3.Taxation

3.1 Tax System

The Moldovan tax system includes taxes levied at the national and local levels. The Tax Code regulates personal and corporate income tax, Value Added Tax, excises, property taxes, local taxes, road taxes, natural resources taxes and tax administration, which are categorized as state taxes and local taxes.

National level taxes **and** duties, **to be paid to the national budget:**	**Local** level taxes **and** duties, **enacted at the level of administrative territorial units, and to be paid to the budget** of the corresponding territorial unit:
• Income Tax, • Value Added Tax, • Excise Tax, • Corporate Income Tax (CIT) • Customs duties, and • Road Tax.	• Immovable property tax, • Natural Resources Tax, • Territorial Development Tax, • Tax for Local Auctions and Lotteries; • Tax for external advertising; • Tax for the use of the local symbol; • Tax for shops and/or for social services units; • Market Tax, • Hotel Tax, • Resort Tax, • Transport Services Tax, • Parking Tax, • Dogs Owners Tax, • Tax for Vehicles , • Parking Tax, • Tax for Street Trading and Services Units; • Waste Collection Tax; • Tax for Advertising Installations.

3.2 Corporate Income Tax

CIT rate

Profits obtained in Moldova by resident businesses or nonresident businesses through their permanent establishment are subject to a corporate income tax („**CIT**”) which varies from 4% (certain small and medium size enterprises) to 7% (farmers) and 12% (all other CIT taxpayers).

Income tax rate

non-business individuals	12%
businesses (individuals, professionals, business entities)	12%
farmers	7%
certain SMEs	4%

The taxable base is determined based on the worldwide income accounting result prepared in accordance with the National Accounting Standards („**NAS**”) or IFRS, further adjusted for tax purposes. IFRS are mandatory for public interest entities (i.e. entities traded on a regulated market, banks, insurance companies, collective investment funds, state-owned enterprises or joint-stock companies that are more than 50% state-owned).

The corporate income tax should be paid in installments on a quarterly basis. A final tax calculation and payment should be made by 31 March of the year following the reporting tax year by taking into consideration the payments made in instalments during this reporting tax year. As a result, an additional liability or a receivable on corporate income tax may arise.

Deduction

Deduction of business expenses is generally allowed, but companies need to justify its necessity for the particular business.

In order to be deductible, expenses of a business entity shall be:

- necessary and ordinary for the performance of entrepreneurial activity, and
- confirmed by corresponding documentary evidences.

Among deductible expenses considered to be incurred within business activity are the following:

- the ordinary and necessary expenses paid out or incurred by the taxpayer during the tax year, exclusively for business purposes;
- amortization of intangible assets;
- research and development expenses incurred during the tax year as current expenses;
- interest payments, provided they represent a usual and necessary expense incurred in connection with a business activity, except for certain specific cases;
- depreciation of fixed assets calculated depending on the category of property and in accordance with the category of property, and the established rates.

The deductibility of certain expenses is limited, including:

- business trip expenses and representation expenses, expenses for the insurance of legal entities, within the limits approved by the Government;
- repair expenses of fixed assets recorded in the balance sheet;
- repair expenses of fixed assets (used according to the operational lease agreement);
- bad debts;
- expenses not justified by supporting documentation exceeding 0,2% of taxable income;
- philanthropic and sponsorship expenses borne for the benefit of specific beneficiaries;
- amounts obtained as a result of assets' reevaluation.

The following expenses are non-deductible:

- payments to interdependent persons (related parties) where there is no proof that the payment is reasonable;
- expenses incurred through activities generating non-taxable income;
- income tax, penalties and fines relating to income tax, as well as penalties and fines related to other taxes (duties), levies and compulsory payments to the budget, as well as penalties and fines for legal infringements;
- taxes paid on behalf of third parties;
- money paid for the acquisition of land;
- money paid for the acquisition of property for which depreciation is calculated;
- losses resulting from the sale or exchange of property, performance of works and provision of services between interdependent parties;

- payments made in favor of holders of business patents.

Capital gains and losses

As a general rule, shares and immovable property are treated as capital assets for tax purposes. Income earned from their sale is therefore deemed as capital gains, equal to 50% of the difference between the purchase and sale price. Capital gains are included in the annual income of the taxpayer and are taxed according to the general rule.

Losses may be carried forward for five consecutive tax years.

3.3VAT

(1) General Information

The value added tax („**VAT**”) represents the collection to the State budget of a part of the value of delivered/imported goods or services on the territory of the Republic of Moldova. Thus, VAT includes the following transactions:

(a) supply of goods or services made in Moldova by a taxable person in the course of business activity;
(b) imports of services received in Moldova by a taxable person (using the „reverse-charge” mechanism); and
(c) imports of goods.

As a general practice, an entity that has a fixed place of business or carries out commercial or professional operations on a regular basis in Moldova must register for VAT. Moldovan Tax Code regulates mandatory and voluntary registration regimes for VAT. The mandatory VAT registration threshold is the turnover or imported services of MDL 1,2 million in any period of 12 months. No threshold exists for voluntary VAT registration. Voluntary VAT registration is allowed for persons planning to perform taxable supplies of goods and services, irrespective of their turnover value.

VAT payers must make payments for every tax period. The standard tax period is a calendar month.

(2) VAT registration procedure

In order to register as a VAT payer, the entity should file a VAT registration application form before the last day of the month during which the VAT registration thresholds are met. In case of voluntary registration, the application form may be submitted any time before the thresholds for mandatory registration are met. As a result, the State Tax Service will issue a VAT registration certificate, indicating the name and legal address of the taxable person; date of VAT registration and VAT code.

(3) Non-registration or late registration penalties

Failure to register or delayed registration as a VAT payer is penalized with a fine from 7% to 10% of the amount of taxable supplies, except for supplies exempted from VAT through a deduction right.

If VAT on an imported service is not paid at the correct time, a penalty is imposed, effective from the date on which VAT became due (that is, effective from the date of the payment for services).

(4) VAT Rates

The standard VAT rate is 20%, which applies to all supplies of goods or services, unless a specific measure provides a reduced rate or an exemption. The reduced rate is applied for certain services and products, namely:

(i) 8% - for bakery, dairy, agricultural production, drugs, etc., and
(ii) 10% - for accommodation services and food products (excluding goods subject to excise duty) supplied by business entities whose operational activities consist solely in the provision of accommodation and/or provision of food services.

(5) VAT exemptions

With the right to deductions:

Some supplies are classified as exempted from VAT with the right to deduction, which means that no VAT is chargeable, but the supplier may recover related input tax.

Exports of goods and related services, international transport of persons and freight, electrical and thermal power, water supply to the public are exempted from VAT with the right to deduction.

With no right to deductions:

Some supplies are classified as exempt from VAT without the right to deduction, meaning that supplies of goods and services are not subject to VAT and such supplies do not give rise to a right of input tax deduction.

The following goods and services are included into this category: dwellings; land; cars; long-term tangible assets contributing to the share capital under the special rules approved by the government; food for children; financial services; educational services; insurance; books and periodicals, etc.

(6) VAT refunds

In general VAT refunds periods are monthly. Refunds must be filed by the 25th of the month following the end of the refund period. Payment in full must be made by the same date.

(7) VAT due date

In general, a VAT payer becomes liable for VAT payment at the time of the earliest of the following events:

(i) receipt of partial or total payment from the customer;
(ii) supply;
(iii) issuance of VAT invoice.

VAT payers must make payments for every tax period. The standard tax period is a calendar month.

The VAT due date for imported goods is either the date of import, or the date on which the goods leave a suspensive customs procedure.
The VAT due date for imported services is the date of payment for services.

(8) VAT and digital economy

The place of supply of digital services (i.e., electronic communication services, broadcasting and television services, services provided by radio-electronic means) is considered to be the place/residence of the customer.

This means that for business-to- business (B2B) and business-to-consumer (B2C) transactions, the customer is required to pay VAT on imported services under the reverse-charge mechanism. For B2C supplies, the individual should pay VAT simultaneously with the payment for imported digital services and declare the related VAT until the 25th of the month following the reporting month by filing a VAT refund.

However, in practice this is not commonly done.

3.4 Personal Income Tax

Income obtained by resident or non-resident individuals in Moldova is subject to a standard income tax of **12%**.

Moldovan residents are subject to taxation of their income received during the tax period from any sources within the Republic of Moldova or outside the country, except when income is expressly exempt from tax under Moldovan law. Also, non – residents are subject to the Moldovan taxation system for income derived from Moldovan sources, as income received from property located in Moldova, remuneration for activity performed in Moldova, interest and royalties received from legal entities in Moldova.

Income Tax is withheld from employee's gross income that includes the basic salary, overtime salary, supplementary salary, awards and bonuses, compensation for unused holiday or vacation time, and all other monetary or in-kind benefits, as well as other services obtained without payment from the employer.

Personal Income Tax shall be paid by the employer to the tax authorities at the same time as the salaries are paid.