

# Topic 5: Income of the state budget and tax policy of the state

1. General characteristics of taxes.
2. Classification of taxes.
3. Direct taxes.
4. Indirect taxes.
5. Tax legislation.
6. The system of taxes and fees used in RM.
7. Tax administration and tax authorities.

# Didactic purposes:

- \* • "tax" definition.
- \* • Classification of taxes.
- \* • Understanding of basic elements of taxes.
- \* • Classification of direct taxes.
- \* • Classification of indirect taxes.
- \* • Knowledge of the process of tax administration in the Republic of Moldova.
- \* • Analysis of the tax legislation of RM.
- \* **Keywords:** tax, direct taxes, indirect taxes, tax base, tax rate, tax benefits, object of the taxation, subject of the taxation, tax system, tax legislation, tax code.

# 1. General characteristics of taxes.

- \* The tax is the monetary contribution with obligatory and unpaid character which is paid, according to the legislation, by individuals and legal entities for the income which they receive, or property which they possess.

# Basic principles of taxes:

- \* 1) legality of establishment,
- \* 2) gratuitous payment,
- \* 3) obligatory character,
- \* 4) nonequivalence of the tax (we receive defence, protection, compensation etc.).



# Basic elements of the tax:

1. Object of the taxation (profit (income), property, expenses, consumption - VAT (Value Added Tax), excises, duties, fees).
- \* 2. Subject of the taxation.
- \* 3. Tax base (a part of object from which the tax is estimated).
- \* 4. Tax agent.
- \* 5. The tax carrier (the person who has paid in the budget – sometimes they are different people).
- \* 6. A tax rate on a unit of taxable base (they can be fixed (constant), percentage - proportional, progressive, regressive). The more income the less is rate.
- \* 7. Terms of payment of taxes.
- \* 8. Tax benefits.
- \* 9. Tax vacation.
- \* 10. Tax credits.
- \* 11. Source of tax payment (salary, dividends, profit etc.).
- \* 12. Tax sanctions (in case of failure to pay the taxes and not providing the tax reporting).

## 2. Classification of taxes.

- \* **1) Depending on the purposes** pursued by the state when introducing the tax:
  - \* • Financial taxes - are established by the state for obtaining the income, for the purpose of covering the state expenses (income tax, VAT).
  - \* • Regulating taxes - are introduced by the state for restriction of a certain activity or carrying out non-fiscal actions (restriction of something, excises on alcohol or reduction the cost of imported production).

## 2) According to realisation terms:

- \* • Ordinary taxes - which are withdrawn regularly and brought in the state budget (annual year income tax, a quarter tax on improvement).
- \* • Extraordinary taxes - are introduced in emergency situations and are paid once. As a rule they are not included in the state budget (war, disasters).



### 3) According to state authorities that run taxes

- \* The classification is carried out depending on the state type. *In federal states* there are federal taxes and local taxes.
- \* *In the states of unitary type* there are taxes of the central public administration and the ATE local taxes.



\* **4) According to the payment form:**

- \* • In a monetary form.
- \* • In a natural form (production).

\*

\* **5) Depending on the object of taxation:**

- \* • Taxes on income.
- \* • Property taxes.
- \* • Taxes on consumption or expenses.


\*

\* **6) Depending on the mark of taxes:**

- \* • Direct (for individuals and legal entities).
- \* • Indirect.

# 3. Direct taxes.

- \* In the international practice direct taxes are classified into
- \* 1) real taxes:
  - \* 1.1 Established depending on the possession of a certain material property, despite the financial situation of the subject of the taxation.
  - \* 1.2 Exist since the 19th century and now they are applied at the establishment of a tax on a building, ground area, both for buildings and for agriculture.
  - \* 1.3 Real taxes include: ground tax, real estate tax, industrial and commercial activity tax, liberal professions tax (writers, artists), tax on the monetary capital.

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- \* 2) personal taxes are used to impose the income or property, depending on a financial situation of the subject. Taxes on the income of individuals or legal entities, the own property tax, taxes on the process of property movement, taxes on the growth of property cost are included into this type.



## 4. Indirect taxes.

- \* Are raised at sale of certain goods or service. These taxes are brought in the state budget by producers, sales representatives, the services sector enterprises. Carriers of these taxes are consumers of the goods and services.

# Depending on a form, indirect taxes are subdivided on:

- \* 1. Taxes on consumption.
- \* 2. Customs duties.
- \* 3. Tax on monopolies.
- \* 4. The state tax at registration.

# The tax system is a part of the RM financial system and includes the following elements:

- \* 1) Tax legislation.
- \* 2) System of taxes and fees.
- \* 3) Tax administration and tax authorities.

According to the tax legislation, the RM tax system is a set of taxes and fees, principles, forms and methods of establishment of taxes, their changes, provided by the Tax Code, and also set of the measures providing their payment.



# 5. Tax legislation.

- \* According to the third article of the Tax Code (Tax Code) the tax legislation consists from:
  - \* 1. Tax Code.
  - \* 2. The other regulations adopted according to the Tax Code.

Tax Code of RM has been accepted according to the law No.1163-XII from 4/24/1997 and 18.09 has been published in Monitorul Oficial. TC was repeatedly modified and supplemented. It includes:

- \* 1 section: General provisions.
- \* 2 has undressed: Income tax.
- \* 3 has undressed: Value-added tax (VAT)
- \* 4 has undressed: Excises.
- \* 5 has undressed: Tax administration.
- \* 6 has undressed: Tax on real estate.
- \* 7 has undressed: Local collecting.
- \* 8 has undressed: Collecting on natural resources.

# By means of the tax code are established:

- \* 1) The general principles of the taxation in RM.
- \* 2) Legal status of taxpayers, tax authorities, etc.
- \* 3) Principles of definition of object of the taxation.
- \* 4) Principles of the accounting of the income and expenses.
- \* 5) Accountability conditions for violation of the tax legislation.
- \* 6) Ways of contest of actions of tax authorities.



# According to the fourth article of Taxe Code:

- \* 1. If the international convention or the agreement on a taxation regulation, takes part in which RM, reflects other rules in comparison in NKRM or other regulations, the requirement of the international agreement or the convention is applied.
- \* 2. Rules NKRM are not applied, when the resident of the state with whom the international convention has been signed, is used for leaving from the taxation by other person who is not a resident and which has no rights to the corresponding tax privileges.

# 6. The system of taxes and fees used in RM.

- \* Corresponds to structure of the state of RM which consists from:
  - \* 1. Central public administration,
  - \* 2. Local public administration.
  - \*
- \* **According to the sixth article of the Tax Code, there are following types of tax and collecting:**
  - \* 1) Nation-wide taxes and fees.
  - \* 2) Local taxes and fees.

# Nation-wide taxes and fees treat:

- \* • Income tax.
- \* • VAT.
- \* • Excises.
- \* • Customs duties.
- \* • Duties in road fund.



# The system of local taxes and fees includes:

- \* • Tax on real estate.
- \* • Charge for use of natural resources.
- \* • Collecting on a territory accomplishment.
- \* • Charge for the organisation of lotteries in ATE territory.
- \* • Hotel collecting.
- \* • Charge for advertising.
- \* • Charge for use of local symbolics.
- \* • Charge for an arrangement of objects of trade.
- \* • Market collecting.
- \* • Charge for a parking.
- \* • Resort collecting.
- \* • Collecting from owners of dogs.
- \* •



# At installation of taxes and fees is defined:

- \* 1) Subject of the taxation.
- \* 2) Object of the taxation.
- \* 3) Rate of taxes and fees.
- \* 4) Way and terms of payment of taxes and fees.
- \* 5) Privileges on taxes and fees in the form of partial or liberation or use of the lowered interest rates.
- \*  
\* Nation-wide and local taxes and fees are defined, change or cancelled only as a result of change or TC cancellation. Types and rates of local taxes and fees affirm parliament.


# 7. Tax administration and tax authorities.

- \* According to the ninth article of Tax Code, tax administration represents activity of state authorities which carry out:
  - \* 1. Ensuring complete and timely taxation, penalties in budgets of all levels and in off-budget funds.
  - \* 2. Implementation of criminal investigation at violation of the tax legislation.

# The state authorities which are carrying out administration in the field of taxes, are subdivided on:

- \* **1.** *Tax authorities* which consist from:
  - \* 1.1 Main State Tax Inspection (MSTI);
  - \* 1.2 Local tax inspections.
- \* The organizational structure of tax inspection affirms the government. Tax inspections have the status of the legal entity, are financed from the state budget, conduct the activity on the basis of NKRM, Constitutions of RM, resolutions of parliament and decrees of the president.



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- \* The main objective of tax authorities is ensuring observance of the tax legislation, the correct charge of taxes, and also timely and payment in full of taxes.
  - \* **2.** *Customs offices.* According to article 9 NKRM customs offices are bodies which make the uniform system including Department of customs control, customs posts and customs bureaus.
  - \* **3.** *Services of collecting local taxes at primaria.*
  - \* **4.** *National center anty corruption (NCAC).*