through a balance between fiscal compliance and support for the business environment, Moldova can capitalize on the potential of the digital economy without compromising competitiveness on the international market. [8;3]

And in this context, we proposed to see, if we were to assume the application of the 3% rate on the revenues from the activity of national and multinational companies in the field of the digital economy active in the territory of the RM, how many of 100 companies would give up the given activity?

These decisions would be influenced by and involve multiple factors and variables. Among these factors we can highlight: the size of the company; profit rate; elasticity of demand for their services; operational costs and market competitiveness.

Large companies, especially multinationals, could more easily absorb an additional tax of around 3% due to greater financial resources. They are less likely to go out of business just because of such a tax. Whereas for small and medium-sized companies, with lower profit rates and in a competitive market, an additional tax can make the difference between profitability and losses, which would be a significant factor in making the decision to abandon the idea of continuing activity in the RM, opting for other countries where this field still remains unregulated.

In a hypothetical scenario and based on the above factors we can have two scenarios:

Optimistic Scenario: If the tax is perceived as reasonable and companies can absorb the costs, the likelihood of withdrawal is low. Under these conditions, maybe only **5-10%** of companies would give up their activity.

Worst case scenario: If the tax is perceived as a significant burden and there are no other offsetting benefits, the pullback could be more pronounced, affecting perhaps **20-30%** of companies.

And yet it is difficult to give an exact number without a detailed analysis of the market and the specifics of each company, but a 3% tax could lead to the abandonment of activity for a small part of companies, especially those with low rates and high sensitivity to additional costs. However, we believe that most companies, especially large multinationals, would continue to operate in the RM.

THE ROLE OF INTERNATIONAL AND REGIONAL ORGANIZATIONS IN SUPPORTING EMERGING ECONOMIES IN THE PROCESS OF ADAPTING TO DIGITAL TAXATION

International and regional organizations play a key role in supporting emerging economies in the process of adapting to digital taxation. These organizations provide both technical and financial resources as well as a framework for cooperation and harmonization of fiscal policies.[6]

If we are to refer to the development of global standards and recommendations, the basic role belongs to the OECD, which was the leader in the development of the BEPS initiative, a project that includes specific measures to address the fiscal challenges generated by the digital economy. Through its initiatives, the OECD helps emerging economies adopt tax regulations that ensure a fair distribution of revenues from digital taxation at the global level, as well as provides guidelines and tools for the implementation of these measures, thus supporting countries in adapting national legislation. The OECD plays an important role in supporting the RM in the fiscal field, despite the fact that Moldova is not a member of the organization. The country participates in certain OECD initiatives and forums dedicated to tax transparency and combating tax evasion, including in the context of the digital economy. The OECD provides useful guides and resources to help Moldova align with international standards and modernize its tax practices. [1;15]

Moldovan tax officials also benefited from assistance and training programs organized by the OECD, having the opportunity to familiarize themselves with global trends and challenges related to digital taxation. These initiatives contribute to strengthening the institutional capacity of Moldova, supporting the adaptation of tax legislation to the new digital economic realities. [7]

In addition to the OECD and the G20 group, they are opting to promote the global adoption of digital tax regulations and to ensure the participation of emerging countries in the process of developing these regulations. The G20 also facilitates international discussions and negotiations on the harmonization of tax regulations, which helps emerging economies adapt more easily to new global standards. [5]

It is the IMF that provides technical assistance and advice to governments in emerging economies, as well as helping countries develop the administrative capacity needed to implement new regulations and improve tax collection. The IMF also provides support in modeling the fiscal impact of new regulations and assessing long-term fiscal sustainability. The IMF supports the RM through its economic surveillance programs, offering consultancy and technical assistance for the development of fiscal policies, including in the field of digital taxation. Among the main initiatives is the modernization of the tax administration through the digitization of processes, an essential step for increasing the efficiency and transparency of the tax system. The IMF also supported the assessment of Moldova's institutional capacity, contributing to the development of strategies for strengthening fiscal administration, which is an important premise for the effective implementation of digital fiscal regulations. [4;9]

Likewise, the World Bank supports emerging economies by financing projects to modernize tax administration and digitize the economy. These projects may include the development of IT infrastructure for the collection and monitoring of digital taxes, as well as the training of administrative staff. The World Bank played an essential role in supporting the fiscal modernization of the RM, financing and providing technical assistance for various tax administration reform projects. These include developing the necessary IT systems for digital tax monitoring and collection, as well as training staff to use these systems effectively. In addition, the World Bank has conducted analyzes and impact studies that assess the potential effects of tax reforms, including digital taxation, on the Moldovan economy. These studies provide the government with clear insights into the implications of the reforms, supporting it in adopting well-grounded fiscal measures adapted to the local context. [4;14;9]

The European Union plays a key role in supporting emerging economies in Eastern Europe and other regions by promoting regional cooperation and harmonization of tax regulations. Through dedicated programs, the EU provides funds, technical assistance and knowledge exchange platforms, facilitating the adoption of modern tax practices. At the same time, coordination between member states and partner countries ensures a unified approach to digital taxation, contributing to reducing the risks of double taxation and preventing unfair tax competition. The RM has benefited from support from the EU through the TAIEX (Technical Assistance and Information Exchange) program, which provides technical expertise and consultancy to help partner countries adopt modern tax regulations, including in the field of digital taxation. Also, Moldova participated in Twinning projects with EU member states, which involve direct cooperation between the tax administrations of Moldova and other EU countries. These projects are intended to improve Moldova's institutional capacity in tax collection and enforcement of the new tax regulations. [1;3;16;11]

Regional organizations such as ASEAN (Association of Southeast Asian Nations) and AU (African Union) also contribute to regional cooperation and knowledge sharing, which facilitate dialogue between member states on digital taxation and provide a framework for cooperation in the implementation of the new fiscal regulations. These organizations can also support member countries through joint training and institutional capacity building initiatives. [5;4]

Another important aspect for strengthening tax systems in emerging economies concerns the promotion of tax transparency and the exchange of information between jurisdictions, especially in the context of digital taxation. The Global Forum on Transparency and Exchange of Information, supported by the OECD, facilitates this process by supporting the adoption of international standards on the automatic exchange of information. This mechanism enables the monitoring of revenues generated by digital companies, thereby reducing tax evasion and ensuring more efficient tax collection. By collaborating in this forum, emerging economies can benefit from resources and knowledge to support them in implementing modern and sustainable tax practices. [9;3;5;4]

Reducing inequalities and supporting development policies are essential objectives in the context of the growth of the digital economy, and UNCTAD (United Nations Conference on Trade and Development) plays a crucial role in this process. Through in-depth analysis and policy recommendations, UNCTAD helps emerging economies take full advantage of the opportunities offered by the digital economy, promoting fair taxation that reduces inequalities and maximizes economic benefits. This approach contributes to strengthening national capacities and ensuring a fiscal framework that supports the sustainable development of developing countries. [14;17]

For emerging economies, these reforms present both opportunities and challenges. On the one hand, the implementation of international tax rules can lead to increased tax revenues and a more equitable distribution of profits generated by digital companies. On the other hand, these countries need to develop their institutional capacities to apply the new regulations and to participate effectively in international negotiations. [5;3]

CONCLUSIONS

In conclusion, international cooperation is essential for supporting emerging countries, as well as the RM, in adapting to the challenges of digital taxation and capitalizing on the opportunities of the global digital economy. The assistance provided by organizations such as the EU, the IMF, the World Bank and the OECD plays a crucial role in developing institutional capacities, modernizing tax administration and adopting tax regulations aligned with international standards. Through this collaboration, Moldova can create a fair, efficient and sustainable fiscal framework, integrating into the modern global fiscal system and benefiting from the advantages of a growing digital economy. [3;10]

Current trends indicate an increase in international cooperation in the field of digital taxation, with a focus on transparency and information sharing. Emerging economies are encouraged to align with global standards to benefit from fairer taxation and attract foreign investment. However, the success of these efforts depends on adapting national legislation and strengthening tax administrations to deal with the complexities of the digital economy. [5;17]

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