

THE EFFICIENCY OF THE TAX ADMINISTRATION OF LARGE TAXPAYERS FROM THE REPUBLIC OF MOLDOVA THROUGH THE PRISM OF THE ACTIVITY OF THE STATE TAX SERVICE

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Abstract: Large taxpayers represent a notorious segment of economic agents who, emerging from the activities carried out, the turnover and respectively the taxes and duties paid, contribute essentially to the formation of budget revenues. Large taxpayers are the economic agents who are also socially important by creating jobs and supporting the national economy by honoring tax obligations in full and on time.[11] In this sense, the voluntary compliance of large taxpayers is a priority for the tax authority, a fact that leads to the registration of a low percentage of taxpayers in arrears, regarding which the application of the tools and procedures for collecting arrears is ensured. [8]

The State Tax Service (STS) approves every year the List of large taxpayers from the Republic of Moldova. For the year 2023-2024, this list includes 550 economic agents, entities and individuals, who practice entrepreneurial activity in the Republic of Moldova and this list is public, being approved by order of the STS, and later published in the Official Gazette. It includes the largest companies in the country, all banks and insurance companies, but also taxpayers who hold a dominant position and/or significant importance in a field of the national economy. [1]

The criteria for selecting large taxpayers are approved according to the annex to the Order regarding the establishment of the criteria for determining and selecting large taxpayers. Establishing the criteria for selecting large taxpayers and approving their list is the responsibility of the State Tax Service according to article 133, paragraph 35 of the Tax Code.

The objective of the paper consists in reflecting the eligible criteria for selecting and including large taxpayers in the List of large taxpayers and examining the evolution of the number of large taxpayers in the Republic of Moldova. The author also aims to examine the compliance treatments applied to large taxpayers according to the risks identified in their activity.

The conclusions express the contribution of the State Tax Service in the fiscal administration of economic agents - large taxpayers and respectively the efficiency of this administration by reflecting the contribution of large taxpayers to the National Public Budget by honoring tax obligations.

Keywords: large taxpayers, State Tax Service, compliance treatments, tax obligations, tax administration.

JEL Classification: H24, H25, H27.

INTRODUCTION

Tax administrations in various countries have initiated specialized programs to address the complex problem of managing high-income individuals. As in the case of large taxpayers - economic agents, wealthy individuals may present an increased risk of tax non-compliance for tax administrations, due to the complexity of these taxpayers, the considerable size of the tax revenues involved, as well as the possibility of using these actions. aggressive tax planning. Tax non-compliance of these citizens affects the overall integrity of the tax system.

Thus, the State Tax Service (STS) initiated its own program for managing large taxpayer individuals, to assist and raise the level of compliance among this segment of taxpayers.

Starting with 2017, the STS implemented a special approach for this category of taxpayers, allocating the necessary resources, aware that the mentioned taxpayers could contribute large revenues to the budget. The SFS also established the criteria for selecting large individual taxpayers and the maximum number of individuals to be administered by the General Directorate for the Administration of Large Taxpayers (GDALP).

During 2018-2019, with the development of tax administration processes, new opportunities were identified in the area of understanding the tax behavior of this category of taxpayers. Thus, the architecture of the profile of a large taxpayer individual, which was previously based only on examining income, was complemented with indicators that would demonstrate/identify lifestyle, assets held and the dynamics of wealth in general.

Thus, the criteria for identifying large taxpayers, individuals, have been modified, in order to optimize the process of understanding the profile of an individual with high wealth. In this regard, it was proposed *to increase the maximum number of large taxpayers up to 600 individuals* and to include in the list individuals who meet at least two of the following criteria:

- are tax residents of the Republic of Moldova;
- the income obtained for the last three fiscal periods preceding the fiscal period of management, cumulatively exceeds the amount of 3 million MDL;
- the cumulative value of assets held during the last fiscal year exceeds 50 million MDL". [12]

In accordance with art. 5 of the Tax Code, **a Large Taxpayer** is considered a taxpayer identified according to the criteria for selecting large taxpayers, developed by the State Tax Service, and included in the List of economic agents - large taxpayers.

Currently, Large Taxpayers are managed by the Large Taxpayer Service Department of the State Tax Service (LTSD), and the lists of large taxpayers are approved by order of the State Tax Service. The criteria for selecting large taxpayers are approved by the *Order on establishing the criteria for determining and selecting large taxpayers no. 471 of 20.12.2022*. According to the above-mentioned Order, they may have the status of large taxpayer:

- 550 economic agents, legal entities and individuals, practicing entrepreneurial activity in the Republic of Moldova (for at least 3 years), selected according to the criteria for determining large taxpayers, provided for in the annex to the order, with the exception of taxpayers provided for in articles 52, 531, 532, 533 and 541 of the Tax Code, insurance companies and banking institutions;
- up to 500 resident individuals, selected according to the criteria provided in the annex to the order. **The List of Large Individual Taxpayers** includes resident individuals whose income obtained for the last three fiscal periods preceding the fiscal period of management, cumulatively exceeds the amount of 3 million lei, selected in descending order.

The selection of **large taxpayers, legal entities and individuals carrying out entrepreneurial activity, is carried out from eligible taxpayers**, based on the following criteria:

- the basic criteria;
- the specific criteria;
- the continuity criteria.

The basic criteria represents the value criterion, being the result of the aggregation of 3 indicators selected from an economic and budgetary point of view in the following proportions:

- The volume of tax obligations declared and paid by taxpayers for the fiscal year preceding the year in which the criteria are applied and for 10 months of the current fiscal year (40% of the number of taxpayers will be selected according to this criterion on a descending basis);
- The turnover declared in the tax returns for the fiscal year preceding the year in which the criteria are applied and that declared in the tax returns for 10 months of the current year (40% of the number of taxpayers will be selected according to this criterion on a descending basis);
- The payroll fund declared and paid by taxpayers for the fiscal year preceding the year in which the criteria apply and for 10 months of the current year (20% of the number of taxpayers will be selected according to this criterion on a descending basis).

The specific criteria, by way of exception from points 3 and 6, represents the criterion of activity carried out. The criterion of activity carried out includes:

- a) banking institutions;
- b) insurance companies;

c) taxpayers who hold a dominant position and/or significant importance in a field of the national economy.

Continuity criterion:

a) Taxpayers resulting from the division of a large taxpayer, as the case may be, will continue to be administered by the LTSD.

b) The newly formed taxpayer resulting from the merger of a large taxpayer with another taxpayer will be administered by the LTSD.

The following will not be included in the list of large taxpayers:

- taxpayers in insolvency and liquidation process, including as a result of reorganization;
- public institutions;
- municipal enterprises;
- public and private educational institutions;
- taxpayers who in the last 2 fiscal years have registered high risks of tax non-compliance;
- taxpayers who have less than 30 employees in the month of selection. [3]

The list of large taxpayer economic agents is published in the Official Gazette of the Republic of Moldova and on the website of the State Tax Service. (<https://sfs.md/ro/catalogul-datelor-deschise/xi-contribuabili-mari>).

The individuals as large taxpayers will be notified of their inclusion in the list of large taxpayers by notification, sent by e-mail or through postal service providers. The list of the individuals as large taxpayers is not public, pursuant to the provisions of Law no. 133/2011 on the protection of personal data. The transmission of personal files of taxpayers included in/or excluded from the List of Large Taxpayers is carried out in accordance with the Instruction on taxpayer records, approved by Order of the State Tax Service no. 352/2017.

The status of large taxpayer shall be held for a period of at least 2 years. In the event of the court issuing a decision on the initiation of insolvency proceedings, by way of derogation from point 8, the economic agent, with the exception of financial institutions, shall be excluded from the List of Large Taxpayers. In the event of the exclusion of economic agents from the List of Large Taxpayers pursuant to point 9, the State Tax Service shall be entitled to supplement the List of Large Taxpayers by selecting them in accordance with the criteria provided for in the annex to Order 471 of 20.12.2022.

It is important to note that large taxpayers represent a notorious segment of economic agents who, based on their activities, turnover and tax obligations paid, have a significant contribution to the formation of budget revenues. At the same time, large taxpayers also have an essential role from a social point of view by creating jobs and supporting the national economy by fully and on time paying mandatory tax payments to the budget. [11]

The largest taxpayers (18 in number) paid almost 3.5 billion lei to the National Public Budget in 2023. According to data presented by the State Tax Service (SFS), four financial institutions paid over 100 million lei each in income tax from entrepreneurial activity. At the same time, three taxpayers from the energy sector paid over 200 million lei each in value added tax. At the same time, almost one billion lei for the same tax was transferred by seven taxpayers from the production, trade and mobile operators sectors. Also, four taxpayers from the alcohol and tobacco production sectors paid excise duties of over one billion lei. [2]

In order to combat tax evasion and reduce the tax gap, one of the objectives of the STS, a proposed measure is the development of a compliance policy for large taxpayers and high-income individuals, and in this regard, the development of the Compliance Program and the Large Taxpayers Strategy for 2025, which would include all voluntary and forced compliance activities carried out by the STS. [6]

Currently, according to the Taxpayer Compliance Program for 2024, the compliance treatments applied to large taxpayers are selected in an individual manner, taking into account the specifics of

large taxpayers and the risks assumed in their activity. To support correct compliance and timely payment of taxes and fees, large taxpayers are divided into 4 samples.

Table 1. Distribution of economic agents by samples

Sample	Conditions for enrolling taxpayers in samples	Conformation treatments	
		voluntary	forced
Sample I. High-risk taxpayers	1. Turnover \geq 500 mln. lei; 2. Total risk score is maximum; 3. Impact assessment is between high and extreme;		Priority treatments manifested by: • carrying out tax control; • establishing the fiscal post.
Sample II. Key taxpayers	1. Turnover \geq 500 million lei; 2. The total risk score is below average. 3. The impact assessment is between high and extreme;	Carrying out the tax visit	
Sample III. Medium-risk taxpayers	1. Turnover $<$ 500 mln. lei; 2. The total risk score is high with a lower consequence; 3. The impact assessment is between medium and high;	• "Contacting the taxpayer, sending/handing compliance letters, applying the questionnaire"; • Organizing and conducting compliance meetings.	
Sample IV. Low-risk taxpayers	1. Turnover $<$ 500 million lei; 2. The total risk score is low; 3. The impact assessment is between low and medium;	Office monitoring of activity indicators.	

Source: Taxpayer Compliance Program, 2024. Available: <https://sfs.md/uploads/files/Docs/planuri-programe/programeconformare/Programul%20de%20conformare%20a%20contribuabililor%202024.pdf>

The use of samples will define actions towards taxpayers at risk by applying appropriate treatments depending on the sample they are part of. The taxpayer's risk assessment should be reviewed every 6 months and, depending on trends, the review period may change over time. Following the review of risk scores, the taxpayer may move or be reassigned from one sample to another, so that the applicable treatments change.

Taxpayers are assigned to one of the 4 samples, depending on the impact they have on tax collection, the risks encountered, and the probability of a risk occurring.

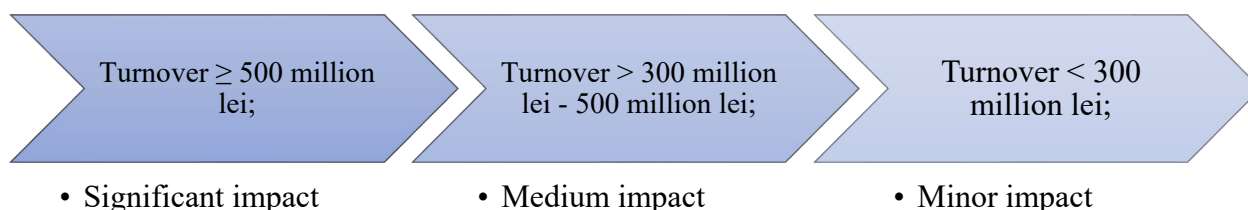


Figure 1. Samples based on taxpayer turnover

Source: taken by the author from the source [4]

Depending on the impact, the risk can be:

➤ **minor** - the risk will have an insignificant effect, up to 0.5% of turnover, and the treatment of that risk being possible to be exercised by applying simple forms of voluntary compliance (quantified by 0-0.1);

➤ **medium** – the risk was confirmed as a result of the control, being materialized in additional calculations to the budget in the proportion of 0.5 - 1% of the turnover in the period subject to verification (quantified by 0.2- 0.5);

➤ **significant** – the risk materialized through significant additional calculations, in a proportion greater than 1% of the turnover in the period subject to verification (**quantified by 0.6-1**).

Based on the risk criteria, the tax audit is planned and is oriented towards the areas of activity with a major risk of tax non-compliance. As a result of the application of the risk criteria, depending on the potential consequences on the taxpayer's activity, risk levels are established.

For the assessment of non-compliance risks, taxpayers are assessed in the following risk groups:

I. Group of general risks related to entrepreneurial activity;

II. Group of risks related to income tax;

III. Group of risks related to salary in envelope;

IV. Group of risks related to value added tax;

V. Other risks.

The most frequent risks identified and confirmed during tax audits carried out during 2024, by type of taxpayer, are:

– for large taxpayers: risks from Group II (related to income tax), Group IV (risks related to VAT), Group V (other risks);

– for the rest of taxpayers: risks from Group II (related to income tax), Group III (related to the salary in envelope), Group IV (related to VAT).

In this regard, the development of the list of taxpayers to be subject to fiscal control during 2025 will be carried out in light of the following basic principles:

– focusing control activity on taxpayers at risk of tax non-compliance correlated with declared turnover;

– applying forced compliance measures as a priority to taxpayers who have been engaged in entrepreneurial activity for a period of more than 3 years.

In order to focus the efforts of the State Tax Service on possible violations with impact, taxpayers will be selected based on the assessed risks. [4]

Table 2. Number of large taxpayers included in the control plan

Large taxpayers	
Turnover	Number of taxpayers subject to inclusion in the control plan
≤ 300 million lei	55% - 65%
> 300 million lei ≤ 500 million lei	15% - 20%
> 500 million lei	20% - 30%

Source: taken by the author from the source [7]

In order to establish an efficient dialogue between the State Tax Service and economic agents – large taxpayers, to identify all risks of tax non-compliance and to determine the compliance treatment to be applied depending on the impact of the risk registered by economic agents – large taxpayers, in the interaction with large taxpayers it is recommended to use the “Economic Agent – Large Taxpayer Questionnaire”. The application of the questionnaire will allow the efficient collection of additional information related to the activity of economic agents – large taxpayers, which will subsequently streamline their distribution in one of the 4 samples and the determination of the compliance treatment applied to each sample.

Taxpayers will be informed about the importance of completing the questionnaire, as well as about the actions that arise as a result of the questionnaire:

- Assigning taxpayers to one of the 4 samples;

- Compliance treatments to be applied depending on the sample;
- Reducing the risks of tax non-compliance;
- Advisory support in the field of tax legislation;
- Improving the history of the economic agent;
- Increasing the degree of trust in the activity of the economic agent;
- Increasing the degree of satisfaction of the taxpayer;
- Transparency in the interaction between the economic agent and the State Tax Service.

The questionnaire is to be applied to economic agents - large taxpayers included in the list of taxpayers monitored through the Compliance Program, during tax visits or individual meetings.

For the rest of the economic agents – large taxpayers, the questionnaire will be applied within the framework of tax administration actions.

Subsequently, the questionnaires provided will be analyzed, the information collected will be compared with the information available in the automated information system of the State Tax Service, and depending on the risks identified, compliance treatments specific to each sample will be applied.

It is recommended to send the questionnaire to the taxpayers' electronic address, with a request to complete it. If the economic agents do not wish to complete the questionnaire, the information will be collected during the tax visit and based on discussions with the taxpayers. [7]

Voluntary compliance of large taxpayers is a priority for the State Tax Service, which determines the registration of a smaller number of taxpayers in arrears, for whom the application of forced compliance treatments is ensured.

In 2023, the STS identified 550 large taxpayers, as well as 500 individuals with high incomes.

Compared to the previous year, in 2023, STS receipts to the National Public Budget (NPB) from large taxpayers increased by 3.81 billion lei, constituting 36% of the total revenues accumulated at the NPB. Revenues to the State Budget from large taxpayers increased by 2.38 billion lei, constituting 45% of the total revenues accumulated at the State Budget.

The largest payers, by type of taxes, are presented in the table below: [8]

Table 3. Large taxpayers by tax type

Name of taxes and fees	Collected 2023 (mil lei)	Large taxpayers
Income tax from entrepreneurial activity	563	4 financial institutions (over 100 million each)
Value added tax	809	3 taxpayers from the energy sector (over 200 million each)
	992	7 taxpayers from the production, trade and mobile operators sectors
Excise duties	1081	4 taxpayers from the alcohol and tobacco production sectors
Total	3 445	18 taxpayers
Share of total PNB payments paid by large taxpayers	15,2%	3,27%

Source: taken by the author from the source [8]

At the same time, for the fiscal period 2023, 6,416 individuals were identified with incomes of over 1 million lei each (during 2022 there were 4,810 individuals), who declared total income in the amount of 19.7 billion lei, of which tax was calculated in the amount of 1.46 billion lei (in 2022 17.6 billion lei were declared, of which tax was calculated - 1.45 billion lei).

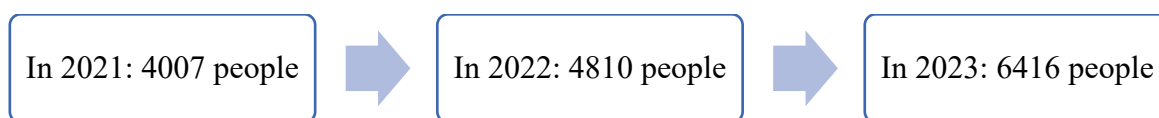


Figure 2. Number of millionaires in the Republic of Moldova in 2021-2023 years

Source: taken by the author from the source [9] and [10]

The number of millionaires increased by 1,606 compared to 2022, the amount of declared income by 2.1 billion lei, and the amount of calculated income tax by 15 million lei.

The highest income declared by an individual in 2023 was 28.8 million lei. At the same time, the highest amount of income declared by an individual in 2022 based on the Declaration was 43.8 million lei. Of the total number of people who earned income of more than 1 million lei, there are 4,542 male taxpayers and 1,874 female taxpayers.

The highest amount of income declared by an individual in 2023 based on the Declaration (Form CET18) was 28.8 million lei.

Table 4. Income level of millionaires in the Republic of Moldova in 2023

Level of income obtained (lei)	Number of taxpayers
1 000 000 – 1 999 999	3 910
2 000 000 – 3 999 999	1 474
4 000 000 – 5 999 999	441
6 000 000 – 10 000 000	296
More than 10 000 000	295

Source: taken by the author from the source [9] and [10]

The fields of activity of people with the highest incomes are: trade, public catering, medicine and internet activity.

The youngest person in the millionaire category is 19 years old, the oldest – 83 years old. [10]

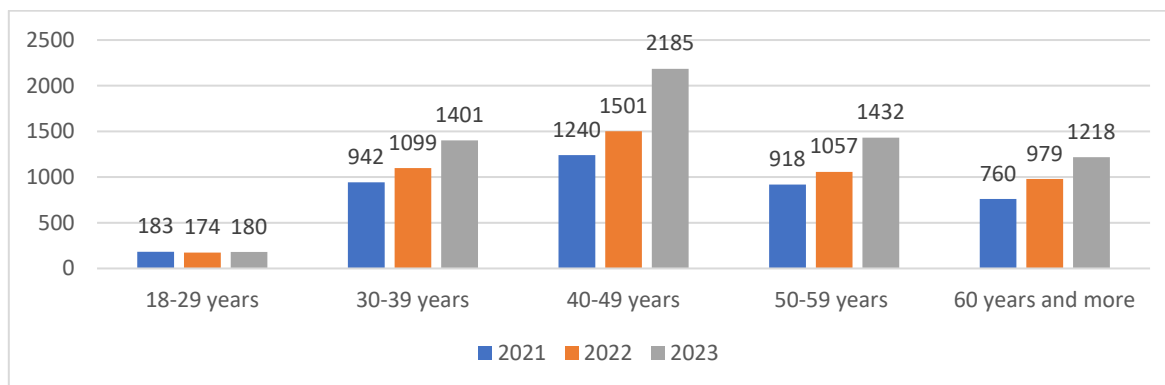


Figure 3. Number of individuals who declared/obtained incomes exceeding 1 million lei, by age

Source: developed by the author based on [9] and [10].

Based on the data in the figure, an increasing trend of millionaires in lei can be observed even by age category. This trend has been maintained for the last 8 years. If in 2016 there were 1549 people, in 2020 there were 2962 people and they contributed 12.2% of the total state taxes from their income. In 2023, they reached 6416 people, who already paid 16.8% of the total state taxes from their salary income. Their contribution to the payment of income tax is 60 times more than other employees. Today we have one million and 500 thousand people who declare their income. This number has increased sharply. And the number of millionaires in this number is extremely small and they pay about 17% of all income taxes accumulated by the state. [5]

CONCLUSIONS

Given that large taxpayers make a significant contribution to the formation of the country's budget and the risks associated with them are much greater and more complex than the tax risks of other categories of taxpayers, the development of balanced strategies that will be adapted to specific cases is important for the effective management of each risk, taking into account the characteristics of large taxpayers and their behavior in terms of compliance with the law. By providing personalized services for large taxpayers and using systemic risk management mechanisms, a favorable environment is created for increasing voluntary compliance with the law and timely fulfillment of tax obligations.

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