

VOLUNTARY COMPLIANCE PROGRAM FOR TAXPAYERS IN THE REPUBLIC OF MOLDOVA: MONITORING RESULTS

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Abstract

In order to perform the main tasks and objectives, the State Tax Service ensures the permanent examination and identifies the segments of the national economy with increased risk of tax non-compliance, applying the simplest and most effective treatments to mitigate the risks of non-compliance and increase the level of voluntary tax compliance.

The compliance program provides assistance and support policies for taxpayers who perform their tax obligations on time and in full, as well as policies for identifying and discouraging taxpayers who knowingly evade the payment of taxes, fees and other mandatory payments. The Program also establishes the procedure for monitoring taxpayers with the application of compliance treatments.

Keywords: voluntary compliance, fulfillment of tax obligations, compliance treatments, taxpayer services.

Introduction

The fiscal administration actions of the State Fiscal Service are aimed at providing maximum and quality assistance to taxpayers in order to honor its fiscal obligations. The fiscal administration instruments applied are characterized by a minimum level of intervention required. The priority focus is on the application of the risk analysis and divergence detection system which will be assessed on the basis of impact, and the decision to be taken accordingly will be decided accordingly.

Efficient collection of taxes and fees is the basis of a fair tax system. At the same time, an important phenomenon for the State Tax Service is the observance of the balance of interests of the state and the business environment, in order to reduce the pressure on honest taxpayers, who execute their obligations on time and in full volume and at the same time for those who consciously evade the payment of taxes, fees and other mandatory payments.

Increasing the degree of compliance requires that the administration constantly anticipate the expectations of taxpayers, guiding them in applying the provisions of the legislation, so that they voluntarily and on time fulfill the obligations of the scale, and otherwise the application of forced compliance measures. Thus we distinguish two types of compliance:

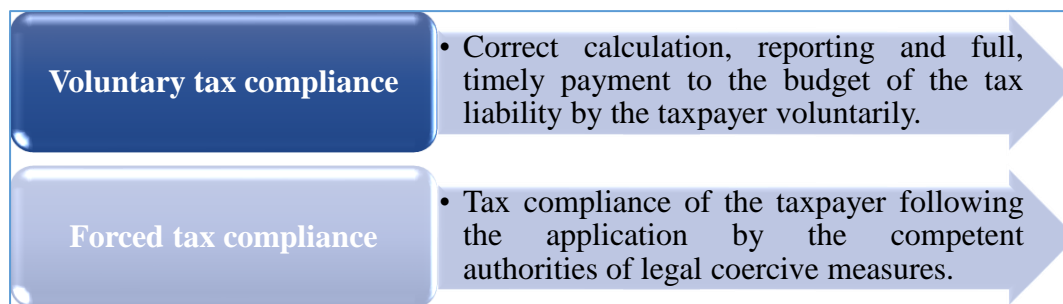


Figure 1. Types of tax compliance (adapted from Programul de conformare voluntară a contribuabililor pentru anul 2022. Available: <https://sfs.md/ro/pagina/planuri-si-programe>)

This paper provides an overview of the tax compliance treatments applied to taxpayers, taking into account the segments with the highest risk of non-compliance, thus achieving the objectives of the Compliance Program developed by the State Tax Service. If the factors that determine the behaviour of taxpayers are taken into account, these factors will no longer be a high risk to generate losses when collecting fiscal revenues in the National Public Budget (NPB).

Methodology

The method applied was exploratory research, which consisted of consulting and examining the Taxpayer Compliance Program. The data were collected from the official page of the State Fiscal Service www.sfs.md from the annual activity reports of the institution. Examination of the literature has made it possible to understand the economic segments in whose activity the risks of fiscal non-compliance and the applied compliance treatments are identified.

The research methodology includes a set of specific investigation methods such as: research and comparison, synthesis and logical analysis, as well as the use of graphical models, figures and tables in rendering the evolution of certain statistical data and interpreting the results to formulate relevant conclusions.

Results and discussion

Objectives of the Strategic Development Program of the State Fiscal Service

Taking into account the progress it has made so far, as well as the responsibilities and obligations at the national and sectoral levels that the State Tax Service (STS) has, the institution has set the following development objectives (*Programul de dezvoltare strategică al SFS pentru anii 2021 – 2023*. Available: <https://sfs.md/ro/pagina/planuri-si-programe>):

Institutional development through:

- ✓ Streamlining the organizational structure of the STS by centralizing functions;
- ✓ Improving the human resources management system (through employee training actions);

- ✓ Ensuring the optimal working conditions for the officials of the consolidated structure of the State Fiscal Service;

- ✓ Ensuring the exchange of information with the tax administrations of other states (automatic exchange of information on financial accounts with foreign tax administrations and exchange of information according to the Protocol on the electronic exchange of information between Member States CIS insured).

Strengthen the process of service and record of taxpayers by:

- ✓ Increasing the quality of services for taxpayers, including electronic services (integration of electronic services in the new official website of the STS);

- ✓ Improving taxpayers' service capacity (increasing taxpayer satisfaction);

- ✓ Improving communication skills with taxpayers (training and education of young people in the tax field);

- ✓ Streamlining the procedures for recording taxpayers and tax revenues (State Tax Register developed; Electronic Register of employees in the budget and real sector implemented).

Modernization of information technologies:

- ✓ Development of the integrated information system (the process of migration of information subsystems on modern platforms ensured; improved cyber security and information security policy; mobile application for declaring and paying tax obligations developed);

- ✓ Alignment of technical capacity and infrastructure with the needs of the information system, organizational structure and legislative changes (network and infrastructure adapted to the needs of the STS information system, including in terms of security).

Strengthen the management of voluntary and forced compliance which is achieved through the following actions:

- ✓ Increasing the voluntary compliance of taxpayers with the declaration and full and timely payment of tax obligations (control resources redirected from activities with low risk of tax non-compliance to vulnerable segments with high risk in terms of tax non-compliance);

- ✓ Efficiency of the non-compliance risk management system, including in terms of accomplishing the task of finding crimes, prosecuting and special investment activity (automated system for assessing the risks of non-compliance with tax developed);

- ✓ Strengthening the control processes and procedures within the STS (implementation of a form for evaluating the quality of fiscal control implemented within the developed case management system; streamlined processes and procedures for performing control by methods and from indirect sources);

- ✓ Ensuring the monitoring and collection of tax obligations of debtors in the insolvency process (management process and record of current and historical payment obligations paid by taxpayers in the procedure of the developed business restructuring plan);

- ✓ Streamlining cooperation with bailiffs in the segment of reducing arrears to NPB (module "Connecting bailiffs");

✓ Strengthening the capacities for detecting and combating tax evasion schemes (training in economics in the field of tax tracking and investigation according to the needs of organized and carried out STS).

Strengthen the management of voluntary and forced compliance

Strengthening the management of voluntary and forced compliance is achieved through compliance treatments that are applied through **the Taxpayer Compliance Program**.

The Taxpayer Compliance Program focuses on increasing the level of voluntary compliance of taxpayers and preventing the phenomenon of tax evasion.

The main purpose of the Compliance Program is to identify and address the risks of tax non-compliance in the tax system through a series of measures that address the main causes of behavioral inconsistency.

The objective of this Program is to ensure an optimal level of voluntary compliance with tax legislation, by applying the treatments established by the program, informing the company and the taxpayer about the provisions of current legislation, how to exercise the obligations established by law and the consequences of resorting to tax violations.

Other objectives include ensuring an optimal level of voluntary compliance with tax law, informing the company and the taxpayer about the provisions of applicable law, how to exercise the obligations established by law and the consequences of resorting to tax violations. Types of tax compliance treatments:

<p>Voluntary tax compliance treatments</p>	<ul style="list-style-type: none"> • Contacting the taxpayer, sending letters of compliance, the questionnaire of the economic agent; • Carrying out tax visits • Organizing and conducting compliance meetings
<p>Forced tax compliance treatments</p>	<ul style="list-style-type: none"> • Fiscal controls (factual / documentary verification, etc.); • Tax stations (mobile, stationary, electronic)

Figure 2. Types of tax compliance treatments. (*Programul de conformare voluntară a contribuabililor pentru anul 2022*. Available: <https://sfs.md/ro/pagina/planuri-si-programe>)

Analysing the STS Strategic Development Program for 2021-2023, we note that the strategic objective for the State Tax Service of the Republic of Moldova is to encourage voluntary compliance, which provides policies to assist and facilitate compliance, as well as policies to discourage and detect taxpayers which intentionally does not comply.

The voluntary compliance treatments applied to the monitored taxpayers for the period 2017-2021 are reflected in Table 1.

Table 1. Voluntary compliance treatments applied to monitored taxpayers

Voluntary compliance treatments	2017	2018	2019	2020	2021
1. Letters of compliance:					
Dispatch/delivery of letters of compliance	6 230	6 058	4 318	1 850	3920
2. Compliance meetings:					
Organizing and conducting compliance meetings with the participation of taxpayers (persons):	3 640	3700	3 058	1 354	1138
3. Tax visits:					
Carrying out fiscal visits, which aimed at explaining fiscal legislation, with consultative character, and/or establishing some general data about the activity of the taxpayers	2 058	2 726	3 112	1 581	3574

Source: developed by the author on the basis *Rezultatele monitorizării contribuabililor prin prisma Programului de conformare voluntară*. Available: <https://sfs.md/ro/pagina/rapoarte-anuale>

From Table 1 we see that the number of letters of compliance sent/handed down has decreased considerably since 2017, from 6,230 letters to 1,850 letters in 2020, which is a decrease of about 3.4 times. However, in 2021, there is a visible increase, with 3,920 letters of compliance being sent or handed over to the monitored taxpayers.

The number of compliance meetings organized and held with the participation of taxpayers has also fallen threefold. Thus, in 2017, 3,640 people participated in the compliance meetings, while in 2020 only 1,354. Compared to previous years, in 2021, a smaller number participated - only 1,138 people with positions liability of taxpayers.

In order to interpret the tax legislation, with a consultative character and/or to establish some general data about the activity of the taxpayers, fiscal visits were carried out. In the period, 2017-2021, the most fiscal visits were made in 2021, numbering 3,574 visits, and the fewest in 2020 (1,581 visits).

At the same time, the State Fiscal Service directs the compliance actions on the activities with the highest degree of risk and the highest potential for revenue collection in the National Public Budget. The list of taxpayers monitored through the Compliance Program includes, as a matter of priority, the economic segments in whose activity the risks of fiscal non-compliance are identified (*Programul de conformare voluntară a contribuabililor pentru anul 2022*. Available: <https://sfs.md/ro/pagina/planuri-si-programe>):

1. Retailing and wholesaling of goods and materials;
2. Trade in motor vehicles;
3. Agriculture;
4. Real estate services;
5. Beauty/care and health services;
6. Maintenance and repair of motor vehicles/car washes;
7. Manufacturing industry;
8. Food industry.

The main risks of fiscal non-compliance assessed on the economic segments reflected above are:

- Use of undeclared work;
- Risk of erroneous reporting due to non-presentation or late reporting;
- Non-reflection in the accounting of the actual revenues collected;
- Failure to use home and control equipment with fiscal memory;
- Lack of documents of origin of traded goods
- Lack of accounting records / Keeping of non-compliant accounting records
- Reporting tax losses or low taxable income compared to turnover;
- Declaring the small number of employees compared to the volume of deliveries made;
- Carrying out the activity without having permissive documents;
- Failure to reflect in accounting the services provided, etc.

As a result of the voluntary non-compliance of taxpayers and in order to counteract and prevent tax evasion in the Republic of Moldova, the State Tax Service performs fiscal controls.

The efficiency of the process of stopping the phenomenon of tax evasion consists mainly of the ability to eliminate the causes that produce or favor the actions that contravene the tax regulations.

During the period January-December 2021, by the State Tax Service, based on the assessment of the risks of tax non-compliance, 8,957 *fiscal controls were planned*, including - 753 tax controls planned according to the annual tax control plan and 8,204 tax control planned according to lists approved monthly (including 7,383 tax controls by the method of operational verification).

During the reporting period, the STS carried out **36,401 tax controls** (*Raport anual al activității de control pentru anul 2021*. Available: <https://sfs.md/ro/pagina/rapoarte-anuale>)

Out of the total number of planned controls annually and monthly, as of 31.12.2021, **9,456 planned tax control** were executed with the adoption of decisions on the case of tax violation, as follows:

- **758 fiscal controls**, planned following the assessment of the risks of non-compliance with the tax, according to the annual plan for 2021 (including the stock of fiscal controls at which the tax violation decision was adopted in 2021);
- **8,698 monthly scheduled checks** as a result of risk analysis and non-compliance risk assessment following examination of complaints received from other bodies as well as analysis of available information.

At the same time, the State Tax Service carried out **26,945 unplanned fiscal controls** during the reporting period, based on the requests submitted by the economic agents, the examination of the disagreement and/or the appeals as follows:

- **fiscal controls by the thematic verification method:**
 - at the request of the economic agent regarding the refund of VAT/excise duties - 2 346 controls,
 - at the request of the economic agent concerning the registration of VAT payers and cancellation of the registration - 1 045 checks,
 - on the liquidation and reorganization of economic agent - 349 controls,

- on the refund of personal income tax and verification of the obligations of natural persons) - 17 018 checks;

- **fiscal controls performed by other verification methods:** total, thematic, partial, opposition, factual and repeated - 6 187 controls, as a result of the examination of appeals, requests of economic agents.

As a result of the activities carried out by the State Tax Service, for the year 2021, violations of the legislation in the field of labor relations (reduction of the salary fund, income tax, social insurance contributions and compulsory health insurance premiums) were established as a result, 442 decisions were taken on the violation of the law, including violations of the correct calculation and payment of salary payments, taxes and breakdowns related to them were calculated in addition to the budget receipts related to salary payments: income tax, social security contributions, compulsory health insurance premiums, **penalties and fines in the total amount of 31,284,354 lei** of which paid 17,173,396 lei.

In order to violate the provisions of the legislation in force related to labor relations, according to the decisions adopted, it was **additionally calculated for the payment to the budget:**

- income tax withheld from salary payments in the amount of 3,805,797 lei;
- compulsory state social insurance contributions in the amount of 9,948,786 lei;
- compulsory health insurance premiums in the amount of 3,400,402 lei;
- penalties and fines applied 14 129 369 lei.

Table 2. Statistical data on the results of fiscal controls performed by the State Tax Service

	2017	2018	2019	2020	2021
Number of total fiscal controls (units)	44292	35666	48346	45597	36398
Number of controls in which infringements were identified (units)	27367	19066	27770	29509	21263
Share of infringements determined from the total number of checks performed (%)	6,17%	53,0%	57,0%	65,0%	58,0%
The total calculated amount of taxes, fees, late fees, etc. (thousand lei)	1464455	674460	344697	408869	1024832
Total calculated amount of tax penalties (thousand lei)	992884	505442	195070	191417	321926

Source: developed by the author (Date statistice privind rezultatele controalelor fiscale efectuate de către SFS. Available: <https://sfs.md/ro/catalogul-datelor-deschise/viii-control-fiscal>)

Table 2 reflects the impact of tax controls on the evolution of tax evasion during the years 2017-2021 in the Republic of Moldova. The reduction of fiscal controls carried out in the period 2017-2021 and the decrease in the number of controls in which violations have been established amplifies the fact that taxpayers are gradually

becoming more aware of the importance of complying with existing legislation and voluntary compliance. Another indicator of the reduction of tax evasion is the increase of the total calculated amount of taxes, fees and delay increases, from 344 697 thousand lei in 2019 to 1 024 832 thousand lei in 2021, which indicates a triple increase of the amount calculated from taxes and fees.

In the process of carrying out the fiscal controls, the risks related to the fiscal behavior and the level of voluntary compliance of the taxpayers to the observance of the fiscal legislation were also examined, being given priority to the risks related to the correct declaration of salary payments (reduction of salary fund, income tax, social security contributions and compulsory health insurance premiums). Figure 3 reflects the idea that in the analyzed period, additional taxes to the budget were included in the salary, social security contributions and compulsory health insurance premiums, including fines and penalties.

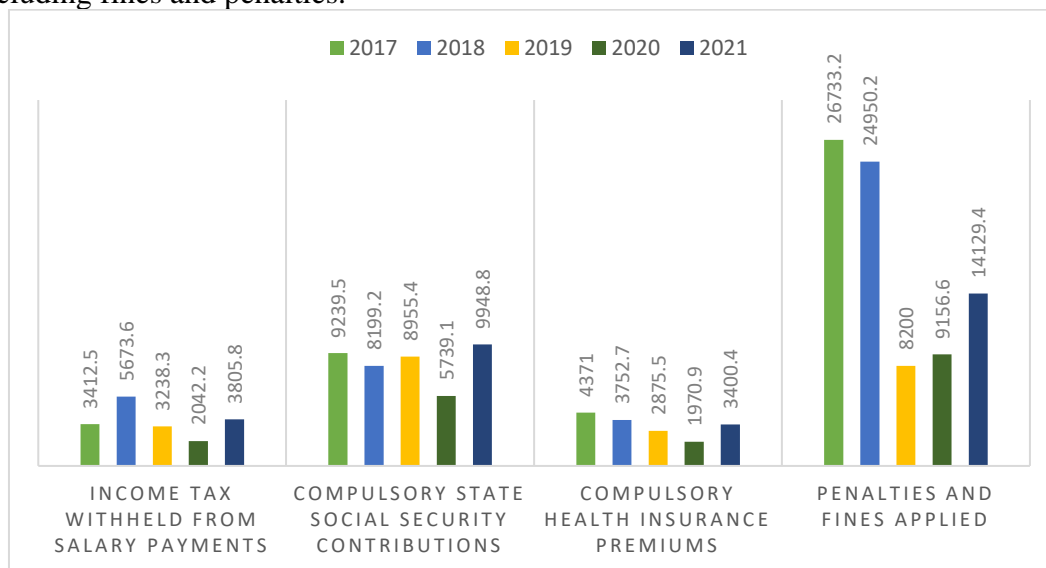


Figure 3. Amounts calculated as a result of controls, with reference to violations of the provisions of the legislation in force regarding employment relationships, thousand lei.

Source: adapted by the author (*Raportul general al activităților de minimizare a practicii de achitare a salariilor „în plic” și a muncii „la negru”, pentru anii 2017-2021.*

Available: <https://sfs.md/ro/pagina/rapoarte-anuale>

Figure 3 shows the picture of the breaches regarding the non-fulfillment of fiscal obligations when calculating and paying salary payments. The highest revenues are obvious: from social security contributions and fines and penalties. Some taxpayers may be aware of these violations and assume the penalties applied.

The figure below shows the evolution of the contravention sanctions applied by the STS following the controls performed in the analyzed period 2017-2021.

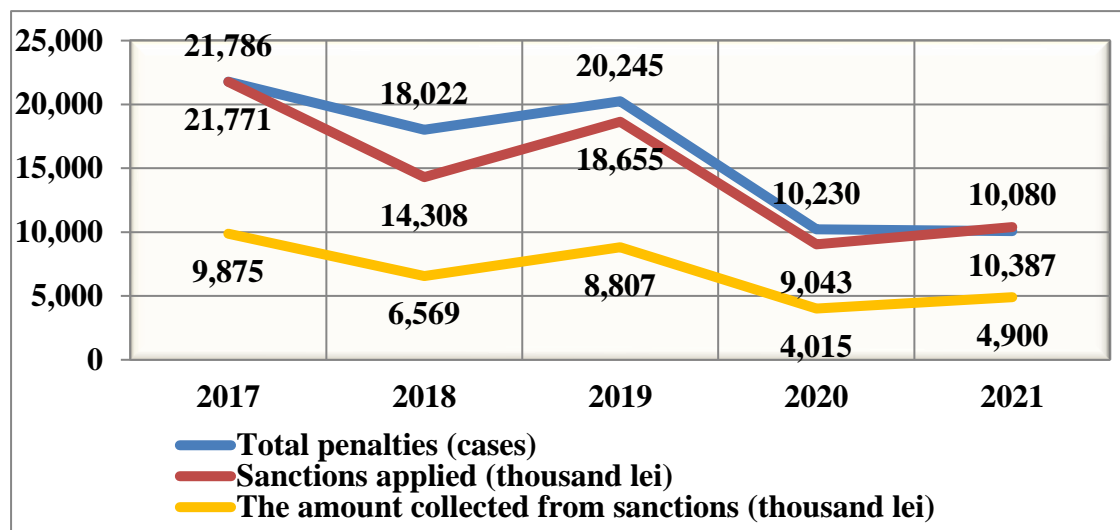


Figure 4. Statistical data on the sanctions imposed by the STS (2017-2021)

Source: adapted by the author (Datele statistice privind sancțiunile contravenționale aplicate de SFS (2017-2021). Available: <https://sfs.md/ro/catalogul-datelor-deschise/viii-control-fiscal>)

From the data above it is observed that the total number of contraventional sanctions detected during the fiscal controls has been reduced twice and proportionally the amount of sanctions in the period 2017-2021 has also decreased. This significant decrease was due to increased taxpayer compliance and awareness of compliance with the STS actions under the Taxpayer Compliance Program.

Conclusions

In conclusion, the degree of compliance of taxpayers depends on the simplicity of the tax system and the clarity of the tax administration processes, which involve the relationship between the tax administration and taxpayers. In order to ensure an adequate level of compliance, the STS uses different ways of complying with taxpayers, with a particular focus on information and assistance, followed by appropriate controls and criminal sanctions in the event of tax evasion. At the same time, the existence of a close link between the quality services provided by STS and taxpayers leads to the fact that citizens are increasingly aware of the destination of public revenues, and therefore the importance of paying tax obligations on time and in full.

In order to combat tax evasion, it is important to have a fiscal control and an efficient legislative system, and last but not least, a financial education of the citizens. The taxpayers' compliance program has this objective, in order **to ensure an optimal level of voluntary compliance with tax legislation**, by applying the treatments established by the program, informing the company and taxpayers about the legislation in force, how to exercise the obligations established by law and the consequences of resorting to tax violations.

We believe that in order to increase tax discipline and to increase the level of compliance of taxpayers or to fulfill their timely tax obligations - factors that would determine the reduction of tax evasion, the following measures can be taken:

1. **Creating fiscal guides by categories of activities**, including complete information on how to set up, the categories of taxes levied, payment terms, as well as how to make payments; preparing leaflets on the facilities provided by the STS, and disseminating this information to taxpayers;

2. Selection of non-compliant taxpayers in order to offer **the possibility of tax payment rescheduling**;

3. **Monthly, quarterly and annual monitoring** of indicators measuring the degree of voluntary compliance by categories of taxpayers and by types of taxes and fees related to the National Public Budget;

4. **Simplification of the existing tax system**;

5. Creating a **high-performance system to ensure the processing of tax information in order to identify, analyze and combat the evasion phenomenon**; the continuous efficiency of the institutions for combating tax evasion by eliminating corrupt persons;

6. **Informing in advance (letters, e-mail) of the taxpayers regarding the legislative changes** and inviting them to the headquarters of the fiscal bodies for the granting of fiscal assistance specific to the activities carried out by them; informing taxpayers about the allocation of budget revenues resulting from the collection of taxes and fees for public expenditures and the consequences of non-compliance with fiscal obligations (such as: penalties, fines); the adoption of a sanctioning code or a guide on tax offenses, in which all the tax offenses and the respective contraventional and criminal sanctions will be specified in detail and for the understanding of the taxpayers;

7. Elaboration of a **fiscal guide** containing general information about the fiscal system and its promotion, by holding meetings on fiscal issues in schools, high schools, faculties, in order to educate young people on taxes and fees, and their role in the national public budget. Thus, it will help increase the discipline of the next generations, and will help increase their level of voluntary compliance in the future;

8. **Development of fiscal ethics among taxpayers**, by raising the level of professional training of control inspectors; organization and regular testing of their knowledge, as well as their participation in specialized courses on the implementation of tax legislation and new accounting;

9. **Favouring the right taxpayers through various Programs**. An example is the AEO (Authorized Economic Operator) Program, which is based on a partnership between customs and economic operators who voluntarily comply with customs regulations, have no debts to the national public budget, or repeated violations of customs and tax legislation, ensure the security of goods in international traffic, cooperates with customs and therefore benefits from customs facilities and simplifications (*adapted by the author* Agent Economic Autorizat. Available: <https://trade.gov.md/ro/articles/aeo>).

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