

EVALUATION OF THE EFFICIENCY OF THE TAX SYSTEM IN THE REPUBLIC OF MOLDOVA

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Abstract

In the global context of constantly evolving economies, the efficiency of a country's fiscal system becomes a central pillar in ensuring its stability and prosperity. The Republic of Moldova faces challenges related to the structure, collection and distribution of fiscal resources. Evaluating the efficiency of the tax system thus becomes essential for identifying areas that require improvement and for promoting sustainable economic growth. This article aims to analyze the efficiency of the tax system in the Republic of Moldova, by evaluating the relevant indicators, while identifying possible ways of improvement and recommendations for its consolidation and optimization.

Key words: *fiscal system, fiscal efficiency, fiscal pressure, taxation, GDP, fiscal reforms, Republic of Moldova.*

JEL Classification: *H21, H26.*

I. INTRODUCTION

The tax system is a complex and structured mechanism, made up of elements such as taxable matters, tax rates and tax subjects that interact synergistically due to the processes of tax design, legislation and implementation. All these elements of the tax system are legally regulated, ensuring the regulated collection of a part of the GDP by the state in the process of redistribution and consumption.

Each state develops its own tax system, adapted to its level of socio-economic development, having a direct impact on the economic and social balance.

In the structure of the tax system of the Republic of Moldova, there are both direct taxes, which are applied directly on income and property, and indirect taxes, levied in the process of commercial transactions and consumption. Income tax, value added tax (VAT) and excise duties occupy a central position, representing the basic pillars of the national tax system. In the context of constant pressures for financing and dynamic economic developments, it is necessary to identify potential sources of tax revenues, thus ensuring the sustainability of the national public budget.

The efficiency of the tax system is a vital component for the prosperity and stability of the Republic of Moldova. An efficient and well-structured tax system is essential for the adequate and correct collection of the revenues necessary for the functioning of the state. This has a direct impact on the government's ability to fund public services such as education, health, infrastructure and security. Moreover, an efficient tax system promotes trust in the government and its institutions, thus stimulating investments, economic growth and job creation in the Republic of Moldova. At the same time, a transparent and fair fiscal framework contributes to reducing social inequalities and promoting social cohesion, creating a more stable and predictable environment for long-term development.

The efficiency of the tax system in the Republic of Moldova is essential for ensuring sustainable economic growth, a fair distribution of resources and social and political stability in the country. By adopting appropriate fiscal policies and implementing them effectively, the government can create the necessary conditions for sustainable prosperity and well-being for all citizens.

II. MATERIAL AND METHOD

In carrying out the research, methods such as literature analysis, comparison and abstraction approach were used. Also, the inductive method was used to extract, analyze and synthesize specific information, thus leading to the formulation of some conclusions regarding the object of study.

As theoretical-scientific support, the results of the studies and investigations of local and international experts, such as Brezeanu Petre, Tulai Constantin, Șerbu Simona, Bulgac Corina et al., served.

The informational support of the research is represented by national and international scientific publications, as well as statistical data presented by the National Bureau of Statistics, the Ministry of Finance of the Republic of Moldova, data published by Eurostat and other informational resources accessible on the Internet.

III. RESULTS AND DISCUSSIONS

The analysis of the tax system is important and necessary, because its structure and operation allow conclusions to be drawn regarding the tax pressure, the tax policy and the efficiency of the intervention of the authorities in the economic and social field of a country.

A fundamental characteristic of the tax system is its efficiency. A tax system is considered efficient when, for a certain amount collected from taxpayers, the costs of tax administration are reduced to a minimum, and the distorting effect of taxes on the behavior of taxpayers is minimized. To evaluate the efficiency quantitatively, economic indicators such as the level of fiscal pressure, the ratio between direct and indirect taxes, as well as other relevant indicators can be used.

Fiscal pressure highlights "the degree of intensity of taxes or, in other words, how big is the fiscal burden that presses on the shoulders of taxpayers", according to Tulai Constantin's analysis. (Tulai and Șerbu, 2003, p. 287). In the same context, according to the researcher Brezeanu Petre, the fiscal pressure represents "the relative expression of the fiscal burden borne by the taxpayer" (Brezeanu, 2010).

Fiscal burden refers to the percentage of the Gross Domestic Product (GDP) that the government collects in the form of taxes in a certain time frame. This indicates the level of revenue collection from individuals and legal entities, or more comprehensively, from the entire community through taxation. An increase in the fiscal pressure indicates the increased efficiency of financing public expenditures by the state, while a decrease can have an impact on the budget deficit.

In other words, this indicator highlights the level of taxation perceived by taxpayers or, more precisely, the impact that the tax burden has on them. The formula for calculating the fiscal pressure is:

$$\text{Fiscal pressure} = \frac{\text{Tax revenues}}{\text{GDP}} \times 100$$

Measuring fiscal pressure is important both for the government, in formulating fiscal policy, and for companies, in optimizing financial resources. Companies are analyzing this pressure to effectively manage costs and develop appropriate fiscal strategies. The degree of taxation can significantly influence a company's costs, and anticipating tax pressure in future periods is essential for effective financial management. By comparing the fiscal burden of a company with the sector average, organizations can obtain a clearer perspective on the fiscal context, identifying optimal solutions for fiscal efficiency (Șalova S.S. and Corățin A.V., 2017, p.7).

Measuring fiscal pressure is important for the state from several perspectives:

- Tax policy planning and evaluation: any change in the level of taxes or tax advantages must be analyzed in the context of their effects on the economy. This indicator provides a vision of the effectiveness of the tax system in supporting socio-economic development.
- Monitoring tax revenues: variations in the tax burden, compared to the average or standards in the sector, provide essential information to assess the financial situation of the sector or the economy as a whole.
- Estimation of budget revenues: by analyzing the fiscal pressure, accurate estimates of anticipated revenues in the state budget can be made.
- Monitoring the development of economic entities: the fiscal burden influences investments and their direction, so monitoring this pressure is important for sustainable economic growth.

The efficient operation of the tax system requires special attention paid to the impact of tax pressure on commercial entities (Bulgac C., 2017, p.140). An efficient tax system must avoid overtaxing businesses by promoting activities with high growth potential. Adam Smith mentioned the risks of too much tax pressure in the 18th century, pointing out that excessive taxes can reduce people's ability to pay, and the bankruptcy of firms due to high taxes can generate unemployment and lower tax revenues. Thus, a balanced and favorable fiscal environment can contribute to economic prosperity and efficient tax collection.

Macroeconomic theory addresses these issues through concepts such as the Laffer curve and the fiscal multiplier. An excessive level of taxation can cause some businesses to migrate to the informal sector, affecting the formal economy and state revenues.

So, the balance of fiscal pressure is crucial for the government, which aims to cover public expenditure, and for taxpayers, who want the lowest possible taxation. A balanced fiscal regime stimulates production, investment and economic growth.

At the same time, a higher share of taxes in the Gross Domestic Product (GDP) can indicate a more efficient redistribution of resources through the tax system, if the collected funds are used properly to support economic development, reduce inequalities and improve the general well-being of the population.

In the Republic of Moldova, the issue of fiscal pressure is a current concern, given the lack of major investments that could generate quality and well-paid jobs. The current tax system places a heavy burden on taxpayers, which not only discourages investment but also encourages tax evasion.

The analysis of the fiscal pressure in the Republic of Moldova for the period 2016-2023 is illustrated in figure 1.

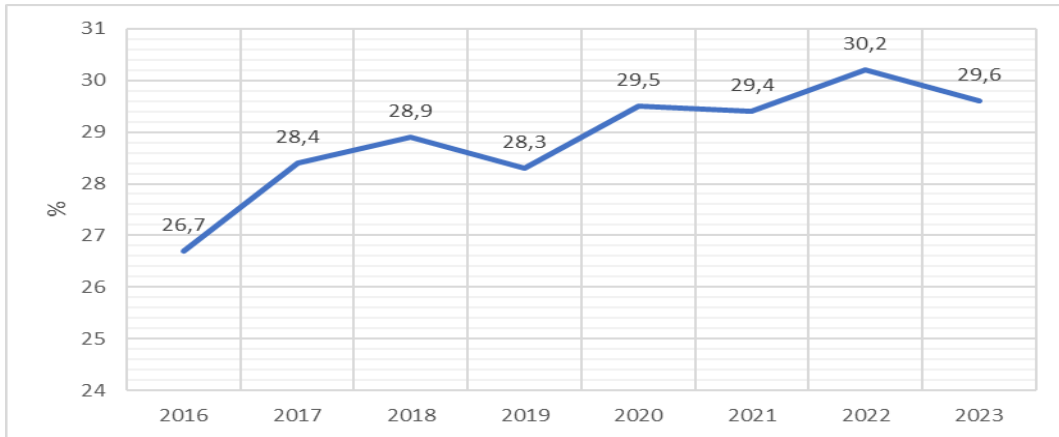


Figure 1 - Evolution of fiscal pressure in the Republic of Moldova (2016-2023), %

Source: developed by the author after [4], [5]

During the analyzed period, the fiscal pressure in the Republic of Moldova, measured as a percentage of fiscal revenues in relation to GDP, had a variable trajectory between 2016 and 2023. After a constant upward trend, it reached its maximum level in 2022, then registering a slight decrease in 2023. This trend is the result of increases in tax revenues and GDP in nominal terms, as well as changes in fiscal policy, legislative reforms and changes in the exchange rate.

Analyzing the fiscal pressure in the states of the European Union, significant variations are observed that reflect the priorities and fiscal policies adopted by each country. France tops the list with a tax burden of 48%, followed by Belgium (45.6%), Norway (44.4%), Austria (43.6%), Finland and Greece with 43.1%. Conversely, states such as Malta, with 29.6%, Switzerland, with 27%, Romania, with 27.5%, and Ireland, with 21.7%, are at the bottom of the list, highlighting a lower fiscal pressure in relative to GDP. The average fiscal pressure among the EU-27 states is approximately 41.2%.

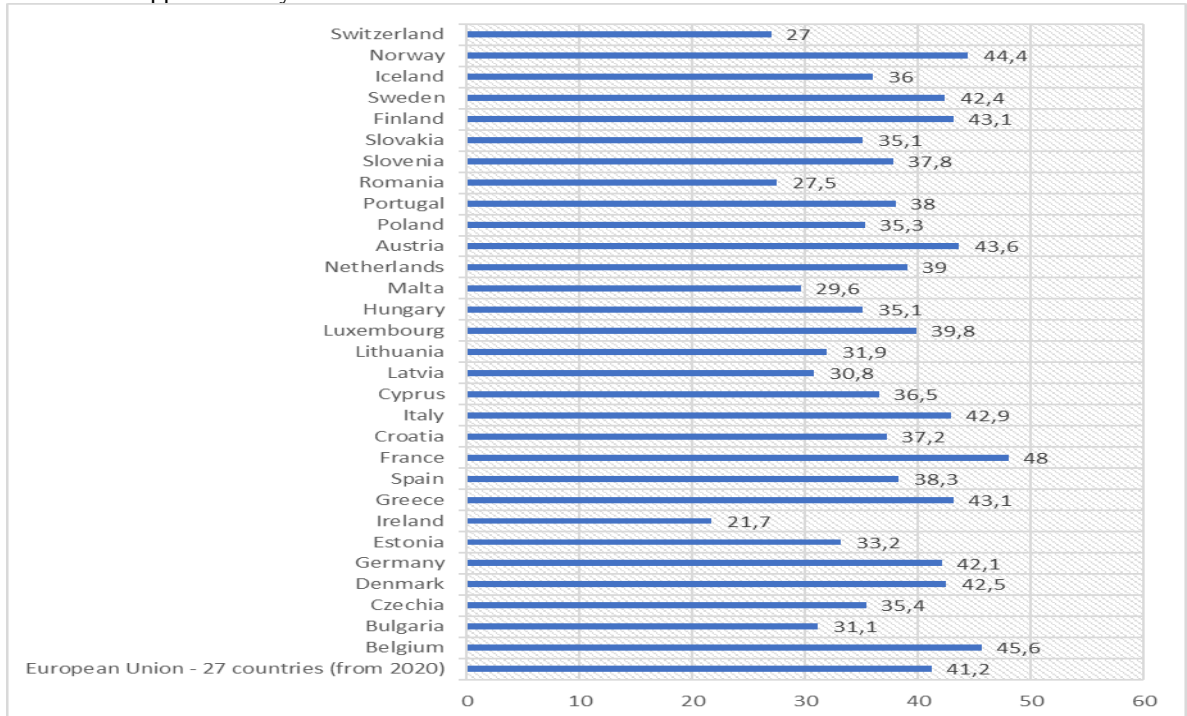


Figure 2 - Fiscal pressure in the EU-27 in 2022 (%)

Source: developed by the author after [6]

In the Republic of Moldova, the level of fiscal pressure is similar to that of some member states of the European Union. However, the specific criteria used to assess this tax burden differ from those used in other countries and are not exclusively related to tax factors. The level of fiscal pressure can be influenced by how the

state invests in public services such as health, education and utilities, but also in research, development and other projects. For example, in Sweden, the tax system assumes a contribution of more than 42% of an individual's income, without this aspect affecting his willingness to work. This does not seem counterintuitive, given that the state, by collecting taxes, effectively manages a number of economic and social problems at a centralized level. Compared to other countries, in the Republic of Moldova, citizens are left to address these issues from their own incomes, after they have been taxed.

Even if the fiscal pressure in the Republic of Moldova is comparable to that of some European states, it is felt to be excessive for Moldovan taxpayers, considering the low purchasing power of the national currency, the persistent inflation and the low incomes of the majority of the population. In an economy where the purchasing power of the national currency is high, taxpayers can meet needs, invest and save, even in the context of high fiscal pressure. But, in an economy like that of the Republic of Moldova, a fiscal pressure similar to that of developed countries restricts the ability of taxpayers to meet their personal needs, to invest and, especially, to save.

In order to reduce the fiscal pressure in the Republic of Moldova, a coherent and detailed strategy is essential, which includes new fiscal reforms and continuous adjustments of the taxation system, consistent with the country's economic needs and objectives. It involves detailed analysis of the impact of each reform initiative on society. In the perspective of integration into the European Union, the Republic of Moldova must focus its efforts on the efficiency of fiscal management, the stimulation of economic growth and its expansion, thus ensuring against the risks of potential economic crises. One of the critical steps in this direction would be to adjust the level of fiscal pressure in order to encourage domestic economic actors and attract foreign direct investment.

The analysis of the efficiency of the tax system involves the assessment and calculation of the weight of the tax pressure in relation to the different types of levies. By studying the fiscal pressure based on various tax categories, we can determine the contribution of each component to the formation of GDP. This makes it easier to understand how the fiscal pressure changes in relation to the level of annual GDP. Thus, we can identify changes and trends that affect the relationship between taxes and the economic activity of the country.

Analyzing the fiscal pressure related to direct, indirect taxes and social contributions in the Republic of Moldova, period 2016-2023, we observe a clear trend: indirect taxes had the largest share in GDP.

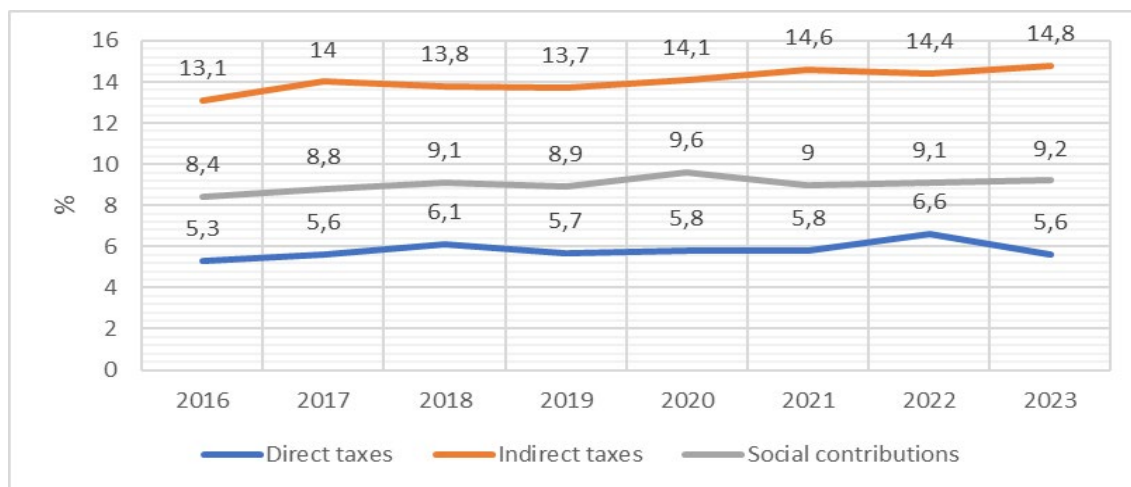


Figure 3 - Evolution of fiscal pressure by types of taxes (2016-2023), %

Source: developed by the author after [4], [5]

In the period under review, the indirect tax burden was between 13% and approximately 15% of GDP. In 2016, the lowest percentage was recorded, reaching 13.1% of GDP. Instead, the year 2023 marked a peak, with indirect fiscal pressure rising to 14.8% of GDP.

Social contributions, which include the compulsory state social insurance contribution (CAS) and the compulsory healthcare insurance premium (PAM), have varied over the analyzed period, ranging between 8.4% and 9.6% of GDP. They represented a larger share of GDP than direct taxes, but less than indirect taxes, thus highlighting their importance and impact on the country's economy and fiscal system.

On the other hand, the direct fiscal pressure remained below the level of indirect taxes and social contributions, registering an increase in the analyzed period. This oscillated between 5.3% of GDP in 2016 and a maximum of 6.6% in 2022. It should be noted that the Republic of Moldova is among the countries with one of the lowest fiscal pressures in Europe in terms of direct taxes. More precisely, the country ranks 7th in Europe in the context of personal income taxation, with a rate of 12%. For comparison, in Finland this rate reaches 57%,

while in Montenegro it stands at only 9%. Regarding social security contributions, the Republic of Moldova has a rate of 24%, while in France it amounts to 68% of the income of employees and employers.

Thus, indirect taxes had a greater share in GDP compared to direct taxes in the period under review. This development reflects a shift towards taxation of consumption rather than direct taxation of income and profits, a common trend in developing countries.

The emphasis on consumption at the expense of income and profits is explained by various economic and social reasons. Indirect taxation is often considered less invasive for taxpayers and can stimulate spending by having the ability to amplify demand for goods and services. However, it is important to carefully approach this direction of taxation to prevent potential negative effects on fiscal equity and income redistribution. Assessing the balance between direct and indirect taxes within a tax system is essential to ensure its effectiveness and fairness.

In order to determine which of the components of the fiscal pressure have the largest weight in the total fiscal revenues, an analysis of the structure of fiscal revenues in the Republic of Moldova was carried out. This analysis aims to identify the percentage contribution of each category of taxes in the total tax revenues and to highlight the influence of direct or indirect taxes, as well as other sources of tax revenues, on the fiscal pressure in the Republic of Moldova.

Table 1. Structure of tax revenues in the Republic of Moldova (2016-2023)

Indicators	2016	2017	2018	2019	2020	2021	2022	2023
Share of direct taxes in tax revenues, %	16,34	16,82	17,09	16,96	16,73	16,69	18,78	16,27
Share of indirect taxes in tax revenues, %	49.01	49,24	47,59	48,48	47,70	49,48	47,68	50,08
Share of social contributions in tax revenues, %	31,23	30,03	31,29	31,48	32,6	30,66	30,23	30,99

Source: developed by the author after [5]

The structure of tax revenues, including direct taxes, indirect taxes and social contributions is another important indicator to evaluate the efficiency and structure of the tax system. The percentage analysis of this structure for the Republic of Moldova in the period 2016-2023 highlights the predominance of indirect taxes in the total structure of tax revenues.

We note that indirect taxes, such as VAT, excise duties and customs duties, have occupied a dominant position, consistently representing around 49-50% of total tax revenues. VAT contributed the majority, generating 37.5% of total tax revenues in 2023, highlighting a significant orientation towards this form of taxation within the National Public Budget. More specifically, VAT applied to imported goods generated 30% of tax revenues, thus underlining the importance of international trade in the tax structure. VAT applied to goods produced and services provided on the territory of the Republic of Moldova occupied a secondary place, with a contribution of 12.6%. In addition, excise duties generated 11.5% of tax revenue and customs duties contributed 2.6%.

On the other hand, social contributions, which include compulsory state social insurance contributions and compulsory healthcare insurance premium, represented the second major component, generating around 31% of total tax revenues in the same period.

Direct taxes, such as personal and corporate income tax, contributed an average of 15.4% to tax revenues, distributed as follows: 7.5% for personal income tax and 7.9% for corporate income tax.

The Republic of Moldova shows a predilection for consumption taxation as the main source of public financing, a different orientation from the approach of developed countries, which focus more on income and profit taxation.

Therefore, the analysis shows that indirect taxes, especially VAT, occupy a central place in the structure of tax revenues. This can introduce complexity for taxpayers, while direct taxes offer greater transparency. Despite this fact, a quick transition towards a predominance of direct taxes in the Republic of Moldova does not seem realistic. However, a better balance between direct and indirect taxes could improve citizens' perception of the fairness and efficiency of the tax system.

In order to optimize the efficiency of the tax system, we consider it essential to implement the following measures:

- Discouraging tax evasion practices and strengthening the fight against tax fraud. The consequences of tax evasion directly affect tax revenues, disrupt market mechanisms and lead to social inequities. Tax evasion influences the economic and financial stability as well as the economic growth prospects of the country. In this sense, it is imperative that the state firmly tackles the prevention and combating of tax evasion.

- Modernization of the management of the tax administration. This involves promoting accountability and efficiency among staff to ensure a more efficient and responsible operation of the system.
- Optimizing the management of human resources. This implies paying more attention to the continuous training of staff, their motivation and the fight against corruption within the tax institution. By creating a professional and ethical environment, they can attract and retain the necessary qualified personnel.
- Increase in budget revenues. This includes expanding the tax base, identifying and eliminating existing tax loopholes, and optimizing and improving tax collection processes. It also involves adopting effective tax policies, promoting tax compliance and at the same time combating tax evasion. Such measures can not only contribute to strengthening the sources of income for the public budget, but can also ensure the long-term financial sustainability of the state.

The implementation of these strategic measures are essential to improve the tax system. This will not only increase administrative efficiency, but also create a fairer and more transparent framework for all taxpayers. Consolidating financial stability and promoting sustainable economic growth represent key objectives that, in the end, can contribute to improving the well-being and sustainable development of the Republic of Moldova.

IV. CONCLUSION

An efficient tax system is an important pillar for a dynamic growth of the national economy. The efficiency of this system is reflected in the way fiscal instruments influence the economic evolution of different entities or sectors. An efficient tax system must balance the interests of the state with those of taxpayers, taking into account their ability to meet their tax obligations and to expand and modernize productive activities.

The Republic of Moldova must reevaluate and optimize its tax system, considering the importance of consolidating budget revenues. The strategic allocation of these funds to vital sectors such as education, health, research and development and environmental protection is essential to boost economic competitiveness and meet the fundamental needs of society.

To improve the efficiency of the tax system, tax reforms and continuous adjustments are needed. This must aim at balancing direct and indirect taxes, combating tax evasion and modernizing tax administration. Tax reform must involve not only the optimization of tax mechanisms, but also the creation of a predictable, fair and favorable tax environment for investments. The Republic of Moldova can learn from the practices and strategies of the member states of the European Union for the optimization of the tax system, adjusting them according to its particularities and its development directions.

Therefore, the evaluation and optimization of the fiscal system of the Republic of Moldova are not only essential for the economic sustainability of the country, but also for ensuring a fair distribution of resources and promoting sustainable economic growth. It represents a central element in strengthening the position of the Republic of Moldova in the global economic context and in satisfying the needs and aspirations of all citizens

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