

THE EVOLUTION AND THE ACCOUNTING OF THE CORPORATE INCOME TAX IN THE REPUBLIC OF MOLDOVA

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Abstract:

In this research we will examine the income tax for legal entities in the Republic of Moldova since the Independence (1991) to nowadays. In addition to the emergence and evolution of corporate income tax, we will examine the application issues of the tax mechanism, comparing practices in the Republic of Moldova with the best known practices of other countries. The signing of the Association Agreement with the European Union and the tendency to align the laws of the Republic of Moldova with international standards and practices amplified the importance of studying the issue of income tax mechanism for legal entities in the Republic of Moldova and made it absolutely necessary in order to develop and harmonize the taxation system. In this context, we mention that tax legislation and accounting standards require a metamorphosis, in order to be adjusted to international practices. Considering the long and varied application of this tax instrument by the states that have gone through similar steps towards harmonizing the taxation system, we have every confidence that it will allow Moldova to accelerate efficiently and with fewer obstacles in order to achieve the set goals.

Key words: *subject of taxation, tax rate, object of taxation, taxpayer, legal person, income tax, corporate income tax.*

JEL Classification: H21, H25, M41.

I. INTRODUCTION

The income tax of legal entities in the Republic of Moldova has started its existence since the first years of independence (1991). The transition from the communist system to the tax system applicable to the market economy marked the reform of the tax system. The harmonization of the income tax system for legal entities has gone through a series of steps that have highlighted over time the importance of income tax for the state budget and the whole society. The evolution of the taxation system has created a new instrument of the income tax for legal entities, namely the instrument of fiscal education, so that its importance for the formation of the state budget stepped in the background. Currently, the income tax of legal entities should be considered a priori an instrument that generates a culture of fiscal responsibility for legal entities, and the contribution of income tax should be minimized so that the entities are motivated to reinvest the profit obtained in the development of personal business, which will ultimately stimulate the economic growth of the state.

Thorough and systematic research on the subject of this study in the Republic of Moldova has not been conducted, this being a regulated field, focusing on compliance with established normative provisions. However, in the activity of application, accounting and reporting over time there were multiple treatments and difficulties, which generated interest for the presence of research. At the same time, in a superficial way, in "Some aspects related to the appearance and historical evolution of taxes and fees", the author Vlaicu V. (November 10-11, 2014) mentions that taxes and fees have developed from ancient times to the present day, depending on the needs and socio-economic development of the state, this system, through its evolution, becoming today quite complex.

II. RESEARCH METHOD

This research is carried out through the combined application of classical research methods: the historical research method, the deduction and analysis method, which are necessary to investigate the evolution of the taxation mechanism, good practices and historical events that may be the basis for explaining current decisions. Thus, analyzing data and information from various sources and specialized materials, comparing different doctrines, practices and techniques applied in different states and time periods, conclusions and proposals are formulated based on the study on the appropriateness of national practices to further harmonize legislation of the Republic of Moldova in terms of taxation of income of legal entities. The application of the historiographical research method was necessary to bring out the most important collections of materials, specialized articles,

normative documents and web sources on the income tax of legal entities in the Republic of Moldova, being applied to understand the research topic. At the same time, the method of fundamental research was applied, by gathering the necessary information, based on which the current situation in the field of income tax of the legal person was reflected, certain concretizations were formulated on future prospects, investigations of theoretical studies in order to form certain scientifically argued practical conclusions. In order to analyze national and international regulations, the comparative research method was applied.

III. BASIC CONTENT

Taxes and the state have always gone hand in hand. The history of taxes has always been accompanied by various conceptual approaches with respect to their necessity and role for members of society and the state as such. Even if some economists have tried to disguise the unproductive nature of taxes and the detrimental consequences of economic development during the rise of the economic system based on private ownership of the means of production and exchange, so-called capitalism, others have tried to build a whole new science - the science of taxes. The starting point on which the foundation of this science was laid was motivated by the desire to achieve fiscal equity through the interests of the ruling class. Income tax, in its historical evolution, has undergone a permanent reform in parallel with the reforms to which, over time, the states have been subjected.

The evolution of doctrinal views on taxation argues distinctly the need and imposition of the tax, in some theories it is considered a product necessary for the historical development of peoples, a form of ideal association of individuals through which individuals are subject only to the state as a sovereign expression of general will or finding justification by the services and benefits provided and guaranteed by the state.

Payments to the state treasury, evolving to its current stage under the name of "tax", were and remain to be in close connection with the emergence and evolution of the state.

The evolution of the income tax of legal entities in the Republic of Moldova begins in 1991, when the country became an independent and sovereign state. The law on corporate income tax, published in the Official Monitor of the Republic of Moldova dated 01.01.1993, laid the foundation for regulating the income tax of legal entities. According to it, the current income tax was called *tax on profit*, and the taxable subjects were economic agents with the status of legal entities of the Republic of Moldova, regardless of ownership and legal framework, including foreign investment enterprises, associations and international organizations that also carried out entrepreneurial activity companies, firms and other organizations with the status of foreign legal entity operating on the territory of the Republic of Moldova based on the agreement with foreign states and carrying out entrepreneurial activity directly or through permanent representations and subsidiaries.

In this context, taking into account the date of proclamation of independence of the Republic of Moldova, August 27, 1991 and the date of entry into force of the law governing corporate income tax, January 1, 1993, we establish that within the years 1991 and 1992, the period in which the Republic of Moldova became an independent state, the taxation of income of legal entities was made according to the practices existing in the Union of Soviet Socialist Republics. Starting from this transition period, the foundations of the mechanism for taxing legal entities in the Republic of Moldova are laid.

The subjects presented the tax returns determining the tax on profit independently, depending on its amount and taking into account the fiscal facilities and the 3 established tax rates, please see Table 1.

Table 1 Tax rates on profit of legal entities (January, 1993)

The calculated amount	up to 500 thousand rubles	over 500 thousand rubles up to 1 million rubles	over 1 million rubles
Tax rates	15%	75 thousand rubles plus 25% of the amount exceeding 500 thousand rubles	200 thousand rubles plus 32% of the amount exceeding 1 million rubles
Minimal and maximal tax amount	up to 75 thousand rubles	200 thousand to 325 thousand rubles	from 520 thousand rubles

Source: elaborated by the authors based on Law no.1214 dated 02.12.1992 regarding the tax on the benefit of enterprises.

At that stage, the income tax of the legal persons was distributed only depending on the amount of the calculated benefit, leaving the imprint of an imperfect, superficial and reckless taxation. This classification was primitive, but it set the direction for the evolution of the plurality of classifications to raise the level of corporate taxation equity, taking into account not only the calculated benefit, the type of activity, the risks of entrepreneurship, but also many other important aspects. The provisions of the mentioned law (1992), adjusted over the years to social needs, were applied until the approval of the Tax Code of the Republic of Moldova, which is still the foundation of the general principles of taxation in the Republic of Moldova (Law of Republic of Moldova, 1997). Throughout its evolution, the provisions of the Tax Code have undergone the most changes and

adjustments compared to any other law in the Republic of Moldova. Regarding the standard rate of income tax of the legal person, we establish that in the period since the introduction of the notion of income tax and subsequent income tax, it has evolved differently, as shown in Figure 1.

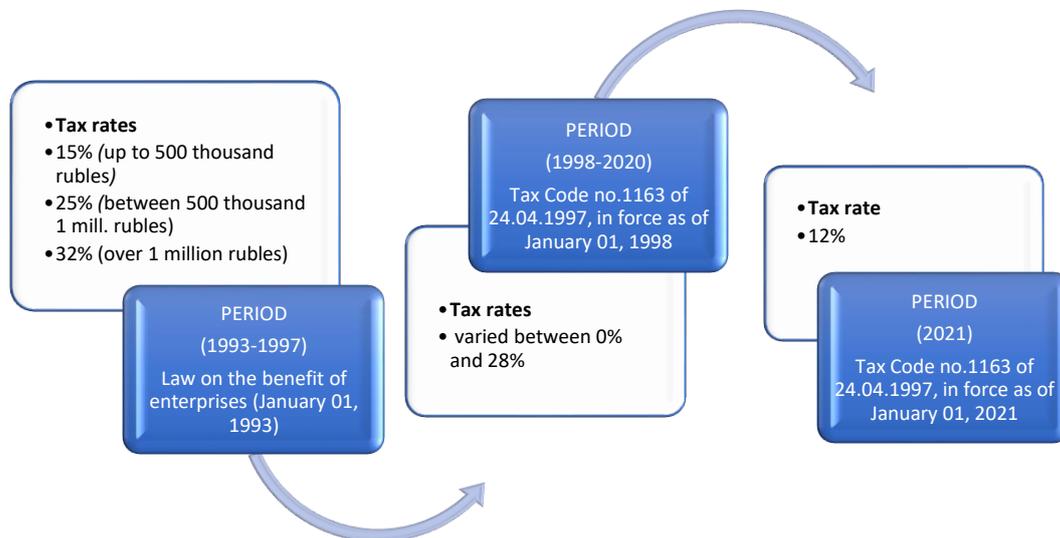


Figure 1: Evolution of corporate income tax in the Republic of Moldova (1993-2021)

Source: elaborated by the authors based on Law no.1214 dated 02.12.1992 regarding the tax on the benefit of enterprises, Tax Code(Law of Republic of Moldova, 1997).

During 30 years of independence, the theoretical and practical approach to the income tax of legal entities in the Republic of Moldova has undergone various changes and adaptations to the new requirements of the market economy. So, today we can talk about transforming this fiscal instrument into a much more efficient one, with a high degree of fiscal equity, which comes first of all to raise within the society the culture of tax responsibility.

Currently, the income tax of legal entities in the Republic of Moldova is regulated by the Tax Code no. 1163-XIII of 24.04.1997. According to the regulations in force, the basic notions related to the research of the personal income tax are presented in Table 2.

Table 2. Fundamental terms related to research and their regulation

Notion	income tax	taxpayer or subject of taxation	legal person	object of taxation
Definition	a compulsory payment with gratuitous title, which is not related to the performance of some specific and determined actions by the authorized body or the official thereof, for or in relation to the taxpayer who made this payment	any person who is required, under the tax legislation, to calculate and/or pay to the budget any taxes and fees, penalties and fines thereto; any person who is required, under the tax legislation, to withhold or collect from another person and transfer to the budget the aforementioned payments	any commercial enterprise, cooperative, enterprise, institution, foundation, association, including those established with the participation of a foreign person, and other organizations, except the structural subdivisions of the listed organizations, that do not have separate property, and the organizational forms with the status of natural person, pursuant to the legislation	the income from any sources located in the Republic of Moldova, as well as from any sources located outside the Republic of Moldova, except for deductions and exemptions allowable to them, received by legal entities
Reglementation	art.6 of the Tax Code	art. 5 point.2) of the Tax Code	art. 5 point.4) of the Tax Code	art.14 of the Tax Code

In accordance with the provisions of art. 13 of the Tax Code, the legal person is subject to income tax if it is a resident of the Republic of Moldova, who carries out entrepreneurial activity, obtains income from any sources located in the Republic of Moldova, as well as from any sources outside Republic of Moldova.

The taxation of the incomes of the legal persons is carried out on the basis of a certain tax rate regulated by the fiscal legislation. Thus, the standard share of income tax of legal entities is 12% of taxable income. At the same time, if the income of economic agents was estimated by methods and indirect sources of estimating the amount

of the tax liability, the provisions of the Tax Code establish an income tax rate of 15% of the estimated income in excess of gross income recorded in accounting by the economic agent.

With the entry into force of the Tax Code no. 1163-XIII of 24.04.1997, the income tax rate was set at 25% of the taxable income, subsequently, by the amendment published in the Official Monitor dated 12.10.2000, the tax rate was set at 28% of the taxable income. During the following amendments to the Tax Code, the income tax rates of individuals were in a continuous decrease, reaching in 2008 the share of 0%, in 2012 being changed again to 12% (Cuslii and Munteanu, 2015).

Regarding the evolution of the income tax rates of legal entities, we can establish a dynamic in their decrease, as shown in Figure 2.

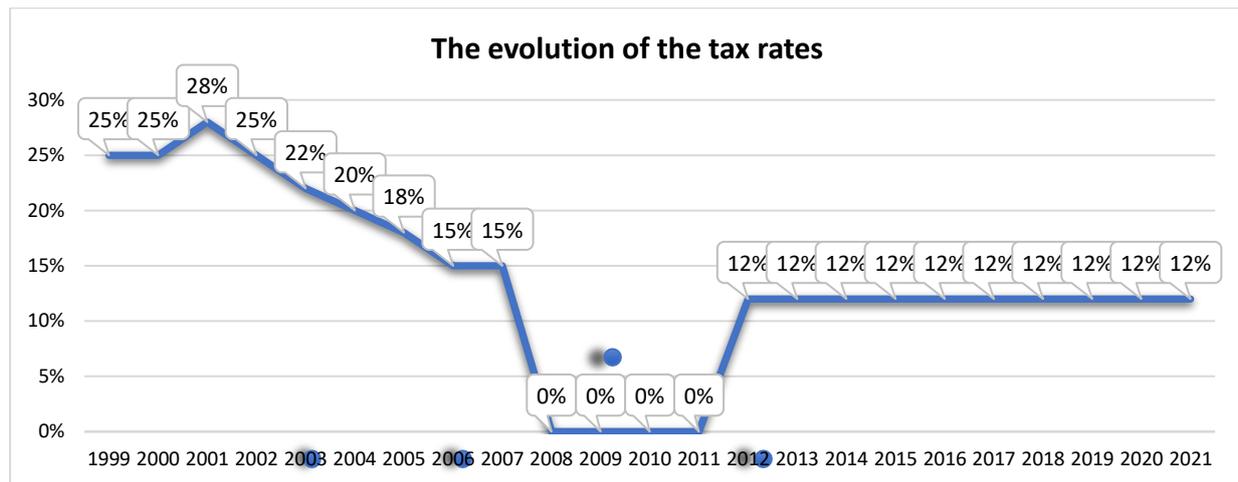


Figure 2: Schematic presentation of the evolution of the income tax rates of legal entities
 Source: elaborated by the authors based on Tax Code of the Republic of Moldova no. 1163-XIII of 24.04.1997

As for the declaration of tax liability regarding the income tax of the legal person, according to art. 83 paragraph (2) letter c) of the Tax Code of the Republic of Moldova, the resident legal entities are obliged to submit the tax return regarding the income tax, including those specified in art.512 and 513, except for public authorities and public institutions, regardless the tax payment liability presence. The income tax return shall be filled in the manner and form established by the Ministry of Finance. Thus, according to the Order of the Ministry of Finance of the Republic of Moldova no. 153 (December 22, 2017), the standardized form Return on income tax for economic agents (form VEN12) and the instructions for filling in the return on income tax for economic agents is approved. The return shall be submitted to the State Tax Service no later than the date of 25th of the third month after the end of the reporting tax period.

The provisions of the Tax Code, in its first draft, provided for exceptions regarding the taxation of certain categories of taxpayers. Thus, agricultural enterprises, peasant (farmer) households, under certain conditions, benefited from tax reductions of 80% during the tax year 1998, 60% in 1999, 40% in 2000, and 20% in 2001; entities engaged in insurance business were entitled to deduct insurance amounts and indemnities, dividends and other payments made to policyholders, expenses related to the formation of the long-term insurance premium reserve, and other exceptions. As of January 2012, a new chapter of the Tax Code enters into force, namely chapter 7¹ *Tax regime of the economic agents subjects of small and medium enterprise sector*, which establishes a special regime of income taxation for legal persons, different from the general rule (*Law of Republic of Moldova, 2011*).

The tax legislation also establishes a special regime for a category of natural persons, namely - the economic agents subjects of the small and medium enterprise sector. According to the provisions of art. 54¹ of the Tax Code, the subjects of taxation in this case are the economic agents that are not registered as payers of value added tax. At the same time, it is established that the economic agents whose share of income for the previous year from the provision of business and management consulting services (point 70.22 of the Classifier of Activities in the Economy of Moldova, June 07, 2019) is higher than 60% of the sales revenue cannot belong to the mentioned category. The object of taxation in the case of the abovementioned taxation regime is the income determined according to the financial accounting, obtained in the fiscal period of declaration, and the income tax rate constitutes 4% of the object of taxation.

Table 3. Income tax rates for legal entities and subjects of the small and medium enterprises sector for 2021

Subjects of taxation	Tax rates
Legal persons	12 %
Subjects of the small and medium enterprise sector	4 %

Source: elaborated by the authors based on the Tax Code of the Republic of Moldova (Law of Republic of Moldova, 1997)

The income tax in the case of the mentioned regime, for the period 2012-2019 was named - income tax from the operational activity, because the object of taxation was the income obtained from the operational activity. Currently, the income tax in the case of this tax regime is calculated based on the income recorded in the financial accounting of the taxpayer in accounting account 611 "Revenues from sales" and account 612 "Other operational income", according to the General Chart of Accounts (Order of the Ministry of Finance of the Republic of Moldova No. 119, August 06, 2013).

Generalization of the information on the debts to the budget regarding the income tax, both for the general taxation regime and for the small and medium enterprises sector, in the part related to their existence and modification, the chart of accounts establishes the accounting account 534 „Debts to the budget”. At the same time, we establish that the entities that keep and organize the accounting according to the National Accounting Standards will apply the current tax method provided by the National Accounting Standard “Expenses”, and the public interest entities that are obliged to keep the accounting according to International Financial Reporting Standards. have voluntarily selected the application of International Financial Reporting Standards, to apply the provisions of IAS 12 Income Tax.

When accounting for income tax expenses, according to the provisions of the National Accounting Standard "Expenses", the current income tax method is applied, which assumes that the determination of these expenses takes place by applying to the amount of taxable income the tax rate established by the Tax Code for the respective tax year. Thus, income tax expenses are to be recorded as an increase in current expenses and debts at the same time.

The accounting formula, according to the General Chart of Accounts, for the calculation in the accounting of the debt to the budget regarding the income tax and the increase of the expenses regarding the income tax at the end of the tax year, is:

Debit account 731 “Income tax expenses”

Credit account 534 “Debts to the budget”, sub-account 5341 “Debts regarding the income tax from the entrepreneurial and professional activity”

The payment of the income tax debt is reflected by the following accounting formula:

Debit account 534 “Debts to the budget”, sub-account 5341 “Debts regarding income tax from entrepreneurial and professional activity”

Credit account 242 “Current accounts in national currency” (Bucur and Graur, 2016, p.618).

At the same time, it should be mentioned that the provisions of the Tax Code establish requirements regarding the payment of income tax in installments, quarterly, which means that income tax is paid in advance. Payment of income tax in installments can be made by one of two methods. The first method involves calculating the quarterly amount of income tax from the amount of the forecasted tax to be paid for the current year, and the second method provided by the tax law involves calculating the quarterly amount of tax from the amount of tax paid for the previous year.

Thus, on the advance payment of the income tax in installments, quarterly, according to the income tax method of the previous year, accounting formulas presented in Table 4 are drawn up.

Table 4. Accounting records related to the calculation and payment of income tax from entrepreneurial activity:

No.	Content of economic operations	Corresponding accounts	
		Debit account	Credit account
1.	Recording the amount of income tax calculated in installments during the management year	225 “Budgetary receivables”	534 “Debts to the budget”
2.	Payment of the amount of income tax in installments	534 “Debts to the budget”	242 “Current accounts in national currency”
3.	Reflection at the end of the year of the actual amount of income tax	731 “Income tax expenses”	534 “Debts to the budget”
4.	Transfer to the account of the amounts of income tax paid quarterly in advance	534 “Debts to the budget”	225 “Budgetary receivables”
5.	Payment of the income tax difference until the 25th of the third month after the end of the fiscal period	534 “Debts to the budget”	242 “Current accounts in national currency”

Source: elaborated by the authors based on Bucur and Graur, 2016, “Taxes accounting”

Regarding the advance payment of income tax in installments, quarterly, according to the forecasted income tax method, the accounting formulas are presented in Table 5.

Table 5. Accounting logbook for calculating and paying income tax from entrepreneurial activity

No.	Content of economic operations	Corresponding accounts	
		Debit account	Credit account
1.	To the amount of income tax calculated quarterly in installments	225 "Budgetary receivables"	534 "Debts to the budget"
2.	To the amount of income tax paid quarterly in installments	534 "Debts to the budget"	242 "Current accounts in national currency"
3.	Recording the amount of income tax calculated in installments during the management year	731 "Income tax expenses"	541 "Preliminary debts"
4.	Reversal at the end of the year of the total amount of income tax paid in installments	541 "Preliminary debts"	731 "Income tax expenses"
5.	Reflection at the end of the year of the actual amount of income tax	731 "Income tax expenses"	534 "Debts to the budget"
6.	Transfer to the account of the amounts of income tax paid quarterly in advance	534 "Debts to the budget"	225 "Budgetary receivables"

Source: elaborated by the authors based on Bucur and Graur, 2016, "Taxes accounting"

Thus, at the end of the management period, the cumulative total amount in account 731 must be settled in the total financial result in account 351 "Total financial result", by the following accounting formula:

Debit account 351 "Total financial result"

Credit account 731 "Income tax expenses" (Bucur and Graur, 2016, p.618).

To be noted that the tax regime applicable to the subjects of the small and medium enterprises sector is an optional one, this assumes that the taxation subjects, upon fulfillment of the respective conditions, can choose the mentioned tax regime, otherwise they will apply the standard tax regime on income tax for economic agents (Order of the Ministry of Finance of the Republic of Moldova no. 153, December 22, 2017).

For the mentioned regime, as in the case of the standard taxation regime, the tax period is the calendar year at the end of which the taxable income is determined. Exceptions to this rule are the newly created economic agents, for which the tax period is the period within their registration date and the end of the calendar year. At the same time, for both tax regimes, according to art.12¹ paragraph (3) of the Tax Code, for the economic agent who has adopted the liquidation decision during the calendar year, the fiscal period shall be considered:

a) the period from the beginning of the calendar year up to the date of drawing up the provisional liquidation balance sheet;

b) the period from the beginning of the calendar year up to the date of approval of the final liquidation balance sheet.

According to the tax regime for economic agents subjects of the small and medium enterprises sector, the report on income tax (form SIMM20) is presented no later than March 25 of the year following the fiscal period of declaration. The form and the way of completing the report on the income tax of the economic agents subjects of the small and medium enterprises sector was approved by Order of the Ministry of Finance of the Republic of Moldova no. 40 (March 09, 2020).

IV. RESULTS AND CONCLUSIONS

Generalizing the above, we emphasize the basic role of taxes arising from their functions. Thus, we establish that the first and most important is the financial role. It is related to the provision with financial resources of public expenditures, with respect to the fulfillment of the functions and attributions of the state in satisfying the needs of the citizens. The social role of the tax, which has undergone the greatest changes during its evolution, comes to ensure the redistributive function, which is characterized by the collection of the tax according to the taxpayer's ability to contribute to its collection. In this way, equity in wealth is ensured, a part being transferred for the benefit of the poorest members of society, thus ensuring a solidarity between the citizens of the state. According to the research in question, it was observed that the evolution of the income tax has undergone various metamorphoses, both by maneuvering the level and its structure. Thus, supported by the interventionist function, the state intervenes in the economy by encouraging certain sectors of activity, services or products and restricting others, thus ensuring the third role of the tax, ie the economic role.

As a result of the research on the evolution and accounting of the income tax of legal entities in the Republic of Moldova, we mention the following:

- the entities are classified in those that apply the general tax regime with the income tax rate of 12% and entities subjects of the small and medium enterprises sector that apply the tax rate of 4%;

- for the entities that apply the general fiscal regime, the basis for calculating the income tax is income-expenses +/- adjustments for fiscal purposes, and for the entities of the small and medium enterprises sector, the calculation base is the revenues of the operational activity;

- the entities that apply the general regime of calculation of the income tax during the year, quarterly pay in advance the income tax and at the end of the management period calculate it based on the registered financial results, and the entities of the small and medium enterprises sector calculate and pay the income tax in installments, quarterly;

- the reporting of income tax of legal entities partially differs, because the entities applying the general tax regime submit annually the Income tax return VEN until the 25th of the third month after the end of the fiscal period, which can not always be the calendar year, and the entities of the small and medium enterprises sector present the Report on the income tax of economic agents subjects of the small and medium enterprises sector SIMM until March 25 of the year following the fiscal period of declaration.

- entities applying the general tax regime account for income tax according to the manner of keeping the accounting under IFRS or National Accounting Standards: public interest entities apply the provisions of IAS 12 Income tax, and entities that apply accounting according to National Accounting Standards do not have a regulatory standard, the current tax method being applied.

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