



MOLDOVA

2024 -

June

Components: Revenue

Module: RM I – Tax Policy

RM II – Tax Administration

MOLDOVA

Project Summary	
COUNTRY:	Moldova
LEAD DEPARTMENT:	FAD
REGION:	EUR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 – FY27
FUNDING PROGRAM TITLE:	[to be added by Secretariat]
PROJECT MANAGERS:	Narine Nersesyan, Enriko Aav
RM I – TAX POLICY:	Narine Nersesyan – FADT1 (Lead)
RM II - REVENUE ADMINISTRATION:	Enriko Aav – FADR1
ESTIMATED BUDGET	\$692,172
BUDGET FOR ENDORSEMENT:	\$1,264,158

Contents

Project Summary	2
Acronyms	4
I. Project Purpose	5
II. Background	6
Macro-fiscal situation.....	6
Country engagement and alignment to reform priorities	6
III. Project Modules - Description	7
Table 1. Summary of Objectives covered by the Proposal	7
A. RM I – Tax Policy	7
Scope	7
Program Objectives	8
Expected Results (outcomes)	8
B. RM II – Revenue Administration.....	8
Scope	8
Program Objectives	8
Expected Results (outcomes)	9
IV. Organizational Arrangements	9
A. Country Engagement	9
B. Delivery Modalities	9
C. Coordination / Cooperation	10
V. Risk Assessment and Mitigation	11
VI. CD Delivery Plan	12
Table 2. Summary of Indicative CD Delivery	12
Table 3. First year workplan	12
VII. Program Financials	13
VIII. Targeted Logical Framework.....	13
A. RM I – Tax Policy	13

*MOLDOVA***ACRONYMS**

BEPS	Base Erosion and Profit Shifting
CD	Capacity development
CRM	Compliance risk management
EU	European Union
FAD	IMF's Fiscal Affairs Department
IF	Inclusive Framework
MOF	Ministry of finance
STX	Short-term expert
STS	State Tax Service
TCPDF	Tax and Customs Policy Department, Ministry of Finance of Moldova

*MOLDOVA***I. PROJECT PURPOSE**

Moldova has embarked on an ambitious agenda of revamping its tax system, requesting the IMF's support in both, tax policy design and implementation. Over the past 15 years, the Moldovan tax system has undergone significant changes, without a coherent approach to medium-term tax reform, often motivated solely by political economy factors targeting relatively narrow interest groups. As a result, the system's complexity has increased, and its various parts have become incoherent. A comprehensive revision of the tax system—aiming at modernization, simplification, and improved coherence—is thus warranted. Another important driver of change is the need for harmonization of the tax system with the European Union (EU) *acquis communautaire* as part of the EU accession agenda. The task at hand is complex and multi-dimensional, involving several tax instruments.

A recently completed comprehensive diagnostic mission of the tax system identified significant structural weaknesses within the main tax instruments, including but not limited to their divergence from the EU *acquis*. Based on this broad diagnostic and responding to the demand from Moldovan authorities, tax system will be redesigned to simplify and modernize it, to eliminate distortions and close loopholes, as well as to harmonize the tax framework with that of the EU. Further, the diagnostic identified the insufficient capacity of the Moldovan authorities vis-à-vis the tax reform needs. Support in tax policy redesign and modernization will have to be complemented by capacity building in tax policy analysis.

A Tax Administration Diagnostic Assessment Tool (TADAT) assessment of Moldova tax administration system was completed in 2022. The assessment detected the following main weaknesses in Moldova tax administration: (i) outdated IT systems; (ii) inadequate taxpayer register; (iii) immature tax compliance risk management; (iv) lack of risk-based approach in VAT refunds, and (v) poor practice in planning and monitoring of the audit program. While some of these weaknesses are result of insufficient resources, many can be addressed by CD support to improve working processes and legislative framework.

The estimated budget for this three-year project is \$1,264,158, but endorsement is requested for \$692,172 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

MOLDOVA**II. BACKGROUND****Macro-fiscal situation**

Moldova continues to grapple with persistent challenges from spillovers of Russia's war in Ukraine—energy crisis and record-high inflation. The recovery takes longer than expected, with the economy growing by 0.7 percent in 2023, well below the 2 percent forecast. The fiscal deficit reached 5 percent of GDP in 2023, reflecting, in part, revenue underperformance. As risks abate, policies are increasingly geared to long-term development goals, with reforms to strengthen revenue mobilization through tax policy reforms coming to forefront.

Moldova was granted EU candidate status in June 2022, and the EU Council took a decision in December 2023 on the start of accession negotiations—an important milestone. Strong reform momentum and growth-enhancing and climate-resilient investments are needed to foster long-term, sustainable development and convergence toward EU income levels. The tax policy reforms envisioned within the Moldova's medium-term budget framework can create additional fiscal space to support increased public investment, and to reduce the budget deficit to 3.1 percent of GDP by 2027.

Country engagement and alignment to reform priorities

The Moldovan tax policymakers are of the view that a comprehensive revision of the tax system is in order. To this effect, the Ministry of Finance (MoF) drafted a Concept Note¹ for modernizing and improving the quality of tax system, while bringing it in line with EU directives. The modernization of the tax system will reduce complexity and inefficiencies due to ad-hoc accumulation of policy changes over the past 15 years, while generating additional fiscal space. Coherence with EU directives will help the EU accession process of Moldova, creating a tax system more conducive for the free movement of capital and labor between Moldova and the rest of the EU.

Focus of tax administration reform should be in implementation of the new policy framework while also strengthening core tax administration functions. Moldovan State Tax Service (STS) should continue building its capacity in modern ways of working by utilizing digitalization and data-driven risk management approach. This will require improved capacity to use modern technology and availability of legislative framework that allows for flexibility and use of appropriate tools to timely detect and address tax non-compliance. Strong compliance risk management (CRM) framework, analytical capacity, and modern tax audit approach are the main building blocks for effective tax administration in Moldova.

¹ Ministry of Finance (2023). Strategic Document on the Harmonization of the National Legislation Framework to the Provisions of the European Union Directives and the Improvement of the Existing Legislative Framework in the Period 2023-26.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Moldova in the area of tax policy and revenue administration. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve Tax Policy Design - TPD
	RM II Revenue Administration	• Strengthened revenue administration management and governance arrangements • Strengthened core tax administration functions

A. RM I – Tax Policy

Scope

The Moldovan VAT law should be fully recast. At present, it lacks clarity, simplicity, and coherence. It is also outdated as it doesn't fully take into account best international practice, particularly as regards the treatment of online transactions and compliance-enhancing strategy, such as anti-avoidance and anti-fraud measures. Excess credits are only partially refundable and have led to many taxpayers being in a continual excess credit position, and to a large and growing total excess credit stock. The EU accession, and the need to comply with the EU acquis, is an opportunity to simplify and modernize the VAT legal framework. Beyond EU accession requirements/advantages, high-standard legal drafting and modernization of the VAT law would bring efficiency and compliance gains.

The Moldovan income tax system is non-neutral across business, investment, and personal income, featuring significant inefficiencies and opportunities for tax arbitrage. The sheer number of special regimes and the divergence of corresponding marginal/average effective tax rates is striking. Rationalization of the various income tax regimes and strengthening anti-avoidance are pressing priorities. Further, Chapter 16 of EU negotiations prescribes the need for Moldova to join the Inclusive Framework (IF) for Base Erosion and Profit Shifting (BEPS), to which Moldova is not yet a member. To this effect, the authorities need help in understanding the practical matters as well as implications for Moldova from joining the IF, as well as understanding of the EU's Anti-Tax Avoidance Directives (ATAD I, II and III).

During the process of tax reforms, the demand for tax policy analysis has intensified, with pressure being felt by the analysts of the Tax and Customs Policy Department (TCPD) of the MoF to provide credible answers to the many policy issues that have been discussed. To do so, the TCPD must put into practical use a range of tools and methods to evaluate the revenue and distributional impacts of alternative tax policy measures. These include both methodologies that make use of micro-level administrative data and simulation models constructed using national accounts data. It is thus important to strengthen TCPD's capacity in comprehensive tax policy analyses.

MOLDOVA

Program Objectives

- Revisions of the Moldovan Tax Code to ensure modernization of the tax framework, reduction of complexity and inefficiencies due to ad-hoc accumulation of policy changes over the past 15 years.
- Revisions of the Moldovan tax system to harmonize it with the EU acquis in support of Moldova's EU accession process.
- Strengthening of the anti-avoidance framework, including in the cross-border setting.
- Strengthening of the human and institutional capacity for tax policy analysis, including improved capacity in costing and evaluation of preferential tax treatments, building the ground for phasing out inefficient tax incentives in support for fiscal consolidation.

Expected Results (outcomes)

- Authorities have a comprehensive understanding of the current state of the government's tax and non-tax revenue policy and opportunities for improvement.
- The VAT Chapter of the Tax Code is gradually revised to ensure modernization of the VAT system and its harmonization with the EU Directive.
- Anti-avoidance framework is revised, including with respect to cross-border tax issues.
- Steps are undertaken for Moldova to become part of the IF on BEPS.
- Structures and capacity related to tax policy advice and analysis are strengthened, including but not limited to methodologies to evaluate preferential tax treatments.

B. RM II – Revenue Administration

Scope

The STS needs to continue improving its effectiveness in addressing tax non-compliance through better risk analysis, coordination of STS operational work and improvement of tax audit. The support will be provided to keep the established CRM framework operating along good international practice and establish a coordinated cross- functional response to the largest tax compliance issues in Moldova. In addition, the project will help improve STS's risk analysis capacity by acquiring modern technical skills and access to the relevant information sources. Current ineffective tax audit function needs to be changed. The project will help the authorities to review of the legislation as well as to develop a modern management of tax audit as an integrated component in CRM.

Support in other practical matters related to implementation of the new tax policies from TP component can also be provided.

Program Objectives

- Support to functioning CRM framework that systemically engages different STS units in systemic compliance response.
- Improving risk analysis capacity in the STS
- Review of legislation to detect obstacles to modern audit approaches.

MOLDOVA

- Strengthening audit process and its management
- Support to implementation of new legislation

Expected Results (outcomes)

- The STS is able to better detect and address tax compliance issues in Moldova.
- Tax audit is modernized and used as an effective tool to support compliance.
- New tax policies are supported by the necessary administrative changes.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Moldova has been the beneficiary of several CD missions on tax policy in recent years and has had a good track record in implemented recommended reforms. Missions delivered in 2022 and 2023 focused on tax expenditure assessment and reporting, with Moldova's first comprehensive Tax Expenditures Report produced and published by the Ministry of Finance. A broad tax policy diagnostic mission in early 2024 served to inform the most pressing tax policy needs and to establish a baseline for the upcoming tax reforms. Further, a capacity building mission served to strengthen human and institutional capacity of the TCPD in tax policy analysis, including the cost-benefit analysis of preferential tax treatments.

The project will be fully aligned with the authorities' priorities, as reflected in the Moldovan government's Concept Note for modernizing and improving the quality of tax system, while bringing it in line with EU directives. The project activities will support the implementation of the roadmap of tax reforms—as reflected in the concept note—including the chapter-by-chapter revision of Moldova's Tax Code.

B. Delivery Modalities

CD delivery will prioritize in-person activities due to the country's limited capacity and the need for a more hands-on approach. This also aligns with authorities' preference for in-person missions. Virtual deliveries will be used to the extent possible when they can increase the efficiency of in-person mission (e.g., pre-mission preparatory work) or when travel is either impossible (e.g., conflict in schedule) or unjustified given task at hand (e.g., mere desk review would suffice given nature of the work).

As currently planned, CD will mostly comprise of headquarter-led (HQ) missions and staff visits, and short-term expert visits. The HQ staff will provide strategic recommendations, conduct regular follow-ups, assess progress, coordinate with other CD providers, and adjust reform implementation plans. The short-term experts will provide advice and support on specific technical issues. We will remain flexible in our approach and will consider complementing HQ missions with short-term experts and/or workshops as circumstances warrant.

C. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
AD country team, Resident representative	Sharing of information, insights, and recommendations	Tax policy, Tax administration	Regularly
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
EU	Discussion on respective work programs and sharing of information, insights, recommendations	Tax policy, Tax administration	Each visit to Moldova
World Bank	Discussion on respective work programs and sharing of information, insights, recommendations	Tax policy	Bi-annually
US Treasury	Discussion on respective work programs and sharing of information, insights, recommendations.	Tax administration	Each HQ visit to Moldova
Swedish tax administration	Discussion on respective work programs and sharing of information, insights, recommendations.	Tax administration	Each HQ visit to Moldova

MOLDOVA

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/influences			
General	Risk that external events and influences create a more challenging environment for implementation of reforms.	Medium	Program design and execution allows for sufficient flexibility to adjust activities in the course of adverse events.
External climate/conditions			
General	Resurgence of pandemic or other global crises hinders CD delivery and changes CD priorities.	Low	Build on significant progress achieved with remote delivery of CD in Moldova.
Political Support			
RM I / RM II	Political instability may slow down and even stop implementation of reforms.	Low	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close collaboration with the EUR area department team and the authorities.
Management and Technical Staff Support and Commitment			
RM I	Threats from political influences on the MOF management commitment for modernization of tax system.	Low	Support MOF management with strategic advice and political narrative on the need for modernization of the tax reform.
RM II	Insufficient allocation of STS staff to implement advice	Medium	continuous conversation with the STS leadership for assuring commitment is supported with availability of relevant technical staff.
Resource Adequacy			
RM I / RM II	MOF and STS lack sufficient human and institutional capacity to evaluate, formulate, promote, and implement effective tax policy reforms.	Low	Provide CD to develop staff technical skills and set tax reform priorities.
Other risks			
RM II	Overlaps and duplication in CD topics across different development partners supporting STS	Low	Regular consultations and coordination of activities with other DPs. Supporting STS leadership in effectively managing support provided by various partners.

MOLDOVA

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM I – Tax Policy						
HQ-led CD mission	3	2	-	-	-	5
RM II – Tax Administration						
HQ-staff visit	1	1	-	-	-	2
STX visit	4	4	-	-	-	8
Total	8	7	-	-	-	15

Note:

- In-person delivery was chosen in most instances because of due to the country's limited capacity and the need for a more hands-on approach. This also aligns with authorities' preference for in-person missions.
- Some virtual deliveries will be used to increase the efficiency of in-person mission, including for pre-mission preparatory work, or when travel is unjustified given task at hand (e.g., mere desk review would suffice given nature of the work).
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person and remote activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I – Tax Policy		
Q2/2025	Field-based work	International Tax Issues, IF on BEPS, EU's Anti-Tax Avoidance Directives (ATAD I and II)
Q4/2025	Field-based work	Review of VAT and excise framework, harmonization with EU
Q4/2025	Field-based work	Business taxes, policy, and legal issues
RM II – Tax Administration		
July/2024	STX/ Field-based work	CRM
October/2024	HQ Staff Visit/ Field-based work	Tax Audit, CRM
December/2024	STX/ Field-based work	Tax Audit
February/2025	STX/ Field-based work	CRM
March/2025	STX/ Field-based work	Tax Audit

MOLDOVA

VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
RM I – Tax Policy	\$447,652	\$277,685	-	-	-	\$725,337
RM II – Revenue Administration	\$199,238	\$256,881	-	-	-	\$456,119
Subtotal	\$646,890	\$534,566	-	-	-	\$1,181,456
Trust fund management fee (7%)	\$45,282	\$37,420	-	-	-	\$82,702
Total	\$692,172	\$571,986	-	-	-	\$1,264,158

The estimated budget for this three-year project is \$1,264,158, but endorsement is requested for \$692,172 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM I – Tax Policy

Objective	
Improve Tax Policy Design - TPD	
Outcome(s)	Indicator(s)
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	Adopt legislation that reduces economic distortions.
Improved distributional fairness across taxpayers due to amended tax rates or base	Laws implementing amendments aimed at greater horizontal equity are passed

B. RM II – Revenue Administration

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Effective implementation of a new tax or modernized legislation	New/modernized tax implemented on scheduled date
Corporate priorities are better managed through effective risk management	Improved identification, assessment, ranking, and quantification of compliance risks
Objective	
Strengthened core tax administration functions	
Outcome(s)	Indicator(s)
The integrity of the taxpayer base and ledger is strengthened	More accurate and reliable taxpayer information held in centralized database
Audit and other verification programs more effectively ensure accuracy of reporting	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud