

ADMINISTRATION OF TAXES AND LOCAL FEES BY THE STATE TAX SERVICE OF THE REPUBLIC OF MOLDOVA

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Abstract: Local taxes and fees constitute revenues of local budgets, of an administrative-territorial capacity (villages, cities, municipalities), but the financial resources constituted by local taxes and fees are used for public expenses for the needs of ensuring local budgets. And currently budgets of administrative-territorial units (ATU) have insufficient financial and fiscal potential, local economies facing the inability to generate the necessary amount of revenue. These are limited and do not allow the authorities of local public administration (LPA) to be accountable to the local collective of contributors. The share of own revenues in total budget revenues is relatively modest for most analyzed ATUs: LPA does not have its own important sources of income, and as a result cannot independently decide and solve many of the problems that have arisen. Local taxes and fees generate small amounts, which provide a small percentage of local budget revenues (low fiscal yield of local taxes and fees). Local authorities do not have real rights and tools to influence taxpayers in order to ensure the appropriateness and fullness of the payment of local taxes and fees. In this sense, economic experts and authorities of LPA recommend strengthening the own revenue base at the level of local public authorities, increasing the fiscal yield of local taxes and fees, including by increasing the efficiency of their administration, or request and argue the need to grant local public authorities (level 1 and 2) the freedom to introduce new local taxes and duties or rates additional to existing ones.

Keywords: local taxes and fees, own income, local budgets, tax administration, local public administration, local public authorities.

JEL Classification: H27, H71, H72

Introduction

The amount of own revenues in local budgets is an indicator of the effort made by LPA in strengthening the premises for local economic development. Consolidating the own revenue base at the LPA level, including through the full implementation and in good conditions of the provisions of the Public Administration Reform Strategies, represents the basic solution for ensuring favorable premises for sustainable economic growth at the local level. Effective financial management requires local public authorities to ensure the stability of budgetary revenue sources, and this task can be achieved, first of all, by developing own revenue sources. Without the existence of relatively stable sources of own revenues, the structure of the revenue part of the local budget cannot be considered financially sustainable. [7]

The own revenues of the budgets of the administrative-territorial units are formed from local taxes and fees, provided for each territory separately, in accordance with the Tax Code and are directly and fully transferred to the respective budgets.

According to article 6 of the Tax Code of the Republic of Moldova, the tax is a mandatory payment free of charge, which is not related to the performance of specific and concrete actions by the empowered body or by the person with responsibility for it for or in relation to the taxpayer who paid this payment.

Wikipedia proposes other definitions of the notion of tax:

- tax is a compulsory and free levy, carried out by the state on the resources or assets of individuals or collectives and paid in money;
- the tax constitutes a source of financing the expenses of general interest of the state and local administration;
- it is an economic policy tool, through which part of the income is redistributed;
- taxes are a main source (along with loans and "printing" of banknotes/scriptural currency) of forming state budget revenues and financing public expenditures.

The fee is a compulsory free payment that is not a tax. [5, art.133]

Local fee is a mandatory payment made to the local budget. [5, art.28]

The system of local taxes and fees in the Republic of Moldova includes (table 1):

Table 1 The system of local taxes and fees in the Republic of Moldova

Code	Name according to the economic classification
113	a) real estate tax;
1133	a) private tax;
114610	b) natural resources fees;
114412	c) territorial planning fee;
142211	d) fee for organization of auctions and lotteries on the territory of the administrative-territorial unit;
114414	e) fee for placement (location) of advertising (commercials);
114423	f) fee for application of local symbols;
114418	g) fee for commercial and/or services rendering units;
114411	h) market fee;
114421	i) accommodation fee;
114422	j) balneal fee;
114413	k) fee for provision of passenger transportation services on the territory of municipalities, cities and villages (communes);
114416	l) parking fee;
142216	m) fee from dog owners;
114417	n) parking lot fee;
114426	o) sanitation fee;
114415	p) advertising devices fee.

Source: adapted by the author based on art. 6 of the Fiscal Code and according to the Information on incomes at the NPB corresponding to the classification of budget revenues administered by the STS

Local taxes and fees are mainly regulated by:

- Tax Code of the Republic of Moldova. Law of the Republic of Moldova no. 1163-XIII of 24.04.97. The Official Monitor of the Republic of Moldova no. 62/522 of 18.09.1997;
- Law no. 397-XV of October 16, 2003 regarding local public finances, with subsequent amendments and additions;
- Order of the Minister of Finance regarding budget classification no. 208 of December 24, 2015;
- Decisions of local councils regarding local taxes and fees;
- The reform strategy of the Public Administration from the Republic of Moldova for the years 2023-2030.

In accordance with the provisions of Title VII of the Tax Code, in the following the author reflects some basic elements of local taxes and fees (subjects of taxation, objects of taxation, taxable base and payment terms).

a) Real estate tax is a local tax that represents a mandatory payment to the budget from the value of real estate.

Subjects of taxation are legal entities and individuals, residents and non-residents of the Republic of Moldova:

- a) the owners of real estate on the territory of the Republic of Moldova;
- b) lessees who lease a privately owned agricultural real estate, if the lease contract does not provide otherwise;
- c) holders of patrimonial rights (rights of possession, management and/or use) over public property real estate on the territory of the Republic of Moldova;
- d) lessees or lessees of real estate belonging to public authorities and institutions financed from the budgets of all levels;
- e) lessees of real estate - in the case of the financial leasing contract;
- f) lessees or lessees of real estate privately owned by non-residents of the Republic of Moldova, if the lease/lease contract does not provide otherwise.

Objects of taxation are real estate, including inner-village or extra-village land, buildings, constructions, individual houses, apartments and other isolated rooms, including real estate at a construction completion stage of 50% and more, left unfinished for 3 years after the start of construction works. The degree of completion of the construction for the purposes of taxation is determined by technical experts in construction or by economic agents with activities in the field of technical expertise, or by the local public administration authority, based on the method established by the central specialized body of the public administration in the construction field.

The taxable base of real estate is the estimated value of these assets.

a¹) In accordance with Art. 9 para. (1) from the State Budget Law for the year 2023 no. 359 of 22.12.2022, **the private tax** is a one-time payment that is levied when carrying out transactions with public property in the privatization process, regardless of the type of means used.

Subjects of taxation are legal entities and individuals from the Republic of Moldova, as well as foreign legal entities and individuals who, in the process of privatization, are given private ownership of public property.

Objects of taxation are public property, including shares.

The private tax rate is set at 1% of the purchase value of public property subject to privatization, including the value of shares subject to privatization. [3]

b) **Natural resources fees** are taxes collected in the case of the extraction of mineral resources in the form of water captured from any sources (springs), useful minerals (deposits), etc.

Subjects of natural resources fees are individuals who carry out entrepreneurial activity and legal persons who:

- a) extract water from surface and underground water sources;
- b) uses potable water from any source for the purpose of bottling;
- c) extract natural mineral water;
- d) uses water at hydropower plants;
- e) are the beneficiaries of the subsoil and carry out the extraction of useful minerals
- f) are the beneficiaries of the subsoil and use it.

The object of the tax is:

- a) the volume of water extracted from surface and underground water sources;
- b) the volume of potable water used from any source for bottling purposes;
- c) volume of extracted mineral water;
- d) the volume of water used by hydropower plants;
- e) the volume of useful minerals extracted;
- f) the underground spaces used for the purpose of the construction of the underground objectives, as well as the underground constructions exploited by the tax subjects.

Tax rates for natural resources are established according to annex no. 1 and 2 of Title VIII of the Tax Code of the Republic of Moldova.

c) Territorial planning fee

The subject of taxation – entities or individuals registered as entrepreneurs and persons carrying out professional activity in the justice sector, who have a taxable base.

The subject of taxation – the quarterly average number of employees and, additionally:

- in the case of individual enterprises and peasant households – the founder and members of the individual enterprise, the founder and members of peasant households;
- in the case of persons carrying out professional activity in the justice sector – the number of persons authorized by law to carry out professional activity in the justice sector.

d) Fee for organization of auctions and lotteries on the territory of the administrative-territorial unit

Subjects of taxation are entities or individuals registered as entrepreneurs and persons carrying out professional activity in the justice sector, who have a taxable base.

The object of the tax is the goods declared at the auction or the lottery tickets issued.

e) Fee for placement (location) of advertising (commercials)

The subject of taxation – entities or individuals registered as entrepreneurs who place and/or broadcast advertising information (except outdoor advertising) on telephone, telegraph, telex networks, means of transport, other means (except TV, Internet, radio, periodical press, prints).

The object of taxation – the services of placing and/or broadcasting advertisements by means of cinematographic services, video, telephone, telegraphic networks, telex, means of transport, by other means (except for TV, Internet, radio, periodical press, prints).

f) Fee for application of local symbols

The subject of taxation – entities or individuals registered as entrepreneurs, who apply the local symbols on the manufactured products.

The object of taxation – the manufactured products to which the local symbolism is applied.

g) Fee for commercial and/or services rendering units

The subject of taxation – individuals carrying out entrepreneurial activity and entities, which have objects of taxation.

The object of taxation – the units which, according to the Classifier of Activities in the Economy of Moldova, correspond to the activities set out in annex no. 1 to Law no. 231 of September 23, 2010 regarding internal trade.

h) Market fee

The subject of taxation – entities or individuals registered as an entrepreneur-administrator of the market.

The object of taxation – the area of the market land and buildings, constructions whose displacement is impossible without causing damage to their destination.

i) Accommodation fee

The subject of taxation – entities or individuals registered as entrepreneurs, who provide accommodation services.

The object of taxation – accommodation services provided by structures with accommodation functions.

j) Balneal fee

The subject of taxation – entities or individuals registered as entrepreneurs, who provide rest and treatment services.

The object of taxation – rest and treatment tickets.

k) Fee for provision of passenger transportation services on the territory of municipalities, cities and villages (communes)

The subject of taxation – entities or individuals registered as entrepreneurs, which provide car transport services for passengers on the territory of municipalities, cities and villages (municipalities).

The object of taxation – the transport unit, depending on the number of seats.

l) Parking fee

The subject of taxation – entities or individuals registered as entrepreneurs, who provide parking services.

The object of the tax - parking.

m) Fee from dog owners

The subject of taxation – individuals who live in housing blocks – state, cooperative and public housing, as well as in privatized apartments.

The object of taxation is the number of dogs in possession during a year.

n) Parking lot fee

The subject of taxation – entities or individuals owners of vehicles, who use the parking lot.

The object of taxation – the parking place specially arranged on the public domain and authorized by the local public administration authority, used for parking the transport unit for a certain period.

o) Sanitation fee

The subject of taxation – individuals who are registered as the owner of the residential real estate (house, apartment).

The object of taxation – the number of natural persons registered at the address declared as domicile.

p) Advertising devices fee

The subject of taxation – individuals who are registered entrepreneurs and legal persons, who own/use or own the advertising devices.

The object of taxation – the surface of the face (faces) of the advertising device on which the outdoor advertising is placed.

The deadlines for tax payment and presentation of fiscal reports by the tax subjects for most taxes and fees are quarterly, until the 25th of the month immediately following the managed quarter, except for the tax from dog owners, the tax for parking and sanitation fees for which the payment term is according to the conditions established by the local public administration authority.

The rate of local taxes is established by the local public administration authority depending on the characteristics of the objects of taxation and they are found in the Decisions of the local councils approved at the end of each calendar year, but the State Tax Service exercises control over the way in which the local public administration authorities execute the obligations of local tax administration. [6]

The evolution of income from local taxes and fees collected and administrated by State Tax Service from Republic of Moldova

Based on the Information on revenues at the National Public Budget (NPB) corresponding to the classification of budget revenues administered by the STS for the period 2016-2022, the figures below examine the evolution of income from local taxes and fees collected in the Republic of Moldova.

Taking into account the fact that examining the evolution of receipts from local taxes and fees at the NPB, the author found that the largest share is held by the Tax on real estate and the Tax for commercial and/or service rendering units, and in this sense, considered appropriate to reflect the evolution of these 2 indicators separately from the other taxes and fees in order to have a clearer image regarding the evolution of the taxes and fees analyzed for the period 2106-2022.

Among the sources of own revenues that supply local budgets, the real estate tax is considered to be the source with the most pronounced financial and stability potential. Property taxes, local taxes and revenues from services and administrative fees provide over 86% of revenues from own sources. [2] Revenues from administrative services and taxes have the biggest contribution to the increase of the revenues of the consolidated local budget, specifically for rural areas, and revenues from property taxes - for urban areas.

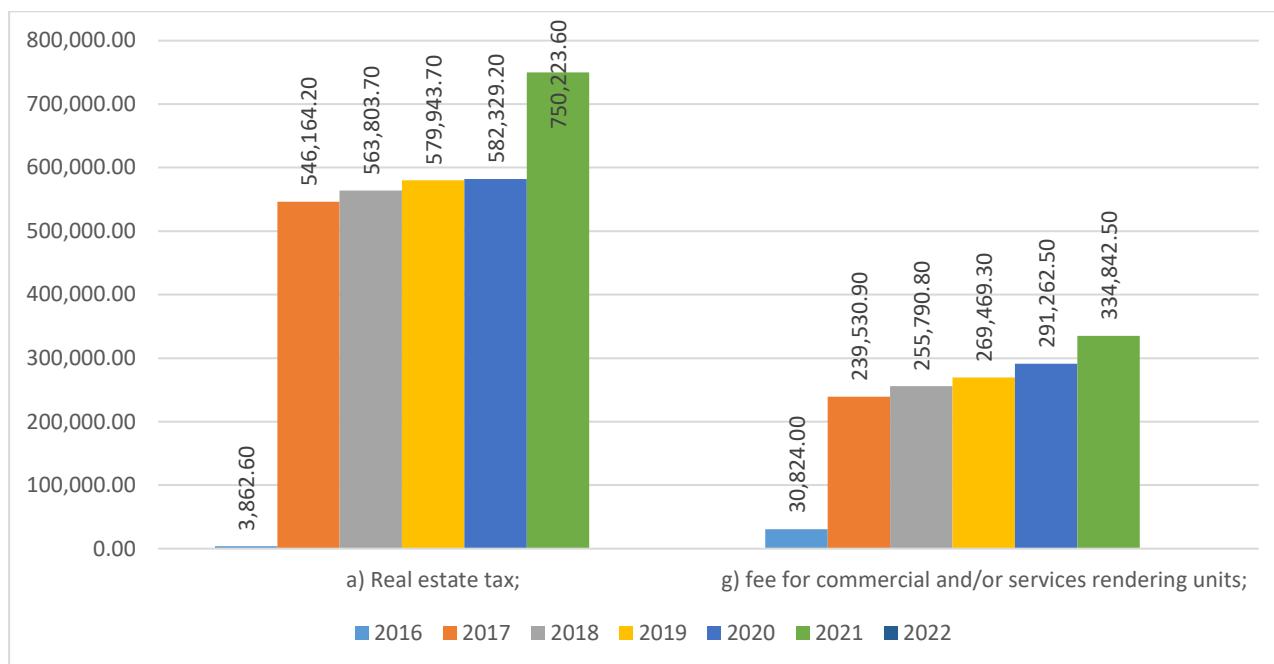


Figure 1. Evolution of incomes from the Tax on real estate and the Tax for commercial and/or service rendering units for the years 2016-2022, thousands of lei

Source: developed by the author on the basis of the Information on incomes at the NPB corresponding to the classification of budget revenues administered by the STS

Based on the analyzed data, a positive evolutionary trend of receipts can be observed for the entire analyzed period, a deviation being recorded in 2016 when the revenues from the Tax on real estate and the Tax for commercial and/or service rendering units registered low values compared to the periods subsequent.

The figure below reflects the evolution of local tax incomes with the exception of the Real Estate Tax and the Tax for commercial and/or service establishments. The author proposed to reflect not so much the revenues in absolute values, but to highlight through the graphic representation that after the Tax on real estate and the Tax for commercial and/or service rendering units, the largest incomes are from territorial planning fee, natural resources fees, market fee, accommodation fee, fee for provision of passenger transportation services on the territory of municipalities, cities and villages (communes), sanitation fee and advertising devices fee, although the evolution over time of these indicators is not stable, sometimes being even uneven.

In a recent study, the IDIS Viitorul expert, Veaceslav Ioniță, analyzes the revenues collected from local taxes and claims that, in his opinion, a few local taxes would constitute their considerable potential compared to other local taxes and fees, if the local authorities enjoyed more financial autonomy. These are - parking fee, sanitation fee, development fee, public lighting fee - and proposes a series of measures to improve the fiscal base of local authorities in the Republic of Moldova. [1]

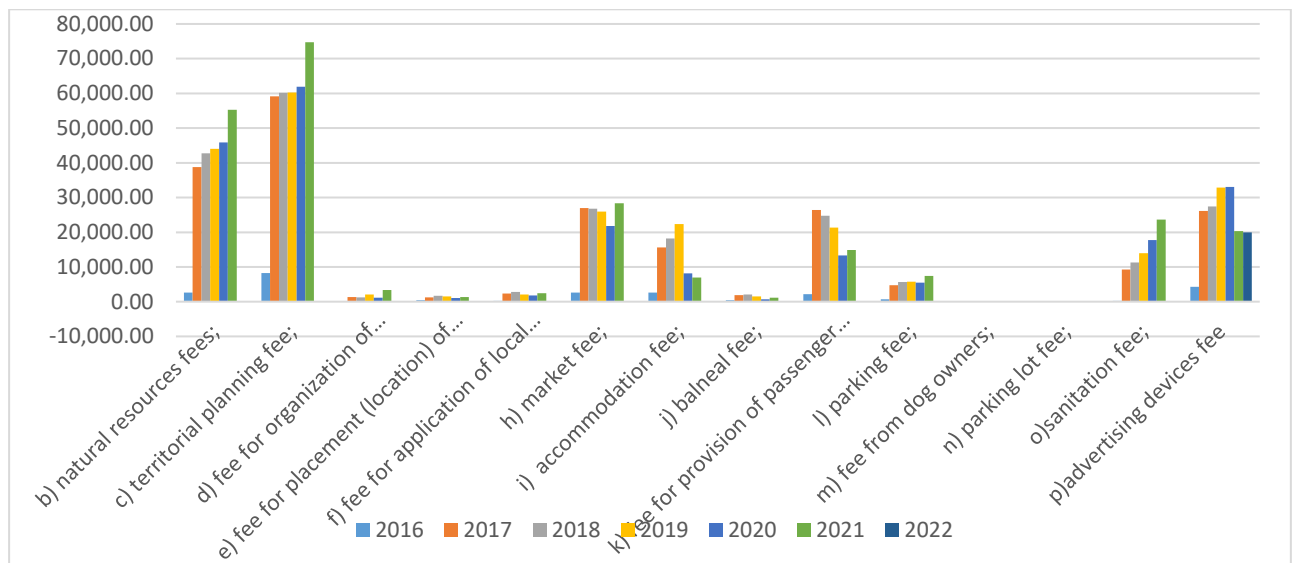


Figura 2. The evolution of incomes from Local taxes and fees for the years 2016-2022, thousands of lei

Source: developed by the author on the basis of the Information on incomes at the NPB corresponding to the classification of budget revenues administered by the STS

Local taxes and fees, through their structure and low fiscal yield, contribute modestly to the financial autonomy of the local public administration in the Republic of Moldova. Therefore, it is necessary to take measures to increase the fiscal yield of local taxes and fees. [4]

However, identifying the level of local taxes, the tax base, and their collection is difficult due to the lack of complex databases that provide reliable and current data, and this makes impossible a modern management of the tax and budget system at the local level. In this context, the Public Administration Reform Strategy of the Republic of Moldova for the years 2023-2030 proposes measures to strengthen and expand transparency and citizen participation at the local level:

- increasing the share of local/district authorities with their own websites that constantly publish relevant information about their own activity and/or implement online participatory processes in terms of approving local taxes and fees, approving the budget, approving investment projects major for the local community;
- increasing decision-making transparency at the level of local public administration, by expanding the number of documents that must be published automatically/in principle, tracking the effective implementation of this and increasing the technical capacity of the new administrative-territorial units to publish information online;
- increasing transparency and access to local public services through digitalisation, etc.

A new system of local public finances began to be implemented from January 1, 2015, which constituted an important stage in the process of strengthening the financial autonomy of local administration, including by increasing transparency and predictability in the process of budget programming and execution and represented an important step forward in relation to the previous situation or the situation in neighboring countries, not members of the European Union. This new system has undergone adjustments and changes in previous years, particularly in terms of increasing

the resources allocated to the local public authorities – for example the increase in Income Tax rates, the full transfer of road tax from 2023, etc.

The local public administration financing system introduced in 2015 will continue to be the basis of the way local public authorities are financed. The realization of the reform of the local public administration requires a review, probably not of a large scale, of the current system of budget transfers to the local public administration. Such a reform would represent a step forward towards strengthening the administrative capacity at the level of local public administration, both level I and level II, and would allow the continuation of the financial decentralization process under conditions of efficiency and effectiveness. The basic structure of the intergovernmental financial transfer system will remain the same and some minor adjustments will likely be needed in the future. Also no other national taxes will be introduced in this sharing mechanism: in particular profit tax, VAT, excises. However, these taxes can be used to diversify and increase the Balancing Fund, from which the balancing transfer is distributed.

The improvement of the local public finance system - shared taxes, general and conditional transfers, as well as the increase of own revenues - will be done with the understanding that the changes cannot cover the vertical imbalance of LPA financing (vertical gap) and that the necessary adjustment can only be obtained through a territorial administrative consolidation or reallocation of powers (asymmetrical decentralization).

In the short and medium term, legislative changes can be made to strengthen the fiscal base of local public authorities and to further strengthen the system of incentives for better collection of local taxes and fees, regardless of the outcome of the administrative-territorial reform on a voluntary basis. The gradual reduction of tax niches must be in the permanent attention of the Ministry of Finance for all types of national and local taxes – a tax base as broad as possible and with as few exceptions as possible is a desire not only for efficiency, but also for fiscal fairness. In this sense, all the facilities and exemptions from the payment of local fees and taxes (including those on property) must be re-analyzed, provided in the Tax Code, but will be effectively applied exclusively through decisions of local councils. Other types of actions are also proposed to be considered:

- improving the system of local taxes and fees, so that their yield increases significantly, creating the conditions for increasing the share of own revenues in local budgets. At the same time, exemptions or payment facilities for local taxes and fees, including those on real estate, should be granted under the terms of the Tax Code, but only with the approval of local councils. This action will also be based on the piloting of public policy alternatives for increasing local own incomes, both for the urban and for the rural environment, which will be tested practically through specific technical assistance provided at the local level in different types of territorial administrative units, and which will then be generalized at the national level;

- improving the general transfer system, including the balancing one, by taking into account the adjustment of formula parameters, the average local performance in terms of local fiscal effort and the degree of collection of local taxes and fees, stimulating the development of the local tax base and discouraging the substitution of the local fiscal effort with transfers from the state budget;

- ensuring the digital interoperability of the entire tax administration with the national cadastre systems, with the systems of the Ministry of Finance, with other internal systems of the local public administration, as well as horizontal communication between the various local authorities. This aspect

is extremely important for an effective management of the own financial resources of the local authorities in the Republic of Moldova;

- continuing the improvement and training of local administration staff in modern budgetary and financial management techniques, adapted to the requirements of the EU, international donors, and the financial-banking environment. These measures become important in the conditions of getting closer to the European Union, the appearance of the capital market for local public authorities, the increase in the number of foreign or local investors, etc. [8]

All these measures proposed in the Strategy: to increase the fiscal base of local taxes and duties, to increase the share of own revenues in local budgets, to strengthen financial autonomy at the local level, contribute to the consolidation of the revenue system of the consolidated national budget, to a prudent budget management and does not put pressure on the budget deficit.

It is very important that different types of public policies for increasing local own incomes, both for urban and rural areas, are substantiated, combined in different schemes and tested practically through specific technical assistance provided at the local level in different types of territorial administrative units. Through this piloting, a refinement and development of these combined local public policies, of local development, can be obtained, which will later be used and generalized at the level of the entire local administration in the Republic of Moldova.

As the capacity of local public administration increases and the digitization of public services at the local level improves and expands, the full transfer of local tax and tax management (including property tax) to local councils must be gradually achieved. This involves: establishing the tax base (registering taxpayers), effectively establishing the tax rate in accordance with the law, calculating the amounts to be paid by each taxpayer, informing taxpayers, collecting owed amounts, managing delinquent payers, monitoring and control.

Conclusion

In order to develop possible solutions for the improvement of the system of local taxes and taxes, a comparative analysis of the structure of local collectivities' own revenues and the share of local taxes and fees in the total of local resources is necessary in other states whose local public administration authorities are approximately similar to those from the Republic of Moldova, as well as other indicators that characterize the same level of regional economic development. Last but not least, it is appropriate to take into account the costs of administering these taxes and fees so that the maintenance costs do not exceed the revenue collections at the local level.

The most common property taxes and taxes due to local authorities are real estate tax, wealth tax, territorial planning fee, advertising tax, Tax for commercial and/or service rendering units, etc. Providing the possibility for local public authorities to manage and capitalize on the patrimony of the communities through the freedom to introduce new local taxes and fees or the capping of existing quotas, would represent an opportunity for local authorities to ensure the full collection of the necessary local taxes and fees - premises of local financial autonomy.

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