

I. COUNTRY REFORM PROGRESS

To support the European Union (EU) Moldova Growth Plan/Reform Agenda, the Global Public Finance Partnership (GPFP) furthered Moldova's tax reforms agenda through modernizing the tax framework and strengthening the tax administration. In this respect, the project achieved meaningful results:

- **VAT Reform:** Moldova is redrafting redrafted the VAT chapter of its Tax Code, establishing a broad-based VAT system with a single rate (20 percent) and minimal exemptions—eliminating the previous complex structure of multiple reduced rates and preferential treatments, thereby simplifying the tax framework and broadening the revenue base.
- **EU Tax Alignment:** Drawing on options developed with IMF support, Moldova adopted a legislative package aligning its income tax framework with EU Income Tax Directives—a decisive step toward harmonization with the EU *acquis* and a direct outcome of GPFP CD engagement.
- **Compliance Risk Management:** Acting on FAD advice, the State Tax Service (STS) established a dedicated analytical unit to support compliance risk management (CRM) process. As a result, STS has expanded staff analytical capacity for compliance risk assessment and started assessing tax compliance gaps. It has also started developing a compliance program that would bring all STS activities under CRM coordination, marking measurable institutional progress in modernizing tax administration.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: IMF tax policy advice and capacity development are beginning to translate into concrete reform steps. The current reform-oriented Minister of Finance is advancing a reform package broadly aligned with IMF recommendations and Moldova's EU accession agenda. The VAT chapter of the Tax Code has been redrafted to improve efficiency and reduce economic distortions. The reform—initiated by the new pro-EU government—aims to establish a broad-based VAT with minimal exemptions (including eliminating exemptions permitted under the EU *acquis*) and a single-rate VAT (currently 20 percent), replacing the existing system of multiple reduced and preferential rates. As reported under Chapter 16 of the EU accession negotiations, a draft law was approved in June 2025 to partially align Moldova's excise duty regime with EU directives.

Previous Progress: Based on options developed with IMF support, Moldova adopted a legislative package to align its tax framework with the EU Interest and Royalty Directive. The ongoing redesign of the business taxation framework—building on IMF advice—aims to simplify and rationalize the system by reducing the number of regimes for legal entities from more than ten to four.

Next Steps: Further progress is required to complete harmonization with EU excise directives, particularly regarding the taxation of energy products and tobacco. As part of Moldova's commitments under the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the authorities should finalize a roadmap for implementing the BEPS minimum standards and begin structured implementation. In addition, preparatory work should start to assess and eventually implement the EU Directive on a global minimum

level of taxation for multinational enterprise groups and large-scale domestic groups (EU Directive 2022/2523).

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: The State Tax Service (STS) continues to make steady progress in further developing a compliance risk management (CRM) approach in tax administration. Per FAD advice, a specialized analytical unit has been set up with governance arrangements to manage the CRM process. FAD CD support continues to build STS staff's analytical capacity for compliance risk assessment and bring all STS activities under CRM coordination.

Previous Progress: In April 2025, FAD recommended a five-year audit modernization action following an October 2024 diagnostic review of the tax audit program. With the plan currently under implementation, STS staff capacity to build internal processes and knowledge to assess compliance gaps is improving, ensuring the tax audit program follows good international practice.

Next Steps: Work in FY27 is planned to extend tax gap assessment to CIT and possibly PIT, and to link compliance gap analysis with overall CRM program and tax audit operations through a comprehensive compliance strategy. Further tax administration reform priorities to support implementing tax policy reforms will be outlined and advise on relevant reform options provided during FY27.

III. LOGICAL FRAMEWORK

Country – Moldova		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 3
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	The IMF tax policy advice and capacity-building have started to bear fruit—the current reform-minded Minister of Finance is building the reform package that is consistent with IMF advice: Building on, and fully in line with IMF advice, the VAT Chapter of the tax code has been redrafted to improve its efficiency and reduce economic distortions. The reforms—initiated by the new pro-EU government and reform-minded Minister of Finance aims at (1) a broad-based VAT that includes a minimum number of base exemptions (eliminating even the exemptions that are allowed under EU tax acquis); and (2) a single-rate VAT (currently at 20%), with all reduced/preferential rates being eliminated. As reported by the Chapter 16 of EU negotiations, in June 2025, a draft law was approved to partially align Moldova's excise regimes with EU directives. More needs to be done with respect

		to harmonization of excise duties on energy products and tobacco.
Improved distributional fairness across taxpayers due to amended tax rates or base	3 Largely Achieved	Based on the options developed by the IMF, Moldova adopted EU Interest/Royalties Directives, with EU directives on taxation applicable to mergers/cross-border reorganizations and EU parent-subsidiary Directives planned for adoption by the end of CY26. The current redesign of the tax reform—building on the IMF advice—aims at simplification/rationalization of the business tax regimes, to bring the total number of regimes for legal person taxation from the current 10+ to 4.
RM II: Objective – Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	2 Partially Achieved	STS is making progress in improving CRM, but work remains to: (i) implement a data warehouse to support risk analysis, (ii) improve risk rules by taking the consequence side into account, (iii) introduce modern analytical tools, and (iv) further invest in analytical skills of staff. To date, the CRM, while formally in place, has limited effect on the tax compliance situation in Moldova. The compliance risk analysis process does not ultimately rank or prioritize the identified risks, nor set out a medium-term strategy to mitigate them. CRM governance arrangements are formalistic, and the STS lacks sufficient impact assessment of its compliance improvement programs. FAD support on VAT compliance gap assessment was provided in June and December 2025. As a result, the STS developed an estimate on the size of VAT compliance gap.
RM II: Objective – Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 3
Outcome	Rating	Narrative
The integrity of the taxpayer base and ledger is strengthened	3 Largely Achieved	The STS made considerable progress in the development of the upgraded taxpayer register. The timetable for the implementation has been revised. While single taxpayer register is in place and taxpayer data has been cleansed, the STS still develops ability for large-scale automated processes to verify and crosscheck registration information against databases of other government agencies. The IT systems of many relevant government agencies are outmoded, and data held there may not be reliable, which poses difficulty for running automated crosschecks.
Audit and other verification programs more effectively ensure accuracy of reporting	3 Largely Achieved	The STS made progress in shifting the focus from unplanned (low value) audits to planned (risk focused) audits, but further acceleration is needed, considering that a range of unplanned audits are mandatory.

		The Case Management System (CMS) is currently used only as a repository and needs to be further developed. There is an Audit Quality Review (AQR) process in place. The sample is, however, too small for statistical valid conclusions. The quality of the review needs to be improved: a significant number of reviews which were assessed by management as 'excellent' had errors of a serious nature. The STS conducted an evaluation of the impact of audits on the overall compliance levels. Further development of the methodology is needed as it currently only takes the impact of single compliance intervention types into account. The diagnostic assessment of STS audit program was completed by FAD in February 2025. The assessment revealed gaps compared to the good international practice. A five-year audit modernization action plan to address the gaps was prepared with FAD support in April 2025. The plan has been adopted by the STS management and is being implemented.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: Risk that external events and influences create a more challenging environment for implementation of reforms.	Low	Program design and execution allow for sufficient flexibility to adjust activities in the course of adverse events.
RM I, RM II: Resurgence of pandemic or other global crises hinders CD delivery and changes CD priorities.	Low	RM I: Build on significant progress achieved with remote delivery of CD in Moldova. RM II: In case of interruption of travel, the CD can be delivered remotely using online communication channels.
Political Support		
RM I: Political instability may slow down and even stop implementation of reforms.	Medium	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close collaboration with the IMF's European Department (EUR) team and the authorities.
RM II: Lack of political support	Medium	Involve area department country team to discuss and resolve underlying issues related to the lack of political support.
Management and Technical Staff Support and Commitment		
RM I: MoF presents a relatively weaker counterbalance to the political capital/influence of the other significantly more powerful/empowered ministries.	Medium	Leverage the EUR team and IMF's Resident Representative Office to encourage longer-term commitments to the tax policy reforms, including through regular engagement with the Prime Minister.

Description	Rating	Mitigation Measures
RM I: Threats from political influences on the MoF management commitment for modernization of tax system.	Medium	Support MoF management with strategic advice and political narrative on the need for modernization of the tax reform.
RM I: Insufficient stakeholder engagement to ensure reform buy-in by key-players. Lack of transparent tax consultations on the proposed reform impact.	Medium	Leverage the EUR team and IMF's Resident Representative Office to encourage Early engagement and comprehensive tax reform communication/education through all available media channels.
RM II: Project has been formally requested by the STS who have identified the specific CD need	Medium	Apply extended communication with authorities, including MOF. Engage area department team.
Resource Adequacy		
RM I: MoF and STS lack sufficient human and institutional capacity to evaluate, formulate and promote effective tax policy reforms.	Low	Provide CD to develop staff technical skills and set tax reform priorities.
RM II: Insufficient allocation of STS staff	Medium	continuous conversation with the STS for early detection of potential risk of insufficient resource allocation.

V. PROJECT MANAGERS: CONTACT INFORMATION

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