

SUBJECT: COMMENTS CONCERNING THE STUDY ON THE OPPORTUNITY OF MODIFYING THE PRINCIPLE OF REVENUE TAX WITHHOLDING

AN OPPORTUNE AND BENEFICIAL STUDY

The Coalition for Fiscal Decentralization has analyzed „*The Study on the opportunity of modifying the principle of revenue tax withholding for physical and juridical persons who carry out an entrepreneurship activity by allocating it to budgets where the tax subjects have their domicile/residence, irrespective of the location of the source*”, elaborated by the Ministry of Finance and thus makes the following comments and propositions.

The CDF highly appreciates the position and the attitude of the Ministry of Finance to propose the respective study for public discussions. In the context of discussions about principles and mechanisms of the Reform of administrative and financial decentralization, this kind of studies are *opportune, valuable and beneficial*. We also appreciate the openness which the Ministry of Finance proves towards the development partners and the civil society to discuss priority management issues of local public finance.

THE NEED AND IMPORTANCE OF EQUITABLE RESOURCE PROVIDING

At present, the process of territorial management in the Republic of Moldova is very unbalanced. Chisinau Municipality and in a lesser extent Balti Municipality are much more developed than the other administrative-territorial units. Chisinau, with about 22% of the population of the Republic of Moldova, ensures 55,1% of the industrial production of the country. Over 60% of the economic and financial resources of the country are concentrated in Chisinau and Balti Municipalities. In the most of the economic and social sectors and areas, the development indices are at least 2,5 times higher than the country average. But however great their economic and financial performances may be, Chisinau and Balti can't ensure the economic growth for the entire country.

The complex and homogeneous development of the localities in the Republic of Moldova can be ensured by creating an autoregulation system, which would contribute to the development of the social and production infrastructure, as to attracting investments to cities, for the most diverse industrial activities. The “favors” and the material support and incentives of the Government, not always economically justified, are not the best solution, because this engenders corruption conditions. Thus it is necessary for every locality to create their social and production infrastructure, to the extent of their own potential and capacities. By “exporting” their workforce to Chisinau, Balti and other big cities, these localities can't cover their expenses for education, health protection, security, development of road networks, communications, electricity, development of culture, sports, investments in fixed capital etc. Thus, it is necessary to redirect taxed financial resources: *every physical, juridical person, irrespective of the location of the income source, allocate their tax to the local budget where they have their domicile/residence*. Redirecting financial flows from “importing localities” to workforce “exporting localities” will limit the excessive concentration of all industrial activities, transport, the development of urban facilities only in certain localities.

For these reasons, the issue of the *revenue tax withholding for physical and juridical persons who carry out an entrepreneurship activity by allocating it to budgets where the tax subjects have their domicile/residence, irrespective of the location of the source*, is **extremely important**.



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THE CONCLUSION OF THE STUDY OF THE MINISTRY OF FINANCE IS INSUFFICIENTLY MOTIVATED

From the main conclusion of the study, we understand that the Ministry of Finance considers as inopportune the modification of the principle of revenue tax withholding and proposes keeping the current system of this tax withholding.

We qualify this conclusion as **hasty and insufficiently motivated**. We propose to reconsider it, given the following arguments:

1. Primary data used in calculations contain only the amounts of revenue taxes which could be identified and associated according to fiscal declarations: This fact raises a lot of interrogation points concerning: (i) the selection of tax payers, (ii) their territorial distribution; (iii) their share in the total number of employees, (iv) the share of analyzed amounts in the total real collected amounts etc.
2. Changing the SFS soft associating the domicile/residence of tax subjects to the location of the revenue source is estimated to 5 mln. lei and is exaggerated. Its modification will be necessary, but the costs will be much lower. Soft interventions may be insignificant, estimated to 100-150 thousand lei.
3. We do not agree that there will be necessary a permanent association of the database of SFS and Î.S. „Registru” in order to update the domicile/residence of tax subjects. If there is established a codified electronic relation between these two databases, it will operate permanently and will not require intervention, but only monitoring.
4. We consider **totally groundless** the increase by 353 mln lei of the wage fund for accountancy. In the case of applying a **new concept of automatic distribution of the revenue tax** for physical and juridical persons (described below), **there will not be necessary to hire any other accountants** for economic agents.
5. In the case of applying a new concept of automatic distribution of the revenue tax for physical and juridical persons, the arguments concerning additional resources for processing the accounting reports, their verification, controls etc. are not justified.

A NEW EFFICIENT AND LESS EXPENSIVE CONCEPT

We propose as an alternative to the analysis of the Ministry of Finance a new efficient and less expensive concept of distribution of resources accumulated from the revenue tax for physical and juridical persons who carry out an entrepreneurship activity by allocating it to budgets where the tax subjects have their domicile/residence, irrespective of the location of the source.

The essence of the concept consists in keeping the current principle of revenue tax payment by physical and juridical persons, which will be correlated with an automatic mechanism of distributing accumulated resources. The study of the Ministry of Finance wrongly emphasizes the modification of the taxing principle. A principle is a principle. (At present) this does not have to be modified. It is necessary to modify the direction of use of the respective taxes. It is the use of these taxes that matters and not the tax amounts. By this new mechanism of distribution of financial resources, we propose the total or partial redirectioning of financial resources obtained from taxes paid by physical and juridical persons, correlated to the residence place of tax payers.

This is possible by:

1. Maintaining the current tax system, but improving the soft of finance redistribution in accordance with the resident visa of tax payers.
2. Modifying the soft by which is administered the allocation of financial resources to mayoralities by adding a new additional chapter (field, column), which will contain a conventional fiscal code, correlated to the code of localities, which will ensure the automatic distribution of financial resources paid by tax payers to the residence localities of the respective tax payers.
3. By using this soft, the distribution of financial resources will be made without the additional involvement of tax payers, of accountants from private or public economic units or those from the treasury.

The respective finance amount may be transferred entirely (100%) to the residence place of tax payers or partially, in a proportion of:

- i. 50% x 50% - work place / residence place
- ii. 20% x 80% - work place / residence place

or in any other proportion, based on certain distribution criteria and findings which has to be additionally analyzed and discussed.

The costs for the implementation of this concept are estimated to 250-300 thousand lei*, including:

- ✓ The modification of the SFS soft - 100-150 thousand lei
- ✓ The modification of the accounting program - 40-50 thousand lei
- ✓ The modifications of payment orders, reports etc. - 50-100 thousand lei.

*The total costs are to be detailed and specified in a specialized study.

THE BENEFITS OF THE DISTRIBUTION CONCEPT

The benefits of the concept of distribution of resources accumulated from the revenue tax are more than obvious.

The addressed problem can not be reduced to the „comfort” of some accountants, programmers. It has a macroeconomic importance, concerning an economic and financial reform with long term positive effects. Using the system of distribution of financial resources accumulated from *revenue tax withholding for physical and juridical persons who carry out an entrepreneurship activity by allocating it to budgets where the tax subjects have their domicile/residence, irrespective of the location of the source* will contribute to the creation of conditions necessary for the homogeneous development of the territory, of localities in the Republic of Moldova. Every locality has to develop to the extent of its potential. Obviously, this will not solve the problem of the financial autonomy and will not eliminate from current problems the allocation of transfers. But solving this problem will be the first step towards increasing the local financial autonomy and creating an equitable resource distribution.

The current system of financial flows redirecting contributes to creating development disparities between rural and urban localities and needs modifications. A total/partial equitable redirection of financial flows obtained from taxes paid by physical persons will contribute to creating the premises for forming the local resources necessary for the complex development within the country. It is not Chisinau, Balti nor other big cities that will face costs, but these cities who will return debts not belonging to them. The rural population creates the premises for the development of the social and production infrastructure in Chisinau, Balti and other cities to which they emigrate on the account of their own underdevelopment. The redistribution of tax flows is just one of the actions necessary to ensure a process of balanced territorial development. Obviously, there can also be developed more elements for this system.

CONCLUSION

The results of the study of the Ministry of Finance concerning the inopportunity of modifying the principle of the revenue tax withholding and payment are insufficiently motivated.

The current tax system can be to a large extent adjusted to an autoregulating system which will not imply big costs, but will have tangible effects on local level. On this purpose, there are necessary specialized and deep economic-financial studies. Based on these studies, the idea of redistribution of financial flows can be implemented with minimum efforts: the system operates as previously and only the distribution process is modified.