

Guide to doing business and investing in Moldova

2009 Edition



Assurance Department
Serghei Sevcenco

Tax and Legal Department
Andrian Candu

Marketing Department
Maria Cenusă

PricewaterhouseCoopers
Hotel "Jolly Allon"
37 Maria Cibotari Street
6th Floor
Chisinau MD 2012
Republic of Moldova

Telephone: + 373 22 238 122
Facsimile: + 373 22 238 120
E-mail: Forename.Surname@ro.pwc.com
<http://www.pwc.com/md>

Contents

1. Moldova – A Profile	5	4.4 Investment institutions	
1.1 Introduction		4.5 Capital markets	
1.2 Government structure		5. Importing and Exporting	16
1.3 Legal system		5.1 Trends in customs policy	
1.4 People		5.2 Import restrictions	
• Population		5.3 Customs duties	
• Language		• Classification of goods	
• Religion		• Valuation rules	
• Education		• Customs duty rates	
• Living standards		• Free trade agreements	
1.5 Economy		• Excise tax	
• General description		• VAT	
• Transport		• Processing fee (Customs procedural tax)	
• Communications		• Payment	
2. Business Environment	8	5.4 Temporary import relief	
2.1 Business climate		• Inward processing relief (IPR)	
• Aims of government policy		• Outward processing relief (OPR)	
• Economic Development Plan		• Bonded Warehouse (BWH)	
2.2 Free trade zones		• Temporary admission (TA)	
2.3 International agreements		• Processing under customs control (PCC)	
• European Union, NATO		5.5 Customs duties incentives	
2.4 Regulations for business		• Contributions in kind to the statutory capital	
• Competition policy		• Favourable Tariff Treatment	
• Consumer protection		• Toll manufacturing	
• Price controls		5.6 Documentation and procedures	
• Patents, trademarks and copyrights		• Registration of importers and exporters	
2.5 Property market		• Documentation	
		• Declaration of customs value	
3. Foreign Investment and Privatisation	12	5.7 Warehousing and storage	
3.1 Foreign investment		5.8 Re-exports	
• Investment climate		6. Business entities	21
• Regulatory legislation		6.1 Legal framework	
• Restrictions on foreign investments		6.2 Forms of business entities	
• Investment incentives		6.3 Choice of entity	
• Foreign exchange issues		6.4 Registration procedure	
• Repatriation of capital and earnings		6.5 Joint stock company	
• Guarantees and rights		6.6 Limited liability company	
3.2 Privatisation		6.7 General and limited partnership	
• Background		6.8 Reorganisation and liquidation of a business entity	
• Legacy of privatisation		6.9 Branches and Representative offices	
• Privatisation calendar			
4. Banking, Finance and Insurance	14		
4.1 Banking system			
• National Bank of Moldova			
• Money laundering			
4.2 Foreign currency market and foreign currency rules			
4.3 Specialised financial institutions			

7. Labour relations and social security	24	<ul style="list-style-type: none"> • Registration requirements
7.1 Labour relations		9.2 Direct and indirect tax burden
<ul style="list-style-type: none"> • Employer/employee relations • Unions • The Labour Code 		9.3 Principal taxes
7.2 Working conditions		9.4 Legislative framework
<ul style="list-style-type: none"> • Salaries and wages • Employment contracts • Working hours • Paid holidays • Equal opportunities • Termination of employment 		<ul style="list-style-type: none"> • Statute law • Case law
7.3 Social security system		9.5 Tax treaties
<ul style="list-style-type: none"> • Coverage • Contributions 		9.6 Tax returns and payments
7.4 Foreign personnel		9.7 Assessments
<ul style="list-style-type: none"> • Living conditions • Restrictions on employment • Fiscal registration number • Work and Residence Permits 		9.8 Appeals
8. Accounting and audit requirements	27	9.9 Withholding taxes
8.1 Accounting		<ul style="list-style-type: none"> • WHT on payments to residents • WHT on payments to non-residents
<ol style="list-style-type: none"> 1. Introduction of International Financial Reporting Standards 2. Accounting principles in Moldova 3. Statutory requirements and preparation of financial statements <ul style="list-style-type: none"> - Legal Accounting Regulations - New Accounting Law effective 1 January 2008 - Accounting periods covered by the transition to IFRS 4. Significant accounting differences between NAS and IFRS <ul style="list-style-type: none"> - Several differences between NAS and IFRS for manufacturing and services companies; - Several differences between NAS and IFRS for financial institutions - Several differences between NAS and IFRS for insurance companies. 4. Profile of the accounting profession 		9.10 Tax inspections
8.2 Chart of accounts		9.11 Penalties
<ol style="list-style-type: none"> 1. Chart of accounts for companies 2. Chart of accounts for Banks 		9.12 Advance tax rulings
8.3 Audit requirements		10. Taxation of Corporations
<ol style="list-style-type: none"> 1. Audit Legal Framework 2. The New Law on Audit activity effective from 1 January 2008 3. Audit Opinions Issued under Moldovan Law 		35
9. Tax System and Administration	31	10.1 Corporate tax system
9.1 Tax System		<ul style="list-style-type: none"> • Territoriality • Consolidation • Representative offices • Permanent establishments
<ul style="list-style-type: none"> • Administration of the tax system 		10.2 Incentives
		10.3 Taxable income
		<ul style="list-style-type: none"> • Business profits • Capital gains • Non-taxable revenues
		10.4 Deductibility of expenses
		<ul style="list-style-type: none"> • Business expenses • Deductible expenses • Fiscal depreciation • Deductibility of interest on borrowings
		10.5 Related party transactions
		10.6 Other taxes
		11. Taxation of individuals
		38
		11.1 Territoriality and residence
		11.2 Taxable income
		<ul style="list-style-type: none"> • Income from employment • Income from independent activities • Income from capital • Non-taxable incomes

11.3 Deductions	
<ul style="list-style-type: none"> • Business deductions • Non-business deductions • Personal allowances 	
11.4 Taxation of non-residents	
11.5 Tax compliance	
<ul style="list-style-type: none"> • Tax administration 	
11.6 Other taxes	
<ul style="list-style-type: none"> • Social Security Contributions • Health Insurance Contributions • Tax on immobile property • Road Tax 	
12. Value Added Tax (VAT)	43
12.1 Introduction	
12.2 Scope of VAT	
<ul style="list-style-type: none"> • Place of supply for goods • Place of supply for services • Import VAT 	
12.3 Zero VAT rating	
12.4 VAT exempt supplies	
<ul style="list-style-type: none"> • Outside the scope of VAT 	
12.5 VAT-able amount	
<ul style="list-style-type: none"> • General input VAT deduction rule • Non-deductible input VAT • VAT payers with mixed supplies 	
12.6 Non-deductible input VAT	
<ul style="list-style-type: none"> • General input VAT deduction rule • Non-deductible input VAT • VAT payers with mixed supplies 	
12.7 VAT compliance	
<ul style="list-style-type: none"> • VAT registration • Evidence requirements • Information in the VAT invoice • VAT returns and settlement of VAT payable • VAT refunds 	
13. PricewaterhouseCoopers in Moldova	
<ul style="list-style-type: none"> • Assurance Services • Advisory Services • Transaction Services • Crisis Management • Performance Improvement • Tax and Legal Advisory Services (TLS) • Corporate Taxation • Indirect Taxation • Integrated Personnel Solutions • Human Resource Consulting Services • Legal Services 	

Appendices	49
Appendix A – Useful sources of information	
<ul style="list-style-type: none"> • Government websites • Business groups • Other useful addresses and websites 	
Appendix B – Macroeconomic indicators of Moldova	
Appendix C – Bilateral Investment Treaties	
Appendix D – Banks Operating in Moldova	
Appendix E – Hotels and Restaurants	
Appendix F – Tax rates	
<ul style="list-style-type: none"> • Corporate income tax rates • Tax depreciation rates • Withholding taxes • Individual tax rates • Personal allowances (and/or credits) • Tax on foreign nationals working in Moldova • Indirect taxes 	
Appendix G – Withholding taxes	



1 Moldova – A Profile

Investor considerations

- Moldova has a population of 3.567 million (without Transnistria and Bender)
- GDP decreased by 7.8% between the first semester in 2009 and the same period in 2008
- Legal entities will apply the **0% CIT rate during 2009**

1.1 Introduction

The Republic of Moldova is a small and densely populated country which gained its independence in 1991. It is situated in South Eastern Europe, north of the Balkan Peninsula. The total area is 33,843 square km. The distance between the most northerly and southerly points is 350 km. From East to West it is 150 km. Moldova shares borders with Romania and Ukraine.

Giurgiulesti International Free Port (GIFP), Moldova's only port accessible to sea-going vessels, is situated at 133.8 km of the River Danube in the South of Moldova. GIFP serves as the only direct sea / river-borne transshipment and distribution point to and from Moldova.

The country's topography is diverse, ranging from a steppe area in the North and South, to forested and mountainous highlands up to 400 metres in elevation in the centre of the country. This area retains its ancient name Codru, meaning "old forest". Moldova's climate is generally moderate and classified as being temperate - continental. It is characterised by warm summers and mild winters.

Chisinau, the capital of Moldova, is situated in the centre of the country and has a population of around 785 thousand people. It represents the cultural, political and economic hub of the country. The city of Balti, situated in the Northern part of the country is the second city with important cultural and economic assets and has a population of around 148 thousand people.

On August 27, 1991, the Republic of Moldova gained its independence and became a sovereign state.

1.2 Government structure

Under the Constitution, adopted in July 1994, Republic of Moldova is a democratic republic based on the rule of law. The Constitution separates the State powers into three branches – the legislative, the executive and the judicial branches.

The legislative power belongs to the Parliament of Republic of Moldova, elected for a four-year term. The Parliament is unicameral. It consists of 101 deputies – representatives of parties and electoral blocks, as well as independent candidates.

The executive power is exercised by the Government. Its role is to carry out the domestic and foreign policy of the State, as well as to control the activity of public administration. The Government consists of a Prime Minister, a first deputy prime minister, deputy prime ministers, ministers and other members, as determined by

organic law. The President of the Republic of Moldova designates a candidate for the Prime Minister through consultation with parliamentary fractions.

The President of the Republic of Moldova is legally distanced from all branches of power. Nevertheless he is mostly allied to the executive branch. The President is elected by the Parliament for a four-year term.

The judicial branch encompasses the Supreme Court of Justice, Courts of Appeal (5), ordinary courts and specialist courts (Economic District Court, Economic Court of Appeal, Military Court). The Supreme Court of Justice is the highest court and has the power to review decisions made by lower courts.

The Constitutional Court of Moldova is the sole authority of constitutional jurisdiction in the Republic of Moldova. The six justices are appointed for six-year terms. The Parliament, the Government and the Superior Counsel of Magistracy appoint two justices each.

As an alternative form of dispute resolution, the Republic of Moldova allows for mediation and arbitration. In 2008 the Parliament of the Republic of Moldova adopted a new Law on arbitration and the Law on international commercial arbitration that follows the UN Model Law on International Commercial Arbitration.

Contact details for all government ministries are listed in Appendix A.

1.3 Legal system

The Republic of Moldova is a civil law country. Its legal framework is based mainly on statutory law. The leading legal acts are the Constitution, organic and ordinary laws, as well as other normative acts issued by public authorities.

Under the Constitution, Republic of Moldova undertakes to respect the treaties and conventions to which it is party.

1.4 People

Population

The Republic of Moldova has a population of 3.567 million. Moldovans represent the largest ethnic group (75.8%), followed by Ukrainians and Russians (8.4% and 5.9% respectively) and



smaller minorities such as the Gagauz minority (an ethnic group of Turkish origin, 4.4%) and Bulgarians (1.9%).

According to the latest data, 41.4% of the population live in urban areas.

Language

The main language spoken in Moldova is Romanian, although Russian is also commonly spoken. In addition, many Moldovans speak English and / or French, and business is often conducted in one of these two languages.

Religion

The Constitution of the Republic of Moldova guarantees the religious freedom of its citizens. Moldova mainly comprises representatives of the Christian Orthodox religion (93.3%).

Education

The Moldovan state education system includes primary, secondary, technical and higher education institutions. Education is mandatory for Moldovan citizens up to the age of sixteen. The Government ensures free access to education at all levels according to approved quotas. There are 1,672 education institutions in Republic of Moldova, with the majority being State owned (97%).

During the second semester of 2009, out of the total occupied population, 20.35% have completed higher educational studies, 16.56% have completed technical education while 19.49% have completed secondary, 16.22% gymnasium and 1.08% primary education.

Living standards

In 2009, for the period January - July, the average monthly salary was MDL 2,694.9 (EUR 178.5)¹, an increase of 10.2% from the previous year. The real salary increased by around 9.2%

The best remunerated employees are those working in the financial sector, the gas and oil sector, transportation sector, and the construction sector.

According to the PayWell Salary and Benefits Survey 2009 organised by PricewaterhouseCoopers Moldova, the average gross salary amount (i.e. for participating companies) amounted to MDL 5,872.36 (EUR 389).

1.5 Economy

General description

For the first semester of 2009, Gross Domestic Product (GDP) totalled MDL 28.84 billion (EUR 1.91 billion), a decrease of 7.8% from the same period in 2008.

In 2008, there were 42.1 thousand enterprises registered in Moldova, out of which 97.6% are small to medium sized companies.

Industrial companies manufactured products amounting to MDL 12.43 billion (EUR 823.36 million) in January – July 2009. This was a significant reduction (23.5%) from the same period in 2008. The major factor in reducing industrial production was the global economic crisis that caused the fall in exports of certain local industrial branches and also decreased local demand of certain industrial products.

The food and beverages industry was the largest contributor to the total volume of industrial production during January - July 2009, with 38.4%. This was 19.1% lower than for the same period in 2008 and in this way, negatively influenced the general indicator of industrial production.

The low level of food and beverages industry production was caused by low production in all of the industries: 33% in the wine industry, 32.6% in the processing and preserving of fruit and vegetables industry.

For 2009, January - September, agricultural production represents 89.8% (MDL 9.65 billion or EUR 639.27 million) of the same period of 2008.

The investments in fixed capital in the national economy for 2009, January - September, amounted to MDL 5.55 billion (EUR 367.88 million), out of which MDL 3.13 billion (EUR 207.68 million) constituted construction-assembly works with an insignificant decrease compared to the same period in 2008.

The retail activity for the period January – October 2009 decreased by 4.7% in comparable prices to the same period of the previous year and, consequently, the amount of traded goods totalled around MDL 16.21 billion (EUR 1.07 billion).

1 Moldova – A Profile

In 2009, January - September, tourism agencies and tour operators provided tourism services to 114.5 thousand tourists and travellers, which was 1.5% more than during the same period in 2008. Around 68.9% of all tourists and travellers visited Moldova for holiday purposes, while approximately 25.2% entered Moldova for business purposes. Most visitors to Moldova came from countries such as the Russian Federation (18.6%), Turkey (10.5%), Ukraine (8.3%), Great Britain and Northern Ireland (7.7%), and Romania (6.9%). The most visited countries by Moldovan citizens are Turkey (42.3%), Bulgaria (30.1%), Ukraine (14.1%) and Romania (6.1%).

The deflation rate in January-July 2009 was 2.4% compared to 5.3% inflation for the same period in 2008. The deflation was generally caused by the decrease in the prices of food products, some imported products and reduction of domestic demand as a consequence of the world crisis.

Moldovan foreign debt as at 30 October 2009 constituted MDL 8.58 billion (EUR 568.76 million).

Total Governmental debt as at 31 July 2009 constituted MDL 13.12 billion (EUR 868.97 million), which was 17.1% more than in the same period in 2008.

The number of employed population during January-September 2009 amounted to 1.25 million as compared to 1.31 million the same period in 2008.

The number of the unemployed people at the beginning of 2009 was 50.4 thousand, 1.7 times more than the number registered during the same period of 2008.

Therefore referring to the macroeconomic indicators, please see Appendix B.

Transport

Turnover of goods realised by the enterprises of railway, road, river and air transport in January – October 2009 was 6,290.8 thousand tonnes and represents 42.7% of the number from the same period in 2008. A decrease was registered in the volume of transported goods in comparison to January - October 2008 in railway (-64.8%), auto (-43.0%), air (-2.2%) and river industries (-1.7%).

The country has more than 9,500 km of roads, but only 8,700 km have rigid surfacing: 3,300 km of national roads and 6,100 km of local ones. 93% of roads need repair. There are no motorways and in winter snow can make certain areas temporarily impassable.

According to the approved Government Decision on strategy of land transport infrastructure development for the years 2008 - 2017, Moldova foresees allocating MDL 3 billion (EUR 198.67 million) to the restoration and construction of roads and railways in 2009.

The state enterprise “Calea Ferata” runs Moldova’s railroad. The railway network still needs considerable investment.

Giurgiulesti International Free Port (GIFP), Moldova’s only port accessible to sea-going vessels, is situated at 133.8 km of the River Danube in the South of Moldova. GIFP serves as the only direct sea / river-borne transshipment and distribution point to and from Moldova.

The biggest air carriers are the national companies, “Air Moldova” and “Moldavian Airlines”, with a total of 11 air carriers operating in Moldova and performing regular flights.

Communications

• Fixed and Mobile Telephone services

The electronic communications market amounted to around MDL 5.7 billion (EUR 377.5 million) in 2008, an increase of 12.3% in comparison to 2007. The mobile telephony sector increased by 4.3%, while sales recorded in the fixed telephony sector decreased by 7.4%, in comparison to 2007.

According to statistical data, in 2008, the penetration rate of the mobile telephony increased to 67.8% (with potential significant reserves) and the rate of the fixed telephony insignificantly rose to 31.2%.

The fixed telephony sector is dominated by the state-owned Joint Stock Company “Moldtelecom”, which has a 97.7% market share, whilst the main players on the mobile telephony sector are: Orange Moldova (68.5%), Moldcell (26.3%), Unite (4.8%) and Eventis Mobile (0.4%).

Total investments in the electronic communications market performed during 2008 increased by 1.8% and amounted to MDL 1.960 billion (EUR 129.8 million). Out of this amount, more than 75% of the investments were performed by the three main providers of fixed and mobile telephony services on the market, namely: Orange Moldova (36.6%), Moldtelecom (23.9%) and Moldcell (14.8%). The immaterial increase of investments in the electronic communications market was affected by a 21.1% decrease in investments in fixed telephony services.

• Television and Radio (“Broadcasting”)

In January 2009, there were 255 active license holders in the field of broadcasting, with 47 in air broadcasting, 3 in broadcasting satellites, 1 in the field of broadcasting by wire, 38 in air television, 166 in cable television, etc. Out of 38 companies in the air broadcasting, 14 work in Chisinau, 22 in regional districts and 2 in villages.

The cable TV systems include channels such as CNN, Discovery, Eurosport, EuroNews, BBC, Cartoon Network, HBO and others, mainly in Russian or Romanian languages (translations or subtitles).

There are a number of Moldovan, Romanian and Russian radio stations with news and a variety of music channels.

• Internet

The providers of internet services recorded a turnover of MDL 366 million (EUR 24.24 million), an increase of 61.8% in comparison to 2007. The main providers operating in Republic of Moldova include: Moldtelecom (with a 60.3% market share), Starnet (9%), Telemedia Group (6.3%), Sun Communications (5.4%) and others.

During 2008, investments in this sector increased by 39.6% and amounted to MDL 152.7 million (EUR 10.11million).

• Postal services

Post and express delivery services operators in Moldova include: DHL, TNT, Unipost, UPS and others. The National operator of postal communication is the State Enterprise “Posta Moldovei”, which has 1,148 offices throughout the entire country, rendering services to people in 1,527 localities.

2 Business Environment

2.1 Business climate

Since 1991, significant steps have been taken towards improving the business environment in Moldova. In recent years Moldova has made headway on the stabilisation front (stable currency and low inflation), but is still involved in structural reforms and the creation of a business-friendly legal and tax environment.

Recent years have seen an increase in foreign direct investment (FDI) as investors take advantage of the eastward expansion of the European Union (EU), which now borders Moldova following the 1 January 2007 accession of Romania. The Government of Moldova has made efforts to tackle some obstacles to investment, such as corruption and red tape.

Furthermore, Moldova has declared European integration to be a strategic objective. The country signed an Action Plan with the EU that provides a roadmap for democratic and economic reforms and the harmonisation of Moldovan laws and regulations with European standards.

Since June 2001, the country has been a member of the WTO and of the Stability Pact. Moldova is a partner country within the European Neighbourhood Policy (ENP). Due to some progress which was made in the area of customs control, the EU agreed in the ENP Action Plan for Moldova to consider granting Moldova Additional Autonomous Trade Preferences (ATPs) beyond the GSP+ preferences. In January 2008 the Council adopted Regulation (EC) No 55/2008 on ATPs for Moldova by giving unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products. Moldova was removed from the list of GSP beneficiaries in order to avoid having overlapping systems of preferences.

Positive achievements have been made in the following areas:

- Successful completion of a mass privatisation programme;
- Privatisation and liberalisation of the foreign trade sector;
- Monetary stability and low inflation;
- Introduction of full current account currency convertibility;
- Implementation of national accounting and audit standards based on international standards;
- Privatisation and streamlining of the banking system;
- Successful completion of land privatisation;
- Implementation of post privatisation activities;
- Adoption of the law on investment in entrepreneurship activity;
- Incipient stage of implementation of the International Financial and Reporting Standards.

On 27 April 2007 the Parliament of the Republic of Moldova adopted a set of modifications to a list of laws with a significant impact on the activity of companies activating in Moldova, namely:

- Fiscal amnesty;
- From 2008, 0% corporate tax is applied to all income which has not been paid out or distributed in form of dividends;
- Capital legalisation.

The Aims of Government Policy

The main aims of the Government of Moldova are to ensure the end of the current economic decline, return to economic growth, establish an attractive and predictable investment climate, a positive development of the economy and the labour market, and an increase in the living standards and quality of life of Moldovans.

The Activity Program of the Government of the Republic of Moldova "European Integration: Freedom, Democracy, Welfare" for the 2009-2013 period was adopted in September 2009.

Thus, there are five main priorities of this Activity programme:

European Integration

The Government of the Republic of Moldova considers European integration as a fundamental priority of the domestic and foreign policies of the Republic of Moldova. In this respect the Government intends to make consistent efforts to implement the reforms needed by Moldovan society and requested by the international community in areas related to freedom of the mass media, independence of the judiciary, liberalisation of the economy. By adequate implementation of policies designed to Europeanise the country, the Government seeks to make the Republic of Moldova eligible for EU accession within a reasonable timeframe.

Reintegration of the Moldova

The Government will intensify efforts to identify a viable and sustainable solution to the Transnistrian conflict, pursuing the principle of sovereignty and territorial integrity of the Republic of Moldova, and create conditions for the real reintegration of the Transnistrian region into the economic, political, social and informational space of the Republic of Moldova. The Government stands for negotiations on the settlement of the conflict in the 5+2 format, based on the principles accepted by the Moldovan key political forces, and for the withdrawal of Russian Federation armed forces from the territory of the Republic of Moldova and substitution of the current peace-keeping forces with a civil international mission.

Rule of Law

The Government will ensure application of the separation principle and independence of the legislative, executive and judicial powers; uniform and correct enforcement of the legislation and equality of all citizens under the law. Thus, the Government will pay special attention to building a state of law, implicitly by implementing structural and procedural reforms of the judiciary.

Overcoming Economic and Financial Crises and Ensuring Inclusive Economic Growth

The Government will proceed to changing the country development model from a consumption-driven economy to an economy based on investments, innovation and competitiveness. An immediate priority of the Government is to draft, in consultation with the business environment, civil society, development partners and other stakeholders, a complex economic recovery programme focused on: increasing confidence in the capacity of the state institutions to manage the crisis; focusing the measures meant to stimulate the economy on activities with multiplying effect; honouring the financial obligations to businesses; implementing a prudent fiscal policy and reforms meant to reduce inefficient public expenditures. The anti-crisis programme aims to find solutions in the short-term and creating the conditions for economic growth in the long-term.

Decentralisation of Power and Ensuring Local Autonomy

The Government intends to apply European principles and norms in the field of public administration by substituting the structural hierarchy with decentralised, transparent and flexible entities. The Government will make sure that the central administration reform is correlated with the local administration reform and with the devolution of powers, including those related with public finances, to local public authorities.

Economic development plan

The Minister of Economy has declared that the main goal for 2009 is to stop the economic recession and to stabilise the situation for achieving economic growth in 2010. The Government has approved a plan of stabilisation and economic recovery for the 2009 - 2011 period. The plan is mainly based on three principles: stabilisation of public finances by promoting very cautious and tight fiscal policy (i.e. increasing excise rate for luxury cars, cigarettes and alcoholic beverages, increase the income tax up to 18% for the income derived from gambling), as well as stimulation of economic growth (i.e. reducing the administrative and tax burden for business, stimulating the public and private investments) and ensuring fair and effective social protection of citizens.

In the result of negotiations with IMF and the achieved arrangement on the funding agreement, the Government of Moldova is undertaking certain measures aimed at stabilising and restoring the economy. The Government forecasts that the current account deficit of MDL 2.8 billion (approx. EUR 185 million) will stabilise at the level of 10% of GDP. At the same time, in 2010 economic growth in Moldova will reach 1.5%, and 5% by 2012.

The Government has also planned to carry out structural reforms in order to facilitate economic processes by reducing the number of categories of goods subject to mandatory certification and licensing, as well as other types of permits, upgrading the legal framework for authorisation of construction in order to reduce the number of permits, facilitating the procedures for opening and closing business, introducing "single window" without interference of the government agencies not related to this process and simplifying tax procedures through using electronic tax declarations.

2.2 Free trade zones

In its trade with several countries (CIS countries, European Union, CEFTA contracting countries) Moldova benefits from the preferential free trade regime.

For more details pertaining to the free trade zones, as well as certain conditions to be met for their practical exploitation, please see the comments under Chapter 5 "Importing and Exporting".

2.3 International agreements

Moldova is a member of the following key organisations and associations:

- Council of Europe;

- Commonwealth of Independent States (CIS);
- Stability Pact of South-Eastern Europe;
- GUAM;
- World Trade Organisation;
- The International Monetary Fund;
- The European Bank for Reconstruction and Development;
- The International Bank for Reconstruction and Development;
- International Finance Corporation;
- Multilateral Investment Guarantee Agency;
- World Intellectual Property Organization (WIPO);
- Central European Free Trade Agreement (CEFTA);
- United Nations;
- OSCE;
- Organization of the Black Sea Economic Cooperation (BSEC);
- North Atlantic Cooperation Council (NACC);
- World Bank;
- Francophonie;

European Union

The integration of the Republic of Moldova into the EU is one of its priorities. With the purpose of accomplishing this, the EU and the Republic of Moldova signed the Partnership and Co-operation Agreement on 28 November 1994. It came into force four years later. The Agreement meant co-operation, not integration into the European Union and attempted to persuade the EU leadership to open a new stage in its relationship with the Republic of Moldova.

The Republic of Moldova's link to the European Union becomes closer in 2004, when seven new states, including Romania, joined NATO. This meant that Moldova's western border became a border with NATO. A second major event happened in 2004 is the accession of ten states to the European Union. With this step the Republic of Moldova got closer to the EU.

Based on this, the Republic of Moldova and the EU signed the Action Plan for three years in February 2005. The EU Moldova Action Plan is a political document laying out the strategic objectives of the cooperation between Moldova and the EU.

The EC Country Strategy Paper 2007 - 2013 for the Republic of Moldova was drawn up on 7 March 2007. The aim of this strategy is to support the development of an increasingly close relationship between the EU and Moldova in the context of the Europe In this respect, on 16 November 2009, the Governments of Romania and Republic of Moldova signed the small-scale border traffic agreement. Thus, the inhabitants in the Romanian-Moldovan border zone are able to travel without visas to Romania, on a well-defined distance from the border (i.e. 30 km). They will receive a local small border traffic permit, valid for at least one year.

2 Business Environment

NATO

NATO and the Republic of Moldova actively cooperate on democratic, institutional and defence reforms, and have developed practical cooperation in many other areas. The programme of cooperation between the Republic of Moldova and NATO is laid down in Moldova's Individual Partnership Action Plan (IPAP). The cooperation includes the preparation of strategic documents for reform, defence planning and budgeting and enhancing military education and training in Moldova.

2.4 Regulations for business

Competition policy

The acts on competition are the Law on Competition Protection, and the Law on the Limitation of Monopolistic Activity and Competition Development. These two laws set out the legal and organisational aspects of competition protection, and the main ways of avoiding, limiting and preventing monopolistic practices and unfair competition.

The legislation concerning the competition regulates the relations between entities and the representatives of the state authorities on the national commodities and securities market.

The National Agency for the Competition Protection is empowered to supervise the way companies comply with competition legislation. The Agency started its work in 2007. The aim of the Agency is to maintain a competitive market and to propose the harmonisation of Moldovan competition legislation with EU legislation.

Consumer protection

Consumer legislation contains provisions on the safety of consumers, liability of producers and sellers for breaches of the law and their contractual obligations, procedure for concluding contracts, establishing the shelf-life of food and non-food products, replacement of products or reimbursement of their cost, etc.



Under the Law on consumer protection, consumers must be informed about the essential features of products, and their rights are protected from abusive practices. Consumers also have the right to participate in relevant decision-making processes. An important requirement with respect to consumer protection is that the information on the labels of all goods (including imported goods) must be in Romanian or translated into Romanian.

The Government has recently approved the National Strategy in the Consumer Protection area for 2008 - 2012. The aims of this Strategy refer to increasing the level of protection offered to consumers and adjustment of the national legislation to EU standards.

Price controls

There are certain areas in which the Government is involved in order to establish a limit on the prices for some kind of products and services. Usually the state interferes in the formation of prices by limiting the trade mark-up. Price inspections are performed by Tax Inspectorates, the National Agency for the Competition Protection, ministries, licensing authorities, local public administration.

As a general rule most products can be sold at free prices, however, the state establishes prices for state-owned land and mineral resources, transport services and post services, for precious metals and medicines, natural gas, heating and electrical energy, etc.

Patents, trademarks and copyrights

The laws regulating intellectual property in Moldova mainly covers patents on inventions, copyright and other related rights, industrial design protection, trademarks and appellations of the origin of goods, plant variety protection, and the protection of integrated circuit topographies.

The state regulatory body in charge of the legal protection of trademarks, patents and copyrights on the territory of the Republic of Moldova is the State Agency for the Intellectual Property (AGEPI).

In order to achieve harmonisation with the provisions of European legislation, the national legal framework in this area is being continuously amended. New laws on protection of trade marks, on protection of geographical indications, appellations of origin and traditional specialties guaranteed, on protection of inventions and on the protection of plant varieties were approved in 2008.

2.5 Property Market

Registration of the real estate rights

Under the legislation, the ownership title and other real rights over immovable assets (e.g. servitude, usufruct, mortgage, etc.) are subject to registration in the Real Estate Register, held by the Cadastral Office.

Leases for a period of time exceeding three years, seizures, judicial claims, other charges and encumbrances become effective towards third parties from the moment of their registration in the Real Estate Register.

Information from the Real Estate Register is public and registrations performed in the Register are presumed to be authentic and complete, until the contrary is proved.

Sale-purchase agreements of plots of land have to be duly authenticated by a notary and registered with the Real Estate Register. The ownership title is transferred from the seller to the buyer as of the registration of the transfer in the Real Estate Register.

Restitution of confiscated or nationalised assets

Based on the Law for the rehabilitation of victims of political repression, confiscated or nationalised assets are subject to restitution or compensation. Compensation is provided for assets which no longer exist, or which cannot be restituted in kind being legally privatised. Compensation of losses is based on the market prices on the date of restitution request's examination.

Thus, the restitution in kind of confiscated or nationalised assets cannot be performed if the regarded assets were legally privatised.

Cancellation of subsequent contracts

From a strict interpretation of the Legislation, assets acquired onerously by a good-faith buyer cannot be claimed back, except in cases where former owners lost the assets against their will.

On the other hand, there have been cases in Moldovan judicial practice where, due to the annulment of an agreement or decision based on which the ownership title was previously acquired, all subsequent transactions on transfer of ownership were likewise annulled. Therefore, in some cases, priority may be granted to the previous owner whose ownership rights were infringed. Consequently, the legality of all previous legal documents may have an impact on the validity of subsequent sale-purchase agreements.

Restrictions on acquisition of agricultural and forested land

Under the legislation, agricultural and forested lands can be bought only by the state, Moldovan citizens and Moldovan companies without any foreign investments in their statutory capital. Other subjects can not buy such land. Nevertheless, the title over such land can be obtained by other means (e.g. inheritance).

3 Foreign Investment and Privatisation

3.1 Foreign investment

Investment climate

Foreign and domestic investors are treated equally in accordance with the “Law on Entrepreneurship and Enterprises” and the “Law on investments in entrepreneurial activity”, and the legal framework is not different for foreign investments.

Additional guaranty and support to investors is offered by bilateral treaties signed between Moldova and various countries for the mutual guarantee of investments.

The investment process is characterised by investments in certain sectors. In recent years, investors have specifically expressed interest in investing in the processing industry, banking sector, real estate transactions, service industry, retail and wholesale trade.

According to statistical data in 2008, the inflow of the net direct foreign investments into the economy of Moldova amounted to USD 679.4 million, increased by 41.3% from the level in 2007.

Foreign Investors Association

The Foreign Investors Association (FIA) has been operating in Moldova since September 2004. The FIA is the first and biggest association of its kind in Moldova.

The Association’s main objective is to promote dialogue between the government and investors to improve the business climate and the competitiveness of Moldova on regional and international markets.

As a result of its activity, FIA publishes the WHITEBOOK annually containing a number of specific recommendations and proposals for improving the investment climate in Moldova. The WHITEBOOK covers not only regulations that are already in force, but also those being drafted.

Regulatory legislation

According to the Constitution of the Republic of Moldova, the state must ensure the inviolability of foreign investments. The Government is keen to establish coordinated policies and well-balanced legislation in order to stimulate both domestic and foreign investments.

The legal framework for the protection of foreign investments consists of the Law on investments in entrepreneurial activity and international bilateral treaties for facilitation and the mutual protection of investments. In the event of any discrepancies between national and international legislation applicable for the Republic of Moldova, the latter prevails.

The Strategy on the attraction of foreign investments and support of exports for 2006 - 2015 was approved recently. It represents the state policy in the field of attracting foreign investments, aimed at maintaining macroeconomic stability and intensifying foreign trade.

Restrictions on foreign investments

Legislation permits 100% foreign ownership of companies. There are no restrictions on the maximum amount of capital that can be invested. On the other hand, there are limits on the minimum statutory capital for special forms of legal organisation, as well as

for certain activities (e.g. MDL 5,400 (approximately EUR 357) for limited liability companies; MDL 20,000 (approximately EUR 1,324) for joint stock companies; MDL 15 million (approximately EUR 993,377) for insurance companies, etc.)

Foreign and domestic investors are treated equally. However, certain restrictions exist for the acquisition of agricultural and forested land. Such land can be bought only by the state, Moldovan citizens and Moldovan companies without any foreign investments in their statutory capital. Other subjects can not buy such land. Nevertheless, the title over such lands can be obtained by other means (e.g. inheritance).

Investment incentives

Except for the tax incentives currently available under Moldovan tax law and described in the specific Chapters below, businesses could consider carrying out specific activities within free economic zones and / or industrial parks, to benefit from preferential terms in terms of taxation, customs regime, etc.

(i) Free Economic Zones (FEZ)

FEZ are part of the Moldovan customs territory, separated from the economic perspective and bounded around their perimeter, where domestic and foreign investors can carry out entrepreneurial activities under preferential terms and conditions (i.e. favourable tax, customs and other regimes).

Moldova currently hosts 6 FEZs established between 1996 and 2003: “Otaci-Business”, “Ungheni-Business”, “Expo-Business-Chisinau”, “Tvardita”, “Production Park Taraclia”, “Valcanes Production Park”. In addition, there are “Giurgiulesti International Free Port” and “International Airport Marculesti”, with similar FEZ status, but they are distinguished by a range of specific features.

Under the law, FEZs should be created for a period of at least 20 years and are generally expected to host competitive industries, created mainly as an investment-attracting and export promotion mechanism.

Allowed types of activities

First FEZs were initially set up for any type of business activity, while later on export orientation became the main goal of such zones. Besides a separate law for each free zone, in order to establish uniform legislation the Moldovan authorities passed a new Law in 2001 on free economic zones, applicable to all six free zones.

According to the law, the following main types of activities are allowed in the FEZ:

- Manufacture of export-oriented products and auxiliary related services;
- Sorting, packing, marking and other similar operations on goods transiting the Moldovan customs territory and auxiliary related services;
- External commercial activity;
- Transport activity;

Tax and customs incentives

From a VAT standpoint, goods and services supplied in the FEZ from abroad, from FEZ abroad, in the FEZ from other areas of Moldova and those supplied to residents of other FEZ are subject to 0% VAT.

Excisable goods released on the territory of the FEZ from abroad, from other areas of Moldova, from other FEZ, as well as goods originating in the FEZ and released abroad are exempt from excise duty.

According to the general rule in the Customs Code, goods are released onto and used in the FEZ with no import duties and with no application of economic policy measures and local goods are released and used according to the requirements applicable for the export customs regime.

Normally, the favourable treatment above applies provided there is compliance with a set of rules. As such, each situation should be subject to detailed separate analysis.

State guarantees for investors

International agreements to which Moldova is party and the domestic legislation are applicable on the territory of free zones.

In accordance with the law, if the newly adopted legislation provisions adversely affect residents of free zones (e.g. worsen the customs, tax and other preferences), residents are entitled to work for a period of 10 years under the preceding legislation provisions. Moreover, a 20-year protection against any changes in the law that adversely affect residents is applicable for investments in fixed assets exceeding USD 200 mil.

(ii) Industrial parks

The industrial park concept was introduced into the domestic legislation in 2007 as a non-tax incentive.

Under the law, an industrial park is a bounded territory where in a regime of specific facilities economic activities, industrial production, provision of services, employment of scientific researches and / or technological development may be carried out, in order to avail of the human and material potential of a certain region.

An industrial park may be created on the territory of separate state enterprises and also as greenfield investments. According to the law, an industrial park should be established for a period of no less than 15 years but not more than 50 years.

The following industrial parks may be mentioned: the industrial parks in Floresti (60 ha close to the border with Ukraine), Ungheni (50 ha situated on the border with Romania) and Cainari (23 ha).

Repatriation of capital and earnings

According to the legislation, foreign investors are entitled to repatriate profits, interests, dividends, incomes and other funds related to their investments, without any restrictions after all the applicable taxes are paid. Conversion and transfer of funds thus obtained for repatriation are performed via Moldovan banks.

Guarantees and rights

Investors may invest in any field of entrepreneurial activity on the entire territory of the Republic of Moldova, subject to the observance of the interests of national security, provisions of antitrust legislation, norms of environmental protection, people's health and public order.

Foreign investments can not be discriminated against based on the citizenship of the investor, place of residence, place of registration or business activity, country of origin of investor or investment, or any other reasons. At the same time, certain

restrictions are provided for the residents of off-shore zones (e.g. maximum amount of shares in banks).

Public authorities, intending to develop a new investment policy, are required to organise public consultations before implementing such policies.

Investments can not be subject to expropriation or to any other similar measures, which can directly or indirectly deprive investors of their property right or the right to control investments, unless the following conditions are met:

- The measure is undertaken for the general public use;
- The measure is not discriminatory;
- Preliminary and equivalent compensation of damages is given.

Investors have the right to sue public authorities for damages caused due to illegal actions and decisions. Compensation is paid in the currency of the investment.

3.2 Privatisation

Background

After the break up of the Soviet Union, Moldova initially focused on privatising state-owned property. Once independence was achieved, Moldova's Government undertook measures to begin privatisation, which included passing a law mandating privatisation – Law on privatisation (as of 4 July 1991) and establishing the State Department for Privatisation to direct process.

Under the Law on the privatisation programme for 1995 - 1996, privatisation focused on foreign investment, privatisation of agricultural land, the introduction of cash auctions, mass privatisation and the privatisation of capital markets.

Based on the Law adopted in 1997 the privatisation programme for 1997 - 1998 years was established. The application of that law was extended until 2005.

New provisions concerning privatisation were approved on 4 May 2007 by the Law on public property management and its privatisation. Simultaneously the Law on privatisation (dated 1991), Law on the Programme of privatisation for the years 1997 - 1998 were abolished.

Objects of privatisation can currently be the following assets of public property: stocks, shares, uninhabited premises, including the leased ones, unfinished constructions, real estate complexes, the adjoining land areas of private objects or privatised ones, including the land areas for construction. The list of goods not due to privatisation is enclosed as an appendix to the Law.

The Agency of Public Property carries out the state policy in the field of management and privatisation of public property, post-privatisation activity and exercises the functions of the owner of state property. The Agency of Public Property is the successor to the Agency of Privatisation in rights and obligations.

The biggest privatisation was carried out in 1996 by Union Fenosa which acquired two electricity distribution companies.

More than 100 public property objects amounting to approximately MDL 1 billion (approximately EUR 66.2 million) were sold on the Moldovan Stock Exchange in 2008.

4 Banking, Finance and Insurance

4.1 The Banking System

The banking system of Moldova consists of 15 operating banks (see Appendix D). Banking activity is supervised by the National Bank of Moldova, which operates as the country's central bank. It is independent but co-operates with the Government and is accountable to Parliament. Commercial banks act under the authorisation of the National Bank.

Moldova's banking system has experienced major changes over the past few years. In May 2006, Veneto Banca (Italy) acquired a 100% stake in the Joint Stock Commercial Bank "Eximbank" from Canadian Royal HTM group of Toronto. This was deemed a major acquisition both for representatives of "Eximbank" and for the whole Moldovan economy.

In 2007, the French Bank, Societe Generale purchased 70.57% of the shares in "Mobiasbanca" JSC for EUR 18.4 million.

In December 2007, the Administration of the National Bank of Moldova finally issued a licence permitting financial activity for Commercial Bank "ProCredit Bank" S.A.

On 19 June 2009, the Moldovan National Bank recalled the license to conduct financial activities from Investprivatbank, which is currently in the process of liquidation.

Foreign investments in bank capital had increased by the end of the September 2009 from the same period in 2008 by 2.1% to 75.19%.

Overall, banking assets as at 30 September 2009 amounted to MDL 37.79 million (EUR 2.50 million), a decrease of 3.96% from the similar period of 2008.

The assets of the five largest Moldovan banks (Moldova Agroindbank, Victoriabank, Banca de Economii, Moldindconbank, Eximbank) constitute 68% of the total banking system assets.

By 30 September 2009, the total volume of banking credit and financial leasing constituted MDL 22.03 million (EUR 1.46 million), a reduction of 11.05% from the start of the year. The credit was mainly offered for industry and trade clients.

National Bank of Moldova

The National Bank of Moldova (NBM) is an independent institution whose main objective is securing and maintaining price stability and the stability of the national currency. A board of administration, consisting of five members appointed by the Parliament for seven-year terms, heads the NBM.

The primary functions of the NBM are:

- To establish and manage the monetary and foreign currency policy;
- To provide ongoing analysis of the current economic situation and make recommendations;
- To license, control and regulate the activity of commercial banks;
- To grant credit to commercial banks;
- To manage the state foreign currency reserve;

- To issue banknotes;
- To perform foreign currency regulation in Moldova, etc.

The NBM applies a full spectrum of available monetary instruments to manage the money supply on the market by influencing the liquidity volume in the banking system. Some of these are: open market operations (including sales and purchases of state securities, REPO transactions), deposit operations, overnight credits and deposits, etc.

There is on-going co-operation between the NBM, International Monetary Fund and the World Bank.

Money laundering

Anti-money laundering legislation has been in place since 2001. The new Law on preventing and combating money laundering and terrorism financing was adopted in 2007.

Based on the law financial institutions, exchange offices, investments funds, insurance and reinsurance companies, real-estate agencies, auditors, independent accountants, financial consultants, etc. are regarded as reporting units.

Reporting units should apply identification measures and adopt internal anti-money laundering regulations.

In addition, reporting units should report to the state authorities any transactions suspected of money laundering, as well as transactions with exceeding a value of MDL 500,000 (approximately EUR 33 thousand) or transactions implemented within 30 days as a result of several operations with a total value exceeding the above amount.

4.2 Foreign currency market and foreign currency rules

The National Bank of Moldova is in charge of regulating and controlling the foreign currency market.

The Law on foreign currency regulation entered into force as of January 2009. Based on this law a number of regulations concerning various aspects of foreign currency operations were approved by the NBM.

The following main provisions of the foreign currency legislation can be outlined:

- Transactions between residents can be denominated in foreign currency but must be settled in Moldovan Leu (MDL);
- Accounting records for the foreign currency are kept in MDL, at the exchange rate of the NBM;
- Resident legal entities are required to provide banks with supporting documents or further information when making payments to non-residents;
- Resident legal entities are allowed to purchase foreign currency only for the specific purposes provided for in the legislation (e.g. making external payments to non-residents, business trip expenses, the repayment of foreign currency loans, etc.). The purchased foreign currency can be kept only in current (not deposit) accounts for a maximum of seven working days. Afterwards, foreign currency not used for making payments must be converted back into MDL.

An authorisation issued by the NBM is required for granting loans by Moldovan residents to non-residents;

- The NBM has to be notified of foreign loans granted by non-residents to Moldovan residents;
- Moldovan residents need an authorisation issued by the NBM to open a bank account abroad;
- Salaries to employees (including foreign staff) must be paid in MDL;
- Individuals have the right to bring an unlimited amount in banknotes, coins and cheques in national currency and in foreign currency into Moldova, and to take up to EUR 10,000 (or its equivalent) per person out of the country without supporting documents, or EUR 50,000 (or its equivalent), subject to providing confirming documents;
- The repatriation of foreign currency obtained from the export of goods and services is mandatory. The repatriation terms vary and are subject to the individual terms of the international agreements under which these payments are generated. A penalty of 0.1% is applied to Moldovan business entities for each calendar day of delay.

4.3 Specialist financial institutions

Moldovan legislation allows operation of leasing and insurance companies, micro-financing organisations, private pension funds, saving and loan associations, mortgage credit organisations and credit history bureaus.

Leasing companies

The Moldovan leasing market is relatively small. It has not reached its full potential and is still growing. Leasing portfolio is not very diversified, being concentrated in car and truck leasing that represents around three-quarters of the leasing market. In the last few years leasing has become an opportunity for business to renovate equipment and transport.

Insurance market

As of 1 April 2009, 27 insurance companies and 35 insurance brokers operated in Moldova.

The insurance market in Moldova is in a new stage of development as the new Law on insurance (in force as of April 2007) changed some insurance rules. The new regulations are supposed to eliminate weaker companies, which will not be able to comply with new requirements.

Under the legislation, insurance companies can be incorporated only in the form of joint-stock companies. The minimum share capital of an insurance company is MDL 15 million. Insurance companies are allowed to carry out only insurance and insurance related activities.

The insurance sector in Moldova has continued its upward trend, determined by sales growth for some insurance base products, but the small spectrum of services and legal rate of compensation remains the biggest problems for Moldovan insurers. Moldovan entities / individuals are still not accustomed to using insurance services.

Total assets of all insurance companies constituted MDL 1.33 billion (EUR 88.3 million) as of 31 December 2008. Insurance premiums received in 2008 amounted to MDL 837 million (EUR 54 million), out of which MDL 219 million (EUR 14.27 million) were paid for reinsurance.

4.4 Investment institutions

The Law on investment funds was enacted 1997 and provides a framework for them.

As of 1 April 2009, six investment funds reorganised in joint-stock companies operated in Moldova. 26 investments funds were in the process of winding up.

4.5 Capital Market

Despite being small and underdeveloped, the securities market has grown fast in recent years and is becoming more attractive for foreign investors. The number of securities transactions on the Moldovan Stock Exchange has been increasing significantly.

The Moldovan Stock Exchange (MSE) was opened in 1995. Certain criteria need to be fulfilled in order for a company to be listed on the Moldovan Stock Exchange.

The National Commission for Financial Market (NCFM) was established in 2007 as a successor to the National Securities Commission, the State Inspectorate for the Supervising of Insurance and Private Pension Funds, as well as the State Service for the Supervising the Activity of Saving-Loan Associations.

The NCFM is the supervisory body of the financial market, i.e. securities issuers, professional participants on the securities market, brokers and insurance companies, private pension funds, saving and loan associations, micro-financing organisations, mortgage credit organisations and credit history bureaus.



5 Importing and Exporting

Customs and International Trade

- Moldova has been a member of the World Trade Organization (WTO) since July 2001
- Ad valorem customs duty rates vary up to 30%. Specific and combined customs duty rates also apply, depending on the customs tariff classification of the goods
- Import of fixed assets for the purposes of being contributed in kind to statutory capital is exempt from customs duty and import VAT
- Free trade regime is in place between Moldova and most of CIS countries. The 2000 Rules of origin applicable for trade with CIS countries are still applicable. However, during the last meeting of the CIS Executive Committee, the intention to approve new rules of origin was announced
- Moldova benefits from Autonomous Trade Preferences (ATP) granted by the European Union (EU)
- Moldova is a contracting party to the Central European Free Trade Agreement (CEFTA)

5.1 Trends in customs policy

Moldova has been a member of the World Trade Organisation since July 2001.

Since 1 March 2008, Moldova has benefited from the Autonomous Trade Preferences (ATP) in its trade with the European Union, received as a result of Moldova's improvements of the institutional framework and in particular procedures on control and certification of origin.

The new trade regime provides for duty and quota free access to EU markets for all products originating in Moldova, except for certain agricultural ones, which are extremely sensitive for the EU internal market (meat, dairy products, white sugar, wine with alcoholic concentration of less than 15%, etc.) for which under the customs free access import tariff quotas apply.

Apart from the above, it is worth mentioning that the Moldovan authorities expressed their objective to align continuously Moldovan customs law to international and EU standards. For instance, the Customs Code was recently amended by introducing, among other provisions, the concept of Binding Tariff Information (BTI), Authorised Economic Operator (AEO), etc. Most such newly implemented concepts are not lucrative yet. Procedural aspects related to their practical implementation are included in the draft Customs Procedural Code, which is subject to the further approval of Parliament.

The Moldovan customs authorities are also responsible for drafting and maintaining the Moldova Integrated Customs Tariff ("Tariful Vamal Integrat al Republicii Moldova (TARIM)"). The current database is planned to start functioning at the beginning of 2010 and is to include public information on all tariff and non-tariff measures applicable upon import / export of goods.

5.2 Import restrictions

Generally, any kind of goods and transport means may enter and leave the territory of Moldova without any restrictions.

There are certain limitations that are provided by the legislation in force, specifically the Customs Code, the Law on customs tariff, other normative legal acts and international agreements signed by the Republic of Moldova. The limitations are provided by law in the interests of national security, protection of public order, environment, intellectual property rights and protection of items of artistic, historical and archaeological value.

As part of the non-customs regulations, import licenses are required for the import of tobacco and tobacco products, goods of phytosanitary use, toxic chemical substances, chemical household articles, explosive materials including fireworks, etc.

5.3 Customs duties

Classification of goods

As Moldova is a contracting party of the Convention of the Harmonised System (HS), the tariff classification of the goods is made based on the General Interpretative Rules (GIR) to the HS and in accordance with the Explanatory Notes to the Harmonised System (ENHS).

As stated above, even though legally possible, in practice, companies may not yet apply for BTI to the Moldovan customs authorities. Still, the Main Customs Authority (MCA) is entitled to issue Orders on classification of goods, application of which is mandatory for all participants in external trade.

Valuation rules

Under Moldovan customs legislation, the customs valuation is performed in accordance with the GATT customs valuation principles.

The customs value is determined based on one of the six provided methods (i.e. transaction value, transaction value of identical goods, transaction value of similar goods, deductive value, computed value, reserve method), each one being applicable, provided the previous is not.

Under the transaction value method of customs valuation, the customs value should be determined based on the price paid or payable, adjusted – if appropriate – by certain other elements (i.e. among others - cost of transportation, insurance, loading / unloading on the external route).

Decision 4.1 of the Committee on Customs Valuation on the valuation of carrier media bearing software for data processing equipment is applicable in Moldova. Similarly, Decision 3.1 on the treatment of interest charges in the customs value of imported goods is also applicable.

Customs duty rates

The Law on Customs Tariff establishes erga omnes customs duty rates applicable upon import of goods into Moldova, which are differentiated by customs tariff codes.

Customs duty rates are generally set out as a percentage from the customs value (i.e. ad valorem duty rates) of the goods subject to importation in Moldova. The maximum ad valorem erga omnes customs duty rate is 30%. The law also establishes specific (as a fixed amount applied to a specific quantity - e.g. beer made from malt; wine of fresh grapes, including fortified wines; undenatured ethyl alcohol; cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes) and combined customs duty rates (e.g. meat of bovine animals, swine, sheep or goats; meat and edible offal, of the poultry of heading 0105, fresh,

chilled or frozen; butter and other fats and oils derived from milk; dairy spreads).

There are special, safeguarding, countervailing duties from the category of exceptional customs duties. Moldova has, for instance, implemented a safeguarding customs duty for certain specific products (e.g. for cane or beet sugar and chemically pure sucrose, in solid form).

Free trade agreements

A preferential tariff treatment presumes a reduction or exemption of / from customs duty, which may also be applied within a specific quota (established either as value or quantitatively).

The preferential tariff treatment is granted for specific categories of goods depending on their origin and in accordance with free trade agreements (FTA) to which Moldova is a party.

Under the FTA Moldova has with other countries to date, the preferential treatment (i.e. exemption from customs duties) is granted upon import of goods with preferential origin into Moldova, provided a certificate of preferential origin is made available in customs. Besides the certificate of preferential origin, the FTA provide for additional conditions as, for instance, the direct shipment of the goods from the country of origin to Moldova.

Being a member state of the Commonwealth of Independent States, Moldova has concluded to date FTA with several CIS countries. These FTA allow duty-free import of goods into Moldova, provided the compliance with rules of origin is accomplished.



5 Importing and Exporting

The 2000 CIS Rules for determining the country of origin are used to determine whether the goods originate from the CIS country or underwent sufficient processing therein, in order to qualify for customs duty exemptions.

Moldova is a party to the Central European Free Trade Agreement (CEFTA), effective from 28 July 2007, and benefits from the preferential free trade regime with its member states (i.e. Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Kosovo (UNMIK)).

On 21 January 2008, the Council of Ministers of the European Union (EU) adopted the Regulation introducing ATP for Moldova, which has been applied since 1 March 2008. From this date and until 31 December 2012, Moldova benefits from the EU ATP regime, which allows unlimited duty-free access to the EU market for all products originating in Moldova, except for certain agricultural products. Such agricultural products are accepted for import into the EU either with exemptions from customs duties within the limits of specific tariff quotas (e.g. fresh, chilled and frozen meat of bovine animals, dairy products, common wheat, barley, maize, white sugar) or with exemption of the ad valorem component of the import duty (e.g. tomatoes, grapes, apples).

In order to benefit from these preferential terms upon imports of goods into the EU, compliance with origin and certification requirements has to be observed.

Excise tax

The following are liable to taxation with excise duties:

- Businesses producing and / or processing excisable goods on the territory of Moldova;
- Businesses importing excisable goods, unless there is no specific exemption provided.

Businesses performing the above-mentioned activities must possess excise duty certificates, granted by the tax authorities before such operations are actually carried out. It is mandatory for businesses, upon submitting the relevant applications to the tax authorities, to attach the details on the excise premises.

Excise duties are paid at the moment the excisable goods leave (are transported out of) the excise premises, while upon the import of excisable goods they are calculated and paid at the same time as the customs duties are settled.

Certain excisable goods are subject to mandatory excise stamp marking and labelling.

Goods imported into Moldova as humanitarian aid or within technical assistance projects, as well as excisable goods transiting the country, placed into a bonded warehouse, processing under customs control arrangement, duty-free shops (except for the cigarettes with imported filter), etc. are subject to excise duty exemption.

The following goods produced in or imported into Moldova are subject to excise duties: petrol and diesel fuel, alcoholic beverages, tobacco products, jewellery, video and audio devices, motor cars etc. From 2010, the Moldovan authorities intend to increase excise duty rates for certain specific products and to enlarge the list of excisable goods.

VAT

Upon the release of goods for free circulation on the territory of Moldova (i.e. placing of goods under a definitive import customs regime), 20% import VAT will be due (unless the given import of goods is subject to a VAT exemption or taxation with reduced VAT rates (e.g. 8% - for pharmaceutical products)) from the customs value of the goods, including taxes and duties due in customs, except VAT.

Import VAT is payable before or at the moment the import customs declaration is submitted to the customs authorities.

Processing fee (Customs procedural tax)

The customs procedural taxes are levied at the moment the customs declaration is submitted to, and approved by, the customs authorities, irrespective of whether it relates to a definitive import regime, an inward processing relief and / or bonded warehouse regime. There are still certain circumstances under which this tax is not due.

The customs procedural tax rate due upon import of goods is set out as follows, depending on the customs value of the goods:

- from EUR 100 to EUR 1,000 – EUR 4;
- above EUR 1,000 - 0.4% from the customs value of the goods, but less than EUR 1,800.

Note that rates of the customs procedural tax generally vary by type of the customs operation (services) being implemented.

Payment

According to the current customs law, import duties are payable in advance, i.e. prior to submitting the import customs declaration. Upon customs clearance of goods, the difference between the computed value of import duties and the previously settled amount has to be paid.

Legal entities and individuals pay import / export duties in cash or via bank accounts (including via cards) to the accounts of the Central Treasury of the Ministry of Finance. Legal entities are allowed to settle in cash only the difference set out upon customs clearance of the goods.

Since the payment deadline above is the generally applicable one, specific situations (including possibilities to prolong the term to settle import duties and / or defer their payment) are separately analysed.

5.4 Temporary import relief

Inward processing relief (IPR)

Using the IPR with suspension system would allow foreign raw materials to be processed and, further on, re-exported from Moldova in the form of compensatory products (i.e. products resulting from processing operations under an IPR), without being subject to import duties or commercial policy measures. However, the Customs Authority would be entitled to request a bank guarantee to secure the payment of the customs debts.

However, the IPR regime could be implemented with drawback. Using the drawback IPR would allow the raw materials to be released for free circulation by settling the related import duties and further exported from Moldova in the form of compensatory

products, followed by a repayment or a remission of the customs duties.

Placing goods under an IPR is subject to authorisation from customs authorities.

Outward processing relief (OPR)

The OPR is the customs regime wherein goods in free circulation or under customs surveillance within an IPR regime are released out of the Moldovan territory abroad for processing, transformation, while compensatory products are reintroduced with full or partial relief from import duties.

The OPR is subject to authorisation from customs authorities.

Bonded Warehouse (BWH)

The BWH is a customs regime allowing the depositing of foreign goods under customs surveillance with relief from import duties and with no application of economic policy measures during the period they are stored in the warehouse. Domestic goods destined for export can be placed under BWH, as well, for a period approved by the customs authorities.

According to the Moldovan customs regulations, any type of goods, including compensatory products obtained under an IPR or processing under customs control (PCC), as well as waste / sweepings (with certain exceptions), may be placed under a BWH.

BWH may be public (i.e. available for warehousing to any person – types A, B, D) or private (i.e. available for the BWH owner's use only – type C).

The BWH regime is subject to authorisation by the Main Customs Authority (except for the BWH managed by the customs authorities), provided certain conditions are met. Such authorisations are issued to Moldovan legal entities only and for a specific term.

Warehoused goods may be subject to the certain specific operations only (e.g. safe custody, packaging, marking, loading / unloading, etc.). Such operations shall not change the quantitative, qualitative and technical parameters of the goods. No processing or sale operations are allowed to be performed with goods stored under a BWH.

The BWH may be discharged by the definitive import of goods, their placing under another suspensive customs regime, export or re-export, destruction under customs supervision or abandonment of foreign goods in favour of the state.

The customs authority requests a full guarantee so as to ensure the payment of the customs duties that may arise in the event of non-compliance with the BWH customs regime requirements.

Temporary admission (TA)

The TA customs regime allows the usage on the territory of Moldova of foreign goods and means of transport which are destined for subsequent return to the foreign owner in the same state (except for their normal depreciation), with full or partial relief from import duties and non-application of economic policy measures.

Customs authorities authorise the TA only for identifiable goods and means of transport and which are not prohibited from being released on the territory of Moldova.

A specific term is granted by the customs authorities during which goods can be re-exported or assigned with a different customs destination. The term may not exceed three years, except for specific justified circumstances. The TA term for goods released on the Moldovan territory under a cross-border financial or operational leasing will be settled by the customs authorities depending on the term specified in the leasing agreement, but not exceeding seven years.

Specific debt guarantee requirements and customs duty regime applies for the TA customs regime, depending on the relief from import duties applicable (i.e. full vs. partial).

Processing under customs control (PCC)

The PCC customs regime allows foreign goods of any type being employed on the territory of Moldova in operations changing their nature and state (available operations is specifically listed in the law), with no import duties and with no application of economic policy measures, with the condition of the resulting goods being released for free circulation with the payment of applicable import duties.

The PCC customs regime is subject to authorisation, provided a set of conditions are simultaneously met. Moldovan legal entities, only, may be authorised to use PCC.

5.5 Customs duty incentives

Contributions in kind to the statutory capital

Import of fixed assets as a contribution in kind to the statutory capital of a company is exempt from customs duty and import VAT, provided certain conditions are met.

Favourable Tariff Treatment

A favourable tariff treatment presumes a reduction or an exemption from customs duty upon import of specific goods into Moldova, depending on their type or final destination, according to domestic customs law or international agreements to which Moldova is a party.

Moldovan customs law provides, among others, the following exemptions from customs duty:

- Goods imported by individuals for personal use not exceeding a set threshold;
- Periodical issues, educational books, cultural and scientific issues, didactic materials for pre-school, education and remedial institutions;
- Goods imported for sale under a duty-free regime (diplomatic duty-free);
- Goods released in the customs territories as humanitarian aid, certain freely granted aid (donations) or for philanthropy purposes;
- Goods imported by legal entities for non-commercial purposes whose customs value does not exceed EUR 50;

5 Importing and Exporting

- Goods delivered to Free Economic Zones from the remaining part of the customs territory of Moldova, from outside the customs territory of Moldova, from other Free Economic Zones, goods, including those originating in the Free Economic Zones, exported outside the customs territory of Moldova and other Free Economic Zones, as well as those originating in the Free Economic Zones and released on the customs territory of Moldova, etc.

Toll manufacturing

If raw materials, components or accessories are imported into Moldova for processing and subsequent re-export of the finished products (compensatory products) outside Moldova, customs duty relief is available through IPR.

Processing covers the full assemblage and manufacturing process. Under this regime, importers can opt either for a duty suspension system or for a duty drawback system.

5.6 Documentation and procedures

Customs authorities carry out strict control over the correctness and reasonableness of determining the customs value and method applied. The control may consist of specific procedures as to ensure compliance with customs legislation.

Registration of importers and exporters

All resident legal entities of the Republic of Moldova that envisage performing export / import activities are liable to pass registration procedure at the territorial Customs authority, where the Company is located (i.e. in the database ASYCUDA World).



Documentation

Goods crossing Moldova's border should be declared to the customs authority, either by the importer or licensed customs broker on behalf of the importer.

The release of goods for the free circulation on the territory of Moldova must be supported by a set of adequate supporting documentation. Generally, the following documents are required to support the declared information: customs declaration, contracts (including annexes), invoices, shipping documents, certificates of origin of goods, conformity certificates and licenses, evidence of payment of import duties and any other documents requested by Customs authorities so as to verify the declared information.

Declaration of customs value

Under Moldovan customs legislation, the customs valuation is generally performed in accordance with GATT customs valuation principles.

The customs value is determined based on one of the six provided valuation methods (i.e. transaction value, transaction value of identical goods, transaction value of similar goods, deductive value, computed value, reserve method). If the first one is not applicable, then the second one should be applied and so forth.

The customs value is declared by filling in a declaration of customs value and is based on the value of transaction of the respective goods. If the Customs authorities doubt the declared value, the other five allowed methods are used in sequence in accordance with the Law on customs tariff.

Should the customs authority request a confirmation of the customs value, the declarer will be liable to provide additional documents in this respect.

When the customs value of goods requires additional clarifications, the importer may request that the customs authority release the goods for free circulation against constituting a bond or payment of import taxes.

Decisions 3.1 and 4.1 of the Committee on Customs Valuation are currently applicable in Moldova.

5.7 Warehousing and storage

Storing goods may be performed by placing them under a BWH, temporary warehouse and free economic zone.

5.8 Re-exports

The re-export of goods is the customs regime consisting in withdrawing goods that were previously introduced on the territory of Moldova, with exemption from export duties and measures of economic policy.

The re-export requires the formalities applicable for export of goods to be performed and requires submission of the customs declaration.

6 Business entities

- Legislation allows the establishment of a wide range of business entities, including wholly foreign owned companies
- The most common type of company is the Limited Liability Company, followed by the Joint Stock Company
- Non-resident companies are entitled to establish branches and representative offices in the Republic of Moldova

6.1 Legal Framework

The current legislative basis for investment and business operations in Moldova is represented by a complex system of laws. The main legal provisions are provided in the following acts:

- Civil Code;
- Law on Investments in Entrepreneurial Activity;
- Law on Joint Stock Companies;
- Law on Limited Liabilities Companies;
- Law on the State Registration of legal entities and individual entrepreneurs;
- Law on Regulation through Licensing of the Entrepreneurial Activities;
- Law on Insolvency;
- Law on Protection of competition.

The Moldovan Civil Code (effective as of 12 June 2003) is the primary framework for establishing and operating business entities. Other laws are relatively new and have been subject to review in recent years. The Law on Limited Liability Companies and significant amendments to the Law on Joint Stock Companies were approved in 2007. New provisions concerning the registration of legal entities entered into force in 2008.

The Law on the basic principles for regulating entrepreneurial activities (effective as of 1 January 2008) establishes the main rules concerning the procedure of amending legislation which regulates business activity. This Law incorporates the following principles: transparency of decisions on the regulation of entrepreneurial activity, analysis of the effect of regulations, equitability in relations between the state and entrepreneurs. According to the principle of tacit approval, a licence is deemed to be issued if the licensing authority does not reply to the applicant within the term provided by law.

6.2 Forms of business entities

The following forms of commercial legal entities (for-profit) may currently be incorporated in Moldova:

- Limited liability company (SRL / LLC);
- Joint stock company (SA / JSC);
- General partnership;
- Limited partnership;
- Co-operatives;
- State and municipal enterprises.

The most widespread forms are limited liability companies and joint stock companies. There are currently approximately 65,000 limited liability companies and 5,000 joint stock companies registered in Moldova.

6.3 Choice of entity

From a foreign investor's perspective, the choice usually tends to be either an LLC or a JSC. In specific circumstances for non-commercial activities a representative office may be considered.

Generally, the form of business organisation does not influence the type of activity to be carried out by a legal entity. On the other hand, certain types of activity expressly provided by the law may be carried out only based on a license, issued by the public authorities. In some cases, the specific form of business organisation is regarded as a special requirement for obtaining a license (e.g. only JSC may obtain licenses for banking, insurance activities, etc).

Foreign legal entities and individuals may incorporate companies in Moldova (both LLC and JSC), either as sole shareholders owning 100% of the statutory capital or in partnership with a local company or individual.

For a 100% investment, using an LLC tends to be more convenient. It is easier to establish and operate an LLC than a JSC.

6 Business entities

Both LLC and JSC are legal entities liable for their obligations with all the assets they own. The shareholders are not liable for the company's obligations. Accordingly, the company is not liable for the obligations of its shareholders.

6.4 Registration procedure

Establishing a business entity in Moldova involves registering with the State Register of Legal Entities, as well as opening a bank account. An incorporated entity should be subsequently registered with statistical and tax authorities, as well as with social and medical authorities.

The shares of JSCs should also be registered with the National Commission for Financial Market.

Registration with the State Register of Legal Entities requires a set of documents, provided by law, to be submitted to the State Registration Chamber of the Ministry of Informational Development.

All documents submitted for registration should be in original or notarised copies. The documents should be legalised / apostilled according to the procedures in force (if they are drafted or issued abroad), except for cases where the regarded documents are issued in Romania or in a country of the Community of Independent States, and then officially translated into Romanian.

According to the law, the registration term is within five working days of submission of all the required documents.

Upon registration, the founders have to form the statutory capital, 40% of which must be generally paid before registration. The rest of the statutory capital has to be paid no later than six months after registration.

For entities incorporated by a sole founder, 100% of the company's statutory capital should be paid prior to the registration, except for non-monetary contributions, which have to be transferred to the company within one month of registration.

An enterprise with foreign investments can be founded as a mixed company or as a company exclusively with foreign capital.

The registration procedure for a foreign or mixed company is the same as for a local company, but additional data about citizenship and location of foreign investors is required.

To perform certain activities, business entities have to apply for a licence. The Law on Licensing established the types of activities that can only be carried out based on a licence. The establishment of a Licensing Chamber has proved quite effective for Moldova. Now, the majority of granted licences are centralised, corresponding to a procedure applicable for everybody.

6.5. Joint Stock Company (JSC)

The number of shareholders in a JSC is not limited. A JSC may be incorporated by one founder only if the latter is not another company established by one person. When founding a new company the shares are placed only between founders according to their contributions and have to be registered with the National Commission for Financial Market.

The statutory capital of a JSC cannot be less than MDL 20,000 (approximately, EUR 1,325). Statutory capital of JSCs must be formed before registration, except for non-monetary contributions, which have to be transferred to the company within one month of registration.

The statutory capital of a JSC is divided in registered shares ("acțiuni", in Romanian). From the perspective of the rights a share confers upon its holder, a JSC is allowed to issue preferential shares. Such shares confer a preferential right to the distribution of dividends, without conferring voting rights in the General Meeting of Shareholders. The preferential shares cannot represent more than 25% of the company's statutory capital.

There is no pre-emptive right to purchase shares (except for some JSC, registered before 1 January 2008) in a JSC. Nevertheless the shareholders in a JSC have a pre-emptive right for additional share issues. JSC shares are regarded as securities and, therefore, may be traded on regulated capital markets, subject to compliance with specific capital market requirements.

JSCs may issue bonds. Bondholders are regarded as creditors of the company.

The supreme body of a JSC is the General Meeting of Shareholders. The executive body of a JSC may be collegiate (board) and / or "one-person" (administrator, director). The powers of the executive body of a JSC can be exercised by an individual or transferred to a managing organisation. Such an organisation can not be an affiliate of the JSC and can not conclude other agreements with the JSC, except for the management agreement.

The appointment of an auditor / auditing committee is mandatory. Should the number of shareholders in a JSC exceed 50, the formation of a steering committee (council) of the company is also mandatory.

JSCs have to disclose information publicly if one of the following criteria is met:

- The statutory capital exceeds MDL 500,000 (approximately, EUR 33,100) and the number of shareholders is more than 50;
- The shares are listed on the stock exchange;
- The company is a bank, insurance company, investment fund or private pension fund;
- The company is in process of privatisation;
- The company placed publicly its securities within the period of placement;
- The company is regarded as an entity of public interest, as described below.

Entities of public interest are deemed to be those entities, which have essential importance to the public due to their field of activity, size, number of employees and clients and are companies with dominant positions in the market, exceeding the limits of two out of three of the following criteria for the last two consecutive periods of activity:

- Total revenues – MDL 120 million (approximately EUR 7.94 million);
- Total balance sheet value – MDL 60 million (approximately 3.97 million);

– Average registered number of employees – 500 people.

In addition, the auditing of financial statements of such companies is compulsory.

6.6 Limited Liability Company (LLC)

An LLC can be incorporated by one or several individuals and / or legal entities. The total number of shareholders can not exceed 50.

The minimum capital requirement for a limited liability company is MDL 5,400 (approximately, EUR 360), 40% of which must be paid before the company is registered. The rest of the statutory capital has to be paid no later than six months after registration. For LLCs formed only by one founder, 100% of the company share capital should be paid prior to the registration, except for non-monetary contributions, which have to be transferred to the company within one month of registration.

The statutory capital of LLCs is divided into shares ("părți sociale", in Romanian), which entitle their holder to cast voting rights in General Meeting of Shareholders. There is only one type of share in an LLC. The shareholders of LLCs have the pre-emptive right to purchase other shareholders' shares before they are offered to third parties. At the same time, the shares in LLCs may be freely sold to other shareholders, spouses and relatives to a certain grade, unless the Articles of Association provides otherwise.

The supreme body of LLCs is the General Meeting of Shareholders. The executive body of LLCs and JSCs is one or several administrators (directors). The administrator of an LLC has to be an individual.

The articles of incorporation of an LLC may provide for the formation of a council of the company, as well as the appointment of an auditor / auditing committee. Should the number of shareholders in an LLC exceed 15, the appointment of an auditor / auditing committee is mandatory.

6.7 General and limited partnership

A General Partnership can be incorporated by individuals and / or legal entities, whose number can not be fewer than two or more than 20. Partners of a general partnership bear unlimited and joint responsibility for the partnership's obligations. A partner in a general partnership may not be an unlimited partner in any other partnership.

A Limited Liability Partnership has both unlimited and limited partners. The liability of the latter is limited to the amounts of their contributions. A person may be an unlimited partner only in one partnership.

Partnerships are regarded as legal entities. The number of partnerships incorporated in Moldova is not significant.

6.8 Reorganisation and liquidation of a business entity

A business entity may be reorganised by fusion (merger or absorption), dissolution (division and separation) or transformation under a legally established procedure.

Reorganisation and liquidation can be voluntary (based on the decision of the entity's competent body) or in certain circumstances forced (based on the decision of a court of law).

The liquidation process is quite difficult in terms of documents to be prepared and actions to be performed. It lasts more than one year. A business entity is considered liquidated after its exclusion from the State Registers of legal entities.

6.9 Branches and Representative offices

A non-resident company is entitled to establish a branch or a representative office in the Republic of Moldova. A branch of a non-resident company is registered as a business entity. It operates as an enterprise fully owned by the foreign investor from the moment of its registration. A representative office established in the Republic of Moldova by a non-resident company is not a legal entity and may not carry out entrepreneurial activity.

Branches and / or representative offices established in the Republic of Moldova by resident companies with foreign investments are not legal entities.



7 Labour relations and social security

- Moldova has a well-educated labour force (good knowledge of foreign languages)
- The salary costs are relatively low. Forecasted average monthly salary for 2009 is MDL 3,140 (EUR 208)
- The employer social security contribution has fallen to 23%

7.1 Labour Relations

Employer / employee relations

Employer / employee relations in Moldova are regulated by the Labour Code, Collective Labour Conventions (at national, territorial, branch and company level) and other special laws (e.g. Law on wages).

The National Collective Labour Conventions are concluded between the Government, the Federation of Professional Unions and the National Confederation of Patronage (independent union of employers).

The labour legislation provides employees with minimum guarantees which cannot be worsened or limited by any employment contract. Contracting out of the provisions of the labour legislation is not allowed.

Certain aspects of employer / employee relations are regulated in internal regulations adopted at the company level by the employer (e.g. staff handbook).

Unions

Trade unions, historically, were very tough in negotiations on labour relations. They are currently effective in obtaining minimum wage legislation, as well as other basic rights for employees. They also conclude annual collective labour agreements at different branch and company levels.

Union membership for employees is not compulsory, but still has a high-level of influence in large and state-owned enterprises. In small private companies they tend to be less active.

Employers should ensure the necessary conditions for the activity of unions. Unions have no right to participate in the management of a company and its commercial activity. Nevertheless, sometimes the employer should take the opinion of the trade union into account when adopting internal regulations (i.e. internal policies) or dismissing trade union members.

The Labour Code

The Moldovan Labour Code (effective as of 1 October 2003) is the main law that regulates labour relationships. It contains provisions concerning individual employment contracts and collective labour agreements, working time and rest periods, remuneration and

other benefits, health and safety conditions, labour jurisdiction, unions and specific regulations for certain categories of employees (e.g. women, children up to 18 years old), etc.

The Labour Code has safeguards to protect employees against dismissal or termination of their employment contracts by employers (prior notice, severance allowances), harmful working environments and excessive working hours.

7.2 Working Conditions

Salaries and wages

An employer may not negotiate and establish a basic salary lower than the national minimum gross salary. This is currently MDL 900 (approximately EUR 60) per month for privately-owned companies (except for certain categories of employees in agriculture and forestry).

The average monthly salary was MDL 2,529 (EUR 167) in 2008, having increased by 22% from the previous year.

Currency regulation demands that salary payments be made in local currency (MDL), including those to foreign staff.

Many companies have a complex system of bonuses (monetary and non-monetary), and premiums that slightly increase the net base pay.

Employment contracts

The conclusion of written individual employment contracts with all employees is compulsory. The contract should contain provisions concerning the employee position, salary level, working conditions and other mandatory issues. The terms of individual labour contracts may not be worse than conditions guaranteed for employees under the labour legislation.

As a general rule, employment contracts are concluded for an indefinite period. Fixed-term employment contracts (no more than for five years) may be concluded only in specific situations provided for by the Labour Code. Otherwise, the employment contract is deemed to have been concluded for an indefinite term.

Employment contracts may also provide for a trial period of employment which can be extended for up to three months (in

certain cases up to six months).

Working Hours

The standard working week stated in the Labour Code is 40 hours, over five or six working days a week, but generally from Monday to Friday. For certain categories of employees, the number of working hours should be reduced.

On the eve of public holidays, the working day should be one hour shorter.

The law strictly defines limits and rates for overtime, holiday / weekend and night work. Overtime should not exceed 120 hours per year, or 240 hours per year in exceptional cases. Working hours on weekends or holidays can be either compensated with free time or paid. Overtime is generally paid as 150% of the hourly rate for up to a specified number of hours and 200% beyond this.

Employers are required to keep a record of all time worked by each employee, including overtime.

Paid Holidays

Annual paid vacations are established at a minimum of 28 calendar days a year (not including statutory holidays). In the first year of employment holiday leave is granted after six months of employment.

Annual paid vacation is usually granted wholly or, upon written request of the employee, can be divided into parts, one of which should be of at least 14 calendar days.

Additional paid leave can be given to employees for special occasions such as a marriage, birth of a child, death of relatives, study, etc. Sick and maternity leaves are paid from the Social Insurance Budget.

Equal Opportunities

The Labour Code states that it is unacceptable to refuse work or to give any preference to potential employees based on differences in sex, nationality, language, social or material situation, religion or other non-business characteristics, except in cases where this is compulsory for specific work conditions.

Additional privileges in working conditions, including holidays and limitation of overtime work exist for pregnant women and women with children, people under 18 years old and disabled people.

Termination of Employment

An individual employment contract may be terminated at the initiative of the employers only on the specific grounds stipulated by law (e.g. failure of trial period, systematic non-compliance with regulations / requirements or absence of the employee from the working place, theft, etc). The employers are not entitled to fire the employee in any cases other than those stipulated by law.

The Labour Code gives additional protection to specific categories of employees, including minors, female employees, employees with children, trade union members and various other categories.

Employers must strictly comply with specific procedures and documentary requirements provided by the Labour Code when terminating employment for any reason.

Resignation of an employee requires a minimum of two weeks written notice, without offering grounds for leaving. There are special conditions for the resignation of directors and chief-accountants.

7.3 Social security system

Coverage

Contributions to the social insurance system give an employee a right to pensions, illness, pregnancy and childcare benefits, professional accident and unemployment insurance and other social care services.

Contributions

All employers and employees must contribute to the state social insurance system at the following rates:

- Employers must pay social security contributions of 23% of the employee gross salary to the Social Security Fund;
- Employees pay an individual contribution of 6% of their gross salary (the percentage applies to a base capped at five times the average salary per economy for that year, i.e. MDL 15,700 (EUR 1,040 for 2009).

The social security contribution is deductible for income tax purposes for both the employer and the employee.

There are certain premises under the current local legislation, to consider that foreign citizens, temporarily living and working in Moldova, are not liable to pay social security contributions, unless specifically requested (opted for it).

It appears that the social insurance system covers only those foreign employees who have personally applied for it. The same rule applies for contributions to the pension fund.

7.4 Foreign personnel

Living Conditions

Moldovan cities have developed rapidly over the last few years.

A lot of houses have been built for the specific purpose of being rented out. Prices for accommodation vary widely and can be relatively high compared with other living costs.

Chisinau has some reasonable private kindergartens (teaching in Russian and Romanian with English as additional lessons), but there is only one international school, QSI International School of Chisinau (attached to the American Embassy).

The city has numerous restaurants and cafes, including a steadily increasing number of private restaurants serving international cuisine. Appendix E includes a list of contact numbers for some hotels and restaurants in Chisinau.

A visitor can also enjoy theatres, concert halls, opera house, cinemas, bars, nightclubs and casinos.



Restriction on employment

Depending on the needs of the national economy the Government in accordance with the recommendations of the Ministry of Economy and Commerce and of the Ministry of Internal Affairs sets up the annual immigration threshold for work purposes.

Generally, foreign people have the same rights and obligations as Moldovan citizens. Certain exceptions are, however, specified in law:

- Foreign nationals have no right to vote or to be elected to state legislative authorities and executive powers;
- Foreign nationals cannot be members of political parties and organisations;
- Foreign nationals cannot participate in military service for Moldova.

If a foreign person staying in Moldova breaks the law, or their presence can damage national security or public order, they can be expelled from the country.

Foreign citizens that intend to work in Moldova must obtain the following documents: work permit, certificate of immigration, temporary residence permit for work purposes.

Labour conditions for foreign employees must be set in an individual labour contract.

Fiscal Registration number

Fiscal registration number for foreign nationals constitutes the identification number indicated in the temporary residence permit for work purposes.

Work and Residence Permits

A new law on migration for work purposes entered into force on 1 January, 2009.

According to Moldovan legislation, foreign citizens who work in Moldova based on a local labour contract and foreign citizens seconded to Moldova for a period exceeding 30 days have to obtain a work permit.

Should a foreign citizen stay in Moldova for more than 90 days within a six-month period, it is compulsory for them to obtain a temporary residence permit for work purposes.

The temporary residence permit for work purposes is based on the certificate of immigration.

Special provisions may apply for company founders and administrators.

8 Accounting and Audit requirements

- New Accounting and Auditing Laws introducing a large number of major changes were passed and enter into force on 1 January 2008
- Current National Accounting Standards (NAS) and regulations are based on relevant International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), 1993 edition and later
- Differences still exist between Moldovan NAS and IFRS
- Current National Standards on Auditing (NSA) are based on International Standards on Auditing (ISA), 1999 and later IFAC Technical Pronouncements
- Code of Professional Conduct for Auditors and Accountants is based on the 2000 IFAC Code of Ethics

The legal and regulatory framework of accounting and auditing consists of the Accounting and Auditing Law, National Accounting Standards (NAS), National Standards on Auditing (NSA) and the Code of Professional Conduct for Accountants and Auditors.

New Accounting and Audit Laws come into force from 1 January 2008. These laws were prepared and approved by the Parliament of the Republic of Moldova in order to comply with EU directives. According to new Accounting Law only Public Interest Entities (PIE) are obliged to prepare Financial Statements according to IFRS. Audit of these PIEs is mandatory. Companies other than PIEs can prepare IFRS or NAS financial statements and audit them on a voluntary basis. Legal requirements for the appointment of auditors are established by the Audit law and the law on Joint Stock Companies. According to Accounting Law an enterprise must maintain accounting books and records such as primary documents, accounting registers and general ledger. The annual financial statements submitted to the authorities include Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Shareholder's Equity, Appendices and explanatory notes to the financial statements and Management Report.

Professional accounting and auditing services provided in Moldova are different and depend on the company's needs. They include Audit and other Related Services, Advisory, Tax Consulting. All these services are provided by PricewaterhouseCoopers, which has highly trained staff who can assist in every phase of the required professional services. For detailed information about our services, please refer to Chapter 13 "PricewaterhouseCoopers in Moldova".

8.1 Accounting

1. Introduction of International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are set by the International Accounting Standards Boards (IASB). International Financial Reporting Standards include:

- IFRS, including all the annexes which are component part of the standards (IAS – in the past);
- Interpretation of IFRS (stands for IFRIC (SIC in the past));
- Fundamentals of filling in and submitting financial statements;
- Annexes to IFRS, not part of standards;
- Implementation recommendations.

The new Accounting Law nr.113-XVI adopted by the Parliament of Republic of Moldova on 27 April 2007 is in compliance with the European community's recommendations. The Council of Europe experts, who participated in the development of this Law, have the opinion that this Law corresponds to modern requirements and will essentially contribute to the harmonisation of the Republic of Moldova's legislation in the economic - financial area with other European countries' legislation. They confirmed that the new Accounting Law is one of the best in Europe. The Law created the background of the juridical frame necessary for the implementation of IFRS in the Republic of Moldova.

2. Accounting principles

The accounting principles of the Republic of Moldova are established and approved by Accounting law and Ministry of Finance by Order nr.174 dated 25 December 1997 (National Accounting Standard Nr.1 - Accounting Policies). Accounting Law sets Moldovan accounting principles, based on General Accepted Accounting Principles. Accounting and tax principles must conform to each other.

According to Accounting Law there are six accounting principles and four qualitative characteristics of financial statements. The accounting principles are: accrual basis, going concern, consistency of presentation, permanency of methods, segregation of equity and liabilities and non offset principle. Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

8 Accounting and Audit requirements

3. Statutory requirements and preparation of financial statements

Legal Accounting Regulations

Unlike some countries where an independent professional body may be given responsibility to set all or part of the standards, all accounting regulations in Moldova are currently established by the Ministry of Finance. These take the form of:

- Starting 1 January 2008 - New Accounting Law nr. 113-XVI dated 27 April 2007;
- Conceptual framework related to preparation and presentation of financial statements; Chart of accounts, approved by order of Ministry of Finance nr.174 dated on 25 December 1997;
- National Accounting Standards approved by Ministry of Finance and its Comments;
- Ministry of Finance regulations, methodical indications and other instructions;
- Orders of the Ministry of Finance providing additional guidance on accounting and tax issues.

New Accounting Law effective 1 January 2008

Accounting activity's state regulatory function is performed by the Government, Ministry of Finance, National Bank of Moldova, National Commission on Financial Market (NCFM), other public institution approved by Government, Informational Service of the National Bureau of Statistics and Professional Associations approved by Government.

According to the law, from 1 January 2009 public interest entities (PIE) are required to prepare financial statements according to IFRS.

PIE are deemed those entities that have essential importance for the public due to their field of activity, size, number of workers and clients, and are financial institutions, investment funds, insurance companies, non-government pension funds or commercial companies whose shares are listed on the Moldovan Stock Exchange, as well as other entities that hold dominant positions on the market, exceeding the limits of two out of three subsequent criteria for the last two consecutive periods of activity.

These criteria are:

- Total revenues – MDL 120 million, (approximately EUR 7.95 million);
- Total balance sheet value – MDL 60 million, (approximately EUR 4 million);
- Average registered number of workers – 500 people.

The entities, other than public institutions, using the double entry accounting system will keep their accounting based on IFRS or NAS pursuant to their accounting policy.

The entity applying IFRS is entitled to develop its own chart of accounts that will correspond to the IFRS requirements or they can use the current chart of accounts. PIE shall submit semi-annual and annual financial statements, while other entities will submit annual statements. In addition to financial statements, PIE

will have to submit the management report and audit report once per year, should an audit be required on a mandatory basis.

Accounting periods covered by the transition to IFRS

The entities that will apply IFRS can be divided into two categories:

- Entities that will apply IFRS for the first time will be guided by the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards";
- Entities already applying IFRS will not be guided by the provisions of IFRS 1.

The process of transition to IFRS distinguishes two key terms – the transition date and the reporting date. The reporting date represents the end of the last period that is part of the periods included in the first set of financial statements prepared based on IFRS; according to a Government decision this will be 31 December 2010. The transition date represents the start of the compared period included in the first set of financial statements; according to the Accounting Law this will be 1 January 2009.

The entities applying IFRS for the first time will have:

- The transition date – 1 January 2009;
- Semi-annual reporting date – 30 June 2010;
- Annual reporting date – 31 December 2010.

Entities already applying IFRS will have:

- Semi-annual reporting date – 30 June 2010;
- Annual reporting date – 31 December 2010.

4. Significant accounting differences between NAS and IFRS

National Accounting Standards (NAS) were prepared based on International Accounting Standards (IAS), 1993 edition. Financial reporting point of view of IFRS is to present accurately financial statements and results, while NAS financial reporting is prepared taking tax opportunities more into consideration. IFRS financial statements disclose sufficient information for its users, while NAS financial forms are strict forms, as approved by the Ministry of Finance, are rigid.

The original IAS context was modified, resulting in some cases in major differences between NAS and IAS. Nowadays there are IFRS, the application of which is fundamental for financial situations, and there are no comparable NAS, for example IAS 36 "Impairment of assets", IAS 39 "Financial instruments", IFRS 7 "Financial Instruments: Disclosures".

Several differences between NAS and IFRS for manufacturing and services companies:

- Provisions for the bad debts and stocks are rarely calculated per NAS, because there is no clear guidance in NAS and they are not deductible for tax purposes; while IFRS requires these if necessary;
- For revenue recognition NAS takes into consideration only the moment of legal ownership transfer of goods. Other aspects of the transaction are rarely taking into consideration, such as Inco terms or cut-off errors;

- There are no provisions for warranty services calculations made per NAS;
- For IAS 40 “Property Investments” NAS 25 “Investments Accounting” is required, but everyone uses NAS 16 “Accounting for Long-term assets”;
- Under NAS companies do not perform the test on impairment of assets other than financial assets which is required by IAS 36 “Impairment of assets”

Several differences between NAS and IFRS for financial institutions

- Loan loss provisions are calculated according to the NBM regulations, while IFRS assessment of provisions are different;
- Commissions and other credit related fees at inception of loans are recognised as revenue when loans are issued. Under IFRS, loan origination fees are included in the calculation of amortised cost using the effective interest method and amortised to the income statement over the relevant period;

Several differences between NAS and IFRS for insurance companies

- There is only one international standard in this area (IFRS 4), that regulates such important aspects as the recognition method of the acquisition costs of the assurance policies, calculation of the technical and life and pension as insurance reserves.
- Accident (catastrophe) reserves which are calculated according to local regulations and prohibited according to IFRS;
- Test on Reserves sufficiency are not demanded by local regulations or standards, but are mandatory according to IFRS 4;
- Depreciation of re-assurance operations assets is not demanded by local regulations or standards, but is mandatory according to IFRS 4.

5. Profile of the accounting profession

There is no licensing body or requirements for the accounting profession. Anyone with a degree in accounting can become an accountant. The Code of Professional Conduct for Auditors and Accountants is based on the 2000 IFAC Code of Ethics and establishes a conceptual framework for all professional accountants and auditors to ensure compliance with the five principles of professional ethics – independence, integrity and objectivity, professional competence and due care, confidentiality and professional behaviour, and follow the professional standards. Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than clearly insignificant to apply safeguards to eliminate them or reduce them to an acceptable level so that compliance with the fundamental principles is not compromised.

8.2 Chart of accounts

Chart of accounts for companies

Ministry of Finance Instruction on “Chart of Accounts of company’s economic – financial activity” nr.174 dated on 25 December 1997 sets the account numbers of this standard grouping. It is prepared according to NAS, taking into consideration preparation of financial statements’ requirements and managerial accounting necessity.

The chart of account is based on classifying accounts based on economic content and includes class of accounts, group of accounts, accounts of level I (synthetic accounts) and accounts of level II (subaccounts). The principle underlying the Chart of Accounts is that almost all companies record the same item in the same three-digit summary account (called level I account), irrespective of the nature of their business. When further details are needed by an enterprise due to business specifics, four-digit (called level II account) or five-digit (called level III account) sub-accounts are used.

However, the grouping of accounts is not always consistent with what one might expect from a Western perspective. Enterprises may introduce additional groups of accounts and level I summary accounts as needed, if the Ministry of Finance of the Republic of Moldova grants approval. Sub-accounts (level II & III accounts) may be established as needed.

Chart of accounts for Banks

The present Chart of Accounts of Banks and other financial institutions of Republic of Moldova (further “Chart of Accounts”) is prepared according to articles 5, 11 and 44 of Law on National Bank of Moldova Nr. 548-XIII dated 21.07.95, art. 33 Law on Financial Institutions Nr. 550-XIII dated 21.07.95 and National Accounting Standards and current legislation.

Chart of Accounts requirements cover all banks and financial institutions accredited by the National Bank of Moldova, including branches of foreign banks, accredited by the National Bank of Moldova (further “banks”).

Chart of accounts is based on classifying accounts after economic content and includes accounts, registered in accounting (operations performed in the banks, content and destination of every account, description of account).

Chart of accounts is the whole system of accounts; within this system each account has its name and numerical symbol, includes class and group, based on a certain criteria.

Chart of accounts includes 7 classes.

The classifying of groups of accounts within classes, and separate accounts within groups is based in the hierarchy principle. Hierarchy of classes, groups, accounts is reflected by means of four digits:

First digit of the account reflects its class.

The second and third digits mean group, which gather accounts with similar economic content.

The fourth digit stipulates the exact object of the accounting.



Within one structure, each group may include nine accounts. However, in order to avoid allocation of account of general economic content certain groups include more accounts. In addition, one group may include accounts which should be allocated to different groups (after second, third digit).

8.3 Audit requirements

1. Audit Legal Framework

Audit activity's state regulatory function is performed by the Ministry of Finance, Audit Activity Supervision Council and License Chamber. The legislative and normative framework of the current auditing system includes:

- The New Law on Auditing Activity nr 61-VI dated 16 March 2007 effective from 1 January 2008
- National Standards on Auditing issued by the Ministry of Finance; according to International Standards on Auditing (ISA) approved by IFAC
- The Code of Professional Conduct for Auditors and Accountants was approved by the Ministry of Finance by Instruction nr 29 dated 1 March 2001
- Licensing law nr 451-XV dated 30 July 2001
- In addition, further regulations exist for enterprises in specific industries such as investments funds, banks and insurance companies.
- Government Decision nr 1450 dated 24 December 2007 regarding certain implementation measures for Law 61-XVI dated 16 March 2007 regulating audit activity

The National Standards on Auditing (NSAs) were approved and published in 2000 and are based on the 1999, 2000 IFAC technical pronouncements. NSAs become effective for audits of financial statements covering periods beginning in or after January 2001. The Code of Professional Conduct for Auditors and Accountants was approved by the Ministry of Finance and published in March 2001 and is based on the 2000 IFAC Code of Ethics. Publication of the NSAs and the Code in 2000 - 2001 with enforcement effectively starting in 2002 gave practitioners at least one year to absorb the pronouncements and develop appropriate policies and procedures within their practices.

2. The New Law on Audit activity effective from 1 January 2008

Government Decision 1450 dated 24 December 2007 approved the measures for implementing from 1 January 2008 Law 61-XVI, dated 16 March 2007, regulating the audit activity. This Decision approves the Regulations of the Council for Supervision of Audit Activities with the Ministry of Finance and the member list. These Regulations establish the appointment criteria of the Council members, the main duties and responsibilities and the organisation of the activity of the Council and of the Control and Verification Service. In addition, the Regulations regarding the certification of auditors – detailing the requirements for applicants, the qualification examination, the evaluation of the results and the decision-making etc – were approved.

According to new audit law, the Code of conduct is prepared and updated according to EU directives and ISA. Under this Law, auditing of annual financial, including consolidated, statements is compulsory for PIE. In the event of performing the audit for PIE, the audit societies should submit an annual Report regarding their transparency, which will be subsequently placed on the Ministry of Finance web site.

Audit activity is based on the following fundamental principles: independence, integrity and objectivity, professional competence and due care, confidentiality and professional behaviour, and follow professional standards.

For the purposes of audit risk insurance, audit companies must enter into a civil professional liability agreement with an insurance company and / or create provisions of not less than 15% of company revenues. Audit qualification certificates are issued to individuals that pass the qualification examinations, who possess a university degree in the economic-financial or legal domains and have not less than three years work experience, from which two-thirds was as a probationer in an audit company. According to audit activity the certificates are given by Ministry of Finance, National Bank of Moldova and National Commission on Financial Market (NCFM) respectively and are valid for an unlimited period.

3. Audit Opinions Issued under Moldovan Law Censors Report

The law does not require any specific format for this report but its content must address specific issues.

Independent Auditors' Report on Statutory Financial Statements

The National Standard on Auditing 700 "The Auditors report on Financial Statements" suggests formats for audit reports as well as audit reports guidelines.

9 Tax system and administration

Investor considerations

- Fiscal amnesty was implemented for the fiscal period ending 1 January 2007, i.e. outstanding liabilities recorded as at 1 January 2007 of legal entities and individuals to the state budget, social fund and medical insurance fund are annulled. No tax inspections may be performed for fiscal periods up to 1 January 2007, except for cases where voluntary requests are made by the taxpayer (e.g. for tax refund purposes)
- 0% - corporate income tax rate
- A 25% fine applicable for the non-declared amount (diminished) of the taxable income
- 15% withholding tax (WHT) on dividend payments to non-residents
- The Commentaries to the OECD Model Tax Convention on Income and on Capital should be used by the Moldovan Tax Authorities (MTA) and taxpayers as guidance on the interpretation of Double Tax Treaties and, correspondingly, for tax administration purposes

9.1 Tax System

Administration of the tax system

The Moldovan tax system is evolving rapidly. The direction of reform is generally positive, although it is sometimes unpredictable. The Tax Code has been revised frequently.

The Moldovan tax administration comprises of the Main State Inspectorate of the Ministry of Finance. The central Tax Administration with its five branch offices is in Chisinau, with 36 territorial offices throughout Moldova. The central office of the Tax Administration is responsible for monitoring and implementing uniform compliance with tax obligations throughout the country.

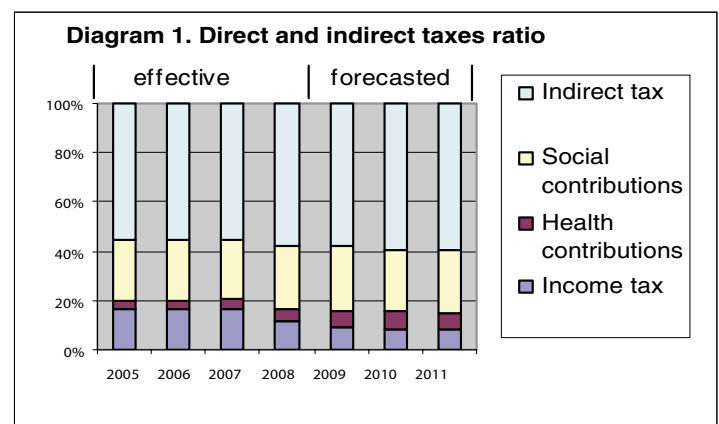
Registration requirements

Generally, tax registration is conducted together with state registration with the local tax authorities.

9.2 Direct and indirect tax burden

At more than 88 percents, fiscal revenues represent the main income source for the national public budget.

Indirect taxes are the main contributor to fiscal revenues, providing 55% in recent years. The trend of direct and indirect taxes proportion of the total amount of fiscal revenues for the period 2005 - 2008 and forecasted for 2009 - 2011 is illustrated in Diagram 1.



Source: Middle-term expenditure framework for 2009 - 2011 issued by the Government of Moldova

As the most important fiscal reforms are oriented to direct taxes, especially the implementation of nil Corporate Income Tax rate, it is forecasted that indirect taxes will generate the highest growing rates.

9.3 Principal taxes

Taxes and duties are levied both at the national and local levels.

The principal national taxes, duties and contributions, are:

- Corporate Income Tax (see Chapter 10);
- Personal Income tax (see Chapter 11);
- Social security contributions (see Chapter 11);
- Health insurance contributions (see Chapter 11);

9 Tax system and administration

- VAT (see Chapter 12);
- Excise Taxes (see Section 5.3, Chapter 5);
- Customs Duties (see Chapter 5).

Local taxes and duties include (see Section 10.7): taxes on immovable property; taxes on natural resources; road taxes; land improvement duty; hotel room occupancy tax; tax on advertising placement; duty for the right to perform local auctions and lotteries; parking tax, fee for the right to use local symbols, etc.

The tax system can traditionally be grouped into direct and indirect taxes.

Direct taxes: income tax; privatisation tax; road tax; tax on immovable property; tax on the use of natural resources; other local taxes. Direct taxes are meant to be borne by the taxpayer paying them.

Indirect taxes: value-added tax; excise duties and customs duties. Indirect taxes are directed towards the consumption of goods and services. The consumer ultimately bears the tax, but businesses are responsible for the transfer of these taxes.

Tax rates for principal national taxes, duties and contributions are listed in the Appendix F.

9.4 Legislative framework

Statute law

International tax treaties, Moldovan Constitution, Tax Code, the Law on Budget for the relevant fiscal year, the Law on social insurance, as well as the Law on medical insurance funds are the main legislative acts regulating the taxation of legal entities, entrepreneurs and individuals. The Tax Code establishes the general norms of taxation, exemptions and the tax rates.

According to the Constitution, taxes and duties may only be established by laws enacted by Parliament. Parliament exercises this prerogative frequently.

Case law

Moldova does not follow case law. At the same time, courts of law apply the explanatory recommendations approved by the Supreme Court of Justice.

9.5 Tax treaties

The Commentaries to the OECD Model Tax Convention on Income and on Capital should be used by the MTA and taxpayers as guidance on the interpretation of Double Tax Treaties and, correspondingly, for tax administration purposes.

Appendix G includes details of the 40 DTT applicable in 2009 signed by Moldova with other contracting states.

The DTT's concluded by Moldova with other countries may provide for more favourable tax regimes than those provided by the local legislation. In order to apply the relevant provisions of the DTT's, it is required that the foreign beneficiaries of such income provide the Moldovan entity with its fiscal residency certificate before the payments are actually performed. The certificate is only valid for the calendar year (i.e. calendar year starting with 1 January) of its issuance.

The fiscal residency certificates must comply with the following requirements:

- must be issued by the competent authority of the foreign country;
- must be available in original and properly legalised;
- must be translated into Romanian.

9.6 Tax returns and payments

Generally, the Moldovan tax legislation provides that timeframes for submission of tax returns (i.e. monthly, quarterly, annually) vary from one type of tax or duty to another.

An annual corporate income tax return has to be submitted to the MTA by 31 March of the year following the reporting one. For new business entities, the fiscal year is considered to be the period beginning with the registration date until the end of the calendar year.

The law also provides for various reporting deadlines for payments of withholding tax and VAT.

For WHT and VAT purposes, the fiscal period is the calendar month starting with the first day of the month. WHT and VAT liabilities have to be declared and settled monthly by the end of the month following the reporting one.

Individual entrepreneurs and farming enterprises with an annual average number of employees not exceeding three and not registered as VAT payers have to submit a unified tax return, if certain conditions are met.

Moldovan tax law provides for a specific procedure for taxpayers submitting adjusted tax returns (after the taxpayer identifies previous errors) within a limited period of time.

Generally, payment of taxes and duties are performed through a bank payment order. However, there are certain cases where such payments can be performed in cash.

9.7 Assessments

Taxes are calculated by the taxpayer by way of self-assessment. Exception is Tax on immovable property where the taxpayer – individual – receives a notification from the MTA on the tax amount due.

However, if the MTA determine that the tax shown on the return is incorrect, they may assess tax liabilities within a four-year period from the date set out for the submission of that tax return or from the date the settlement of the tax liability shall be performed.

9.8 Appeals

Decisions issued by tax authorities, as well as actions performed by their officials can be appealed by taxpayers by submitting a preliminary petition to the same tax authority which issued the decision or whose official performed the action.

Preliminary petitions can be filed within 30 days of the contested decision being issued or the action being performed. Under the Tax Code, the applicant bears the burden of proof that the decision adopted by a tax authority is illegal. Preliminary petitions are examined within 30 days of being submitted. This term can be extended by 30 days. A preliminary petition does not suspend the execution of the contested decision.

Decisions issued concerning the preliminary petition can be contested at the Main State Inspectorate of the Ministry of Finance or appealed in the competent court of law within 30 days.

There are no state duties to be paid for appeals against tax authority decisions.

9.9 Withholding taxes

WHT on payments to residents

Each resident legal entity that makes payments to individuals in the form of dividends, interest, royalties, payments for lease, rent or usufruct of movable and immovable property, must withhold and pay to the budget a WHT at the following rates:

- 5% of payment made on benefit of resident individual, unless these payments have either salary nature or are tax exempted;
- 10% final withholding of an individual's income derived from lease, rent, usufruct of movable and immovable property, advertising campaign, gambling activities;
- 15% of dividends paid to individuals, except those related to the fiscal periods prior 1 January 2008;
- 15% of interest paid to individuals (except for individuals older 60 years) and royalties. The beneficiary deducts (i.e. recover) the 15% WHT from its due income tax;
- 15% WHT is applied on the monetary and non-monetary payments performed for the benefit of individuals, should such expenses be treated as non-deductible for the paying Company and non-taxable for the recipients.

Further to the implementation of the 0% CIT, the WHT will not be applied on payments between resident legal entities.

WHT on payments to non-residents

Under local tax provisions for 2009, non-residents are subject to WHT (without deducting the related expenses) as follows:

- 15% of dividends paid out;
- 15% of monetary and non-monetary payments made to non-residents, irrespective of their nature, if these payments are treated as non-deductible expenses for CIT purposes for the Moldovan paying entity;
- 10% for service fees received by a non-resident for services if they were performed on the territory of Moldova;

- 10% of capital gains received from the sale of real estate located on the territory of Moldova or from the sale of the shares, if the shares are sold to a Moldovan resident. The taxable base is estimated based on the capital gains rule, i.e. 50% of the difference between the amount of the proceeds and the fiscal book value of the assets;
- 10% on royalties, as well as on other income defined by the Tax Code.

The Moldovan Tax Code defines royalties as payments of any kind received in consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work, including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use any copyright of computer programs, or for information concerning industrial, commercial or scientific experience.

It is questionable whether the 15% WHT on both monetary and non-monetary payments made to non-residents, irrespective of their nature, if these payments are treated as non-deductible expenses for CIT purposes for the Moldovan paying entity, can be avoided by applying the provisions of the DTT.

9.10 Tax inspections

Under the Moldovan Tax Code, tax authorities or other empowered fiscal administration bodies (i.e. Centre for Combating Economic Crimes and Corruption, Custom authorities, etc.) can perform scheduled inspections a maximum of once a calendar year for the same taxes and duties which refer to the same fiscal periods.

Taxpayer liabilities can be subject to a tax inspection only within the limitation period – four years from the last date established for the submission of the relevant report and payment of that tax. However, no tax inspection can be performed on the accuracy of calculation and payment of tax liabilities and other payments for fiscal periods up to 1 January 2007, except for cases where voluntary requests are made by the taxpayer (e.g. for refund purposes).

Legal entities must be notified of the inspection in writing at least three working days before the scheduled inspection. The duration of a tax inspection can not exceed two calendar months. In exceptional cases, the management of the authority can decide to extend the period by no more than three calendar months or to stop the inspection.

The results of the tax inspection are drawn up in a minute of tax inspection. Based on this minute, the tax authority issues a decision on the specific case which can be appealed according to the procedure described above (see Section 9.8).

9 Tax system and administration



9.11 Penalties

Administration of penalties and fines is regulated through the Tax Code, Chapter V "Tax Administration".

The MTA are entitled to apply a fine of 25% to the amount by which a taxpayer under-reported its taxable income.

Taxpayers who settle amounts as assessed by the MTA within three business days and have no other outstanding liabilities qualify for some tax incentives (i.e. 50% reduction of fines).

In addition, some special provisions regarding tax evasion apply. Tax evasion is assessed on a case-by-case basis but usually assumes the insertion into financial statements, tax returns and accounting documents of false information on revenues and expenses. In addition, hiding other taxable income may also be considered as tax evasion.

Under tax law, the MTA are entitled to apply a fine in the amount of the undeclared tax if this is a result of tax evasion.

Should the amount of the tax due exceed MDL 50,000 (around EUR 3,300), the tax evasion is regarded as a criminal offence. According to the Moldovan Criminal Code, legal entities can be punished for tax evasion with a fine of up to MDL 120,000 (around EUR 8,000) and interdiction from performing certain activities or winding-up.

In 2009, penalties for late payment of taxes, duties and contributions are computed by applying 0.057% per day of delay (i.e. 21% per year).

9.12 Advance tax rulings

There are no binding ruling as such.

Anyone that computed inadequately tax liabilities due to wrong written explanations issued by the MTA may not be subject to sanctions (i.e. fines and late-payment penalties).

Still, tax liabilities may be recomputed by MTA. Written explanations are issued by the MTA free of charge and may remain valid for an indefinite period of time, unless cancelled by new legislation or other ruling. They are issued generally during a period of up to one month.

10 Taxation of Corporations

Investor considerations

- Legal entities apply the **0% CIT rate during 2009**
 - **Government representatives forecast that the 0% CIT rate will be applied for 2010**
 - The fiscal year is the calendar year for all entities
-

10.1 Corporate Tax System (CIT)

Territoriality

Resident legal entities are taxed on their world-wide income. Foreign legal entities are taxed only on the income derived from Moldovan sources or on income derived through activity performed by a Permanent Establishment.

Consolidation

There is no system of group taxation in Moldova. Members of a group must file separate tax returns. There are no provisions to offset the losses of group members against the profits of another group member.

Representative Offices

Under the Moldovan legislation on entrepreneurial activity, Representative Offices of non-resident companies are not entitled to perform any economic / commercial activity and do not have the status of a legal entity.

In accordance with the tax legislation, a Representative Office of a foreign entity is treated as a local taxpayer and consequently incurs the same tax liabilities as domestic entities, except for CIT.

Permanent Establishment ("PE") / Branch

Under the Moldovan Tax Code, a PE represents a fixed place of business through which the non-resident carries out, wholly or partly, entrepreneurial activity on the territory of Moldova either directly, or through a dependent agent. If a PE is generated, Moldova has the right to tax the income derived from the activity performed on the territory of Moldova.

A branch of a non-resident company is registered in Moldova as an enterprise fully owned by the foreign investor. There is no difference, therefore, between branches of non-resident companies and local companies founded by a foreign investor and the taxation regime of a branch and a subsidiary.

10.2 Incentives

As the nil CIT rate was implemented on 1 January 2008, the large number of CIT incentives stipulated by the current Moldovan legislation are not feasible.

The law neither contains any guarantees, nor does it stipulate any timeframe during which the nil CIT rate is applicable. However, according to Government representative statements it is expected that 0% CIT rate will apply during 2010 - 2011, as well.

The following entities can benefit from tax incentives stipulated by the current provisions of the Moldovan Tax Code:

- Small Business Companies
- Businesses with investments in statutory capital or that make capital investments² of over a certain amount
- Residents of the International Giurgiulești port
- Free Entrepreneurial Zones (F.E.Z.)
- Farming entities
- IT companies
- Commercial banks and Micro financing Organizations

10.3 Taxable income

The applicability of the nil CIT rate does not eliminate the liability of legal entities to compute their taxable income basis and to fill in returns accordingly.

All entities doing business in Moldova are required to keep their accounts by calendar year.

The fiscal period for CIT is considered to be the calendar year at the end of which the taxable income is determined and the taxable amount is calculated.

The taxable income of a legal entity is calculated on an accrual basis. According to this method:

- Income is reported in the period of earning;
- expenses are deductible in the period when they were computed or when other payments were made, if these expenses or payments do not have to be reported in other periods, in order to reflect the income correctly.

²The term "*Capital investment (expenses)*" is defined in Moldovan tax law as expenses (costs) incurred by the beneficiary of the incentive when acquiring and / or improving long-term tangible assets which are not reported in the results of the current period, but are included in the entry value of the assets.

10 Taxation of Corporations

Business profits

The annual accounts are used as the basis for calculating taxable income.

The taxable income is computed as the difference between the revenues derived from any source and the expenses incurred in obtaining taxable revenues, throughout the tax year, of which non-taxable revenues are deducted and to which non-deductible expenses are added.

In addition, there are other elements which companies must consider when computing the taxable income (i.e. fiscal losses).

Capital gains

As a general rule, real estate assets and shares are treated as capital assets for tax purposes. The income earned from their sale is therefore deemed as capital gain, equal to 50% of the difference between the purchase and the sale price. The capital gain is included in the Moldovan Company's annual income and taxed based on the general rule. Capital losses can be carried forward to the next year to offset future capital gains.

Should such assets be sold within the frame of the ordinary business activity (i.e. operational activity), the capital gains taxation rule does not apply. Consequently, the income (loss) recorded from their sale is calculated according to the general rule of computation of the Company's total taxable income.

Non-taxable revenues

The most relevant non-taxable revenues stipulated by the Moldovan Tax Code are:

- Income earned from contributions to the capital of a business entity in exchange for an equity interest in the capital of the given entity;
- Income earned from benefiting from an income tax exemption;
- Monies received from special funds and which are used in accordance with the funds' destination;
- Income derived from property or money received free of charge based on a Government decision;
- Interest received on deposits placed in Moldovan banks for period exceeding three years and certain securities issued for periods exceeding three years (until 2010);
- Income derived from the annulment of the outstanding liabilities recorded as at 1 January 2007 due to the fiscal amnesty.

10.4 Deductibility of expenses

Business expenses

As a general rule, expenses are deductible only if incurred for the purposes of generating taxable income and are considered as ordinary and necessary.

Deductible expenses

Among deductible expenses considered to be incurred for the purposes of generating taxable income are the following:

- The ordinary and necessary expenses paid out or incurred by the taxpayer during the fiscal year, exclusively for entrepreneurial purposes;
- Amortisation of intangible assets according to the straight-line method;
- Research and development expenses incurred during the fiscal year as current expenses;
- Depreciation of fixed assets calculated depending on the category of property and in accordance with the established rates;
- Payroll payments and related social and health insurance contributions, etc.

Under domestic tax law, there are certain rules that stipulate the limited deductibility or non deductibility of expenses for CIT purposes.

Fiscal Depreciation

Fixed assets are subject to CIT depreciation under the diminishing balance method if their useful economic life exceeds one year and acquisition costs exceed MDL 3,000 (around EUR 199).

According to the fiscal law, fixed assets are divided into five categories. These categories are set out according to specific rules, mainly on the assets' useful life (i.e. the number of years during which the assets' utilisation generates economic advantages; the useful life for each type of depreciating asset is regulated by Governmental Decision). The depreciation rates vary as follows:

<i>Property Category (Tax depreciation rate)</i>	<i>Useful life in years (UL)</i>
I category (5%)	UL ≥ 40
II category (8%)	40 > UL ≥ 25
III category (10%)	25 > UL ≥ 20
IV category (20%)	20 > UL ≥ 10
V category (30%)	UL < 10

Deductibility of interest on borrowings

Different CIT deductibility rules apply for interest on loans used for carrying out operational activities and for loans used for investment activities performed on an occasional basis.

As a general rule, deduction of interest and foreign exchange losses is allowed for CIT purposes, provided such expenses are deemed as ordinary and necessary for carrying out the business activity. Expenses should also be incurred for the purposes of obtaining taxable income and justified by adequate back-up documentation.

If the interest paid by a Moldovan company relates to its operational or day-to-day activities, the related expenses will be

CIT-deductible. A few other provisions should also be considered, namely:

- A Moldovan entity is allowed to deduct in 2009 interest expenses up to the limit of 16% (as specifically set by the National Bank of Moldova);
- if the loan is obtained to acquire / build fixed assets, the related interest expense should be capitalised to the initial fiscal value of assets until they are commissioned. The deductibility of this expense would be capped at the above limit. The exceeding difference is treated as a CIT non-deductible expense for the respective fiscal year;
- if interest relates to an investment activity, the interest expense is CIT deductible within the limit of the income derived from the investment.

10.5 Related party transactions

TP regulations are currently at the initial state of development as the law does not list any specific TP methods. Moreover, taking into account that Moldova is not currently an OECD member country there is no possibility of applying the OECD TP Guidelines.

Still, according to the law in force, transactions carried out between related parties should observe the arm's length principle. Transactions that do not follow this rule are disregarded for tax purposes.

In accordance with Moldovan tax law, a company is considered the taxpayer's related party if it:

- controls the taxpayer, or
- is controlled by the taxpayer, or
- both the company and the taxpayer are under the common control of a third party.

From a tax perspective, control is the ownership (either directly or through one or more related parties) of 50% or more in value of the capital or voting power of one of the companies. In this case, an individual will be treated as owning all equity interest owned directly or indirectly by members of his / her family.

Two individuals are related parties if they are spouses or relatives up to the fourth degree.

Losses incurred in dealing between related parties carried out directly or through intermediaries are treated as non-deductible for CIT purposes. The Moldovan Government foresees implementing TP provisions into Moldovan tax law which will be in compliance with the OECD TP Guidelines for Multinational Enterprises and Tax Administrations.

10.6 Other taxes

Moldovan tax law also provides for location taxation in the form of taxes and duties, such as: real estate tax, tax on natural resources, tax on immovable property and tax on advertising placement, among others.

Local taxation in Moldova refers to the application of the following types of taxes and duties:

- Real estate tax (i.e. building tax and local tax);
- Tax on natural resources:
 - Tax on water;
 - Tax on mineral exploration;
 - Tax on geological exploration;
 - Tax on mining operations;
 - Tax on usage of underground areas for the construction of underground structures not related to mining operations;
 - Tax on exploitation of underground structures within the performance of entrepreneurial activity, not related to mining operations;
 - Tax on standing wood.
- Tax on immovable property;
- Duty for the right to perform local auctions and lotteries;
- Tax on advertising placement;
- Fee for the right to use local symbols;
- Parking tax;
- Hotel room occupancy tax;
- Resort fee, etc.

11 Taxation of individuals

Investor considerations

- The fiscal year is the calendar year
- Two progressive Personal income tax ("PIT") rates (7% and 18%) are in place in 2009. However, certain types of income are taxed at 5%, 10% and 15% rate (see the point 11.6)
- Personal exemption for resident individuals is of MDL 7,200 (EUR 477) per year
- Dividend income obtained by Moldovan individuals is subject to a final 15% withholding tax at source (with the exception of dividends computed prior to 1 January 2008)
- The social security contribution rate for employees is 6% in 2009, while the rate due by Moldovan employers is 23%
- In 2009, the 6% employee social security contribution rate is applied to a base capped at five times the national average salary for the year, i.e. MDL 15,700 (approximately EUR 1,040)
- Health insurance contributions rates are 3.5%, both at the level of employers and of employees, in 2009

11.1 Territoriality and residence

Territoriality and Residence

The assessment of tax residency is important for PIT purposes. According to Moldovan tax law, a person is considered a Moldovan resident if one of the following conditions is fulfilled. The person:

1. has a permanent domicile address in Moldova, even if during the year they are abroad for study, medical or on business reasons;
2. is physically present in Moldova for a period exceeding 183 days during a fiscal year (except for diplomats and family members).

Foreign citizens become Moldovan tax residents if they stay in Moldova for at least 183 days during the fiscal year (which corresponds to the calendar one). Still, Double Tax Treaties ("DTT") concluded by Moldova with other countries may provide for different residency criteria (i.e. at least 183 days for a stay not during the calendar year, but during any other 12-month period).

As a general rule, foreign individuals who enter Moldova need entry visas. At the same time, the law provides exceptions for citizens of certain countries.

Still, should a foreign citizen stay in Moldova for more than 90 days within a six-month period, it is compulsory to obtain a residence permit.

According to Moldovan legislation, foreign citizens who work in Moldova based on a local labour contract and foreign citizens seconded to Moldova for a period exceeding 30 days have to obtain a work permit.

Moldovan tax residents are taxable on their income received during the fiscal year from any sources within Moldova, and on their investment and financial income obtained from sources outside Moldova. Foreign citizens who are Moldovan tax residents are not liable to declare investment and financial income obtained from abroad.

Foreign citizens are generally subject to the same PIT regime as Moldovan citizens.

At the same time, individuals qualifying as non-residents for Moldovan personal income tax purposes are subject to Moldovan tax only for the income derived from Moldovan sources (e.g. income received from property located in Moldova, remuneration for activity performed in Moldova, interest and royalty received from Moldovan legal entities).

11.2 Taxable income

Subject to different taxation regimes, the following sources of income, among others, are taxable:

- Income from employment, including benefits in kind;
- Income from any professional or entrepreneurial activity;
- Income of shareholders of investment funds;
- Rental fees;
- Capital gains;
- Interests, dividends, royalty, annuity (except social security benefits and benefits received on the basis of interstate agreements);
- Investment or financial income derived from abroad (e.g. dividends, interests, royalty and rent payments);
- Income received from gambling and advertising campaigns.

Income from employment

Employee gross income includes basic pay, overtime pay, supplementary pay, awards and bonuses, compensations from unused holiday or vacation time, as well as benefits in kind (e.g. housing allowances, compensation for school fees, food and personal travel expenses).

Income obtained by individuals is taxed on a cash basis. Individuals are entitled to certain deductions and exemptions from their taxable income.

Moldovan tax law provides for special rules (i.e. tax exemption) regarding the income obtained by members of diplomatic missions, and other missions accredited as such, and their personnel.

The PIT rates are differentiated and depend on the size of their annual taxable income. For 2009 the Moldovan Tax Code establishes the following progressive PIT rates:

- 7% - for annual income up to MDL 25, 200 (EUR 1,669);
- 18% - for annual income that exceeds MDL 25,200 (EUR 1,669);

Income from independent activities

An individual entrepreneur is a physical person who carries out entrepreneurial activities in his / her own name and responsibility, without incorporating a legal entity, after the registration as an individual entrepreneur.

The main advantage of this approach is that an individual entrepreneur can perform any services which are not prohibited expressly by law.

No PIT is triggered on the distribution of profits (even in advance), provided that the following conditions are met.

- Total sales revenues – up to MDL 3 million (around EUR 198,675),
- Average number of employees – up to 9 people.

No PIT return is required to be submitted to the MTA for such income. However, it is advisable to obtain a ruling in this respect.

Income from capital

There is no separate capital gains tax.

Capital gains equal 50% of the difference between the purchase price (i.e. including all costs related to the acquisition of capital assets) and the sale price and have to be included in the gross income of the individual for the year the payment of capital assets is performed.

Capital assets include:

- Shares and other participation titles;
- Acknowledgments of debt;
- Private property unused in business activity which is sold at a price that exceeds its fiscal value;

- Land;
- Purchase or selling option related to capital assets.

Under certain conditions, capital gains derived from the sale of a permanent abode are decreased by a fixed amount of MDL 10,000 (approximately EUR 662) for each year of ownership prior to the sale.

In addition, the taxpayer is allowed to deduct capital losses only to the extent of capital gains.

Non - taxable income

Moldovan tax law provides for the following main exempted sources of income:

- Sickness allowances;
- Dividends received by resident individuals, not performing entrepreneurial activity, from a resident business, for fiscal periods up to 1 January 2008;
- Interest received on deposits with Moldovan banks;
- Property donated to or inherited by individuals - Moldovan citizens;
- Compensation for moral damage;
- Gains obtained during advertising campaigns, whose value does not exceed MDL 720 (around EUR 48), etc.

11.3 Deductions

Business deductions

Business expenses are deductible for tax purposes, provided the individual is registered as a private entrepreneur or farming enterprise. For additional information concerning deductibility of expenses, please refer to Chapter 10.

Non-business deductions

No deduction of personal and family expenses is allowed for PIT purposes.

Individuals are allowed to deduct charity expenses up to a limit of 10% of the taxable income. Social security and health insurance contributions are also deductible for personal income tax purposes.

Personal allowances

In 2009, the annual personal allowance is MDL 7,200 (around EUR 477). Individuals can also benefit from a spouse's exemption of the same amount, provided the spouse does not use it in the year concerned.

In addition, an individual benefits from an annual allowance of MDL 1,680 (around EUR 111) for every dependant (except for those invalidated since childhood, who are entitled to the MDL 7,200 (around EUR 477) exemption per year). Should a dependant have several supporters, exemptions for dependants are given to every supporter.

11 Taxation of individuals

In order to benefit from personal allowances, a set of documents has to be presented by the individual.

Tax exemptions are provided only to taxpayers that are Moldovan tax residents. A taxpayer benefits from a tax exemption for their spouse and dependants provided that their spouse and dependants are also Moldovan tax residents.

11.4 Taxation of Non-residents

Non-residents are taxed on income derived from sources located in Moldova.

In accordance with current domestic tax provisions, non-residents are subject to income tax in Moldova as follows:

- 15% - on dividends;
- 15% - on monetary and non-monetary income, which is non-deductible for the Moldovan paying company from the corporate income tax perspective;
- 7 - 18% (progressive personal income tax rates) – on employment and other income treated as such;
- 10% - on other revenues.

Moldovan tax law expressly provides that the DTT prevail over national provisions. The only exception refers to cases where the domestic norms provide for more favourable tax rates (i.e. in such circumstances, the domestic rates apply).

For DTT purposes, the non-resident has to present its certificate of fiscal residency prior to the payment of income. There are currently 40 DTT concluded and in force which may provide for a more favourable tax regime.

Appendix G provides the rates applicable to non-residents' income under DTT's.



11.5 Tax compliance

Tax Administration

Returns

Annual PIT returns are to be submitted by taxpayers receiving income other than under a labour agreement no later than 31 March of the year following the reporting one, except for revenues for which final withholding taxes were applied. Still, employees working for just one employer are not liable to fill in PIT returns.

The following persons are required to file an income tax return:

- Individual residents who have tax liabilities on payment of income tax;
- Individual residents who do not have tax payment liabilities, but derive income from sources other than their wages and exceed the amount of personal exemption of MDL 7,200 (EUR 477) a year;
- Individual residents who do not have tax liabilities, but derive income from wages exceeding MDL 25,200 (EUR 1,669) a year;
- Individual residents who do not have tax liabilities but derive income from wages and any other sources exceeding MDL 25,200 (EUR 1,669) per year.

If income tax was calculated, withheld or paid incorrectly, the taxpayer has the right to submit to the tax authorities, within the established terms, a corrected tax return with accurate data.

Foreign citizens working in Moldova on a foreign employment contract (e.g. secondment) must submit the annual tax return no later than 31 March of the year following the reporting year.

Foreign citizens obtaining income from Moldovan resident individuals are required to present the specific tax return no later than three days after ending their activity in Moldova.

Payment of tax

The personal income tax payment is made in local currency. In addition, it is also possible to perform the personal income tax payment from abroad in a foreign currency provided that specific payment instructions are followed. Upon the taxpayer's specific request, the overpaid tax may be either refunded or credited against future liabilities.

Income tax is withheld from an employee's salary at the same time as monthly salaries are paid. The payment is made through a bank payment order by the end of the month subsequent to that in which the tax was withheld.

Interest for late payment of individual income tax currently stands at 0.057% per day of delay, calculated on the total tax due.

For 2009, the Tax Code provides the following personal income tax rates:

Individual taxable income includes:	Tax rates
For residents:	
Income from employment, including benefits in kind	Progressive personal income tax:
Capital gains	- 7% for annual income up to MDL 25,200 (around EUR 1,669)
Other taxable incomes	- 18% for annual income that exceeds MDL 25,200 (around EUR 1,669)
Income from any professional or entrepreneurial activity	0% for the private entrepreneurs and farming enterprises (if certain conditions are met)
For non-residents:	
Income from employment, including benefits in kind	Progressive personal income tax:
	- 7% for annual income up to MDL 25,200 (around EUR 1,669)
	- 18% for annual income that exceeds MDL 25,200 (around EUR 1,669)
Dividends	15%
Monetary and non-monetary payments which are treated as non-deductible for Corporate Income Tax purposes	15%
Capital gains	10%
Other types of incomes not mentioned above	10%
For residents:*	
Dividends	15%
Rental fees	Paid by legal entities to individuals - 10%
	Paid by individuals to individuals - 5%
Gains from advertising campaigns	10%
Gambling revenues	10%
Monetary and non-monetary payments which are treated as non-deductible for Corporate Income Tax purposes	15%

11.6 Other taxes

Social Security Contributions

Contributions to the Social Fund are mandatory for Moldovan citizens, but unlike taxes, they have an exact destination and are available for refund to the taxpayer in the form of pensions, allowances, etc.

Employers must pay social security contributions of 23% of the gross salary of their employees to the Social Security Fund. Employees pay an individual contribution of 6% of their gross salary (the percentage applies to a base capped at five times the national average salary for that year, i.e. MDL 15,700 MDL (around EUR 1,040) for 2009. The legislation provides an annual fixed social security contribution for other categories of taxpayers of MDL 3,708 (around EUR 246) for 2009.

Moldova has mutual agreements on pension social security signed with the Russian Federation, the Republic of Belarus, Ukraine, Uzbekistan and Azerbaijan.

For foreign citizens and stateless people employed under labour agreements in Moldova, social security contributions are computed similarly as for Moldovan citizens. However, Moldovan social security contributions are optional for foreign employees under Moldovan law, if they work for companies with foreign shareholders.

Health Insurance Contributions

The mandatory health insurance contribution, computed as a percentage of wages and other forms of payment and remuneration, is 3.5% for each payer category (employers and employees). The legislation also provides for an annual fixed amount of medical insurance contribution paid by other categories of taxpayers which constitutes MDL 2,637.60 (around EUR 175) for 2009.

For foreign citizens and stateless people employed under labour agreements in Moldova, health insurance contributions are computed similarly as for Moldovan citizens. In the absence of a local labour agreement, foreign citizens can opt for a private provider for medical insurance.

Tax on immovable property

Property tax is imposed on property located in Moldova and owned by Moldovan or foreign citizens. The tax applies to the estimated value of buildings, houses, apartments and land, and depending on the location, it varies between 0.02% and 0.25% of the property's taxable base. In addition, for surfaces exceeding 100 square metres, the rate increases by an amount approved by the legislation.

* Final withholding tax rates (i.e. the individual is not liable to declare this income)

11 Taxation of individuals

The land tax rate for individuals depends on the land's destination (e.g. land for agriculture usage) and location, its cadastral index and surface, but cannot exceed MDL 30 (around EUR 2) for 100 square metres.

Road Tax

Road tax is imposed on individuals - owners of vehicles registered in Moldova or vehicles entering or transiting Moldova, and may vary depending on the vehicle's category and technical features.



12 Value Added Tax (VAT)

- The standard VAT rate is 20%, while reduced VAT rates are 8% and 5%
- Several operations are subject to nil VAT rate and VAT exemption
- VAT payers are entitled to input VAT deduction and VAT refund, provided specific conditions are met
- Fixed assets to be transferred to the statutory capital as contributions in kind are subject to VAT exemption, under certain conditions
- Input VAT related to capital investments performed in Moldova, except for Chisinau and Balti municipalities may be refunded under certain conditions

12.1 Introduction

The Tax Code describes the supply of goods as being the transfer of ownership over goods by sale, exchange or free (partly-paid) transfer, including in kind salary payout, transfer of goods under a financial leasing arrangement, etc.

The supply of services is defined as being the activity of providing any services against a consideration (with partial or no fee), including the transfer of property under rental, usufruct, operational leasing and other arrangements, the provision of assembling and building work, etc.

The standard Moldovan VAT rate is 20%. It is applied on the amount of the taxable supply of goods / services performed on the local Moldovan market, as well as on the taxable amount of imported goods / services.

Operations involving a specific range of goods are subject to reduced VAT rates, namely: 8% and 5%.

Local supplies of bread and milk, as well as of certain bakery and dairy products, except for baby food which is VAT exempt, are subject to the reduced 8% VAT rate. The same rate applies to the import and supply of drugs (including those produced in drugstores), of specific goods used in the pharmaceutical industry, as well as sugar produced from sugar beet.

Natural and liquefied gas, either imported or supplied on the territory of Moldova, is subject to the 5% reduced VAT rate.

12.2 Scope of VAT

Unless there is an express VAT exemption in the law, VAT applies to the:

- Supply of goods and services performed by taxable persons within their entrepreneurial activity,
- Import of goods into Moldova, except for those imported by individuals for own use and of which the value does not exceed a set threshold,
- Import of services in Moldova, except for those related to compensatory products resulting from outward processing relief customs regime.

Place of supply for goods

Under Moldovan VAT provisions, from a VAT standpoint the place of supply of goods is considered the place of their location at the moment of delivery or transfer into the possession of the customer. Should the shipment of goods be performed by the customer or by a transport company, the place of delivery is deemed as being where the transport begins, except for the export of goods.

The place of supply for electricity, thermal energy and gas is considered the place of their reception.

Place of supply for services

From a VAT perspective, the place of supply for services is generally deemed as being at the supplier's premises, except for certain specific instances, e.g.:

- Services connected to immovable assets - where those immovable assets are located;
- Services related to movable tangible goods, services related to culture, art, education, sport or other similar, as well services ancillary to transportation (e.g. loading / unloading) - where services are actually supplied;
- Rental of movable tangible assets - at the place of service enjoyment;
- Advertising, consulting, legal, accounting services, hiring and supply of staff, etc. - at the beneficiary's premises, etc.

Import VAT

Should no specific exemptions be provided by law, VAT on imported goods is generally payable in advance, before import customs clearance procedures are performed, on the amount of the customs value of those goods and related import customs duties and charges, except VAT.

Services provided by non-resident suppliers to residents of Moldova, which have the place of supply in Moldova, are deemed as being imported, being hence generally VAT-able in Moldova.

12 Value Added Tax (VAT)

In general, the place of supply depends on the specific nature of services. In particular, if they have the place of supply in Moldova (e.g. consulting, supply of staff, etc.), this will trigger import VAT liabilities (i.e. standard 20% VAT rate) for the beneficiary thereof, unless there is no specific VAT exemption provided by law. Import VAT has to be settled by the beneficiary of services in question at the date the external invoice is settled.

Should the place of service supply not be in Moldova, no Moldovan VAT liabilities arise.

12.3 Zero VAT rating

Under Moldovan VAT provisions, the 0% VAT rate is applied to:

- Exports of goods and services;
- All kind of international transportation of passengers and commodities (including expeditionary services);
- Goods and services designed for the official use of diplomatic missions and other similar missions in Moldova, as well as for personal use of the members of the diplomatic support staff and family members of the diplomatic staff;
- Services rendered by businesses operating in the textile industry on the territory of Moldova under an inward processing relief customs regime;
- Goods and services delivered to Free Economic Zones from outside the customs territory of Moldova, delivered from the Free Economic Zones outside the customs territory of Moldova, delivered to Free Economic Zones from the remaining part of the customs territory of Moldova and delivered between the residents of different Free Economic Zones of Moldova, etc.

12.4 VAT exempt supplies

Of the commonly applicable VAT exemptions, the following apply upon import / supply of goods / services performed by taxable persons within their business activity:

- Dwellings, land, rental thereof, except for commission fees related to such transactions;
- Food and non-food merchandise for children;
- State property purchased within the privatisation process;
- Fixed assets to be transferred to the statutory capital as contribution in kind, provided specific conditions are met;
- Financial services (with certain exceptions);
- Interest income obtained by lessors under financial leasing arrangements;
- Insurance and reinsurance operations, including intermediary services thereof;
- Goods released on the customs territory under transit,

transformation under customs surveillance, bonded warehouse regimes, etc;

- Import of goods for non-commercial purposes, whose customs value does not exceed EUR 50;
- Goods originating in Moldova that were previously exported and released back within a three-year term in the same status;
- Goods placed under a temporary admission and compensatory goods obtained from outward processing arrangements, according to the customs legislation, etc.

Outside the scope of VAT

According to the current VAT provisions, the total or partial transfer of the right to carry on a business activity is deemed as being outside the scope of VAT, provided specific conditions are met (e.g. the recipient continues performing this entrepreneurial activity after the transfer in question).

12.5 VAT-able amount

Under the general rule, the VAT-able amount of a taxable supply represents the value paid or payable, except VAT. Should a supply be entirely or partly settled in kind, the VAT-able amount has to be equal to the market value of the supply.

The VAT-able amount of a taxable supply may not be less than the cost of production or the purchase price, or the customs value of imported goods, or the cost of services, except for certain cases specifically set out in the law.

Upon the supply of assets for which the depreciation was calculated, VAT has to be charged from the highest value between the balance sheet value and the market price.

Specific rules are in place regulating the VAT-able amount of supplies performed as retribution for work performed, as well as for the adjustment of the VAT-able amount of previous supplies (e.g. in case of returns, discounts, etc).

12.6 Non-deductible input VAT

General input VAT deduction rule

Under the current VAT legislation, input VAT incurred in relation to acquisitions of goods and services may be deducted, provided they are incurred by a VAT-payer for performing VAT-able operations within its business activity.

VAT settled for services provided by non-resident suppliers may be deducted, only if the given services are used for performing taxable supplies, within the business activity and provided that VAT was actually paid to the state budget.

Input VAT incurred on acquisitions performed before the VAT registration may be deducted, only if incurred on acquisitions of fixed assets for agricultural purposes, construction and reconstruction of goods with agricultural destination, etc.

Non-deductible input VAT

Input VAT paid or payable on acquisitions of goods / services used for performing VAT exempt operations may not be deducted. Related VAT amounts should be treated as costs / expenses.

Input VAT paid on acquisitions of goods / services performed not for business purposes may not be deducted for VAT purposes, as well.

VAT payers with mixed supplies

Input VAT incurred on acquisitions destined for performing both VAT-able and VAT exempt operations is deducted on a pro-rata basis.

The pro-rata is calculated monthly as a ratio of the revenues obtained from VAT-able operations and total revenues, both amounts being calculated minus pre-payments received.

The final pro-rata is computed according to the same ratio above, but based on the yearly amounts of the mentioned indexes. Related differences are recorded in the VAT return for December.

12.7 VAT compliance

VAT registration

Any business, except for public authorities and institutions, non-profit organisations, medical-sanitary public and private institutions and holders of business patents, is required to register as a VAT-payer, if during any 12 consecutive months, it performs taxable supplies (including imports of services) exceeding the threshold of MDL 300,000 (EUR 19,870).

At the same time, any business has the right to voluntarily register for VAT purposes, if the total amount of its taxable supplies performed during any 12 consecutive months exceeds MDL 100,000 (EUR 6,620).

The current law specifically states a number of conditions to be met for the purposes of initiating the VAT registration procedure, including the requirement that related thresholds of supplies are settled by customers by bank transfers.

In addition to the above, businesses may register for VAT purposes if input VAT settled in relation to capital investments performed in Moldova from 1 January 2008 (except for investments in Chisinau and Balti municipalities and those in dwellings and means of transportation) exceed limits specifically set out by location criteria.

In certain specific circumstances, tax authorities are entitled to annul the VAT registered status of a business.

Evidence requirements

VAT payers are required to keep detailed and complete records of all supplied and purchased goods/services by keeping sale and purchase VAT ledgers.

Information in the VAT invoice

The supplier carrying out a taxable supply must submit a VAT invoice to the respective buyer (except for a number of cases whereupon the issuance of a VAT invoice is not required by law). The VAT invoice is issued when VAT becomes chargeable (i.e. generally, on the date of the supply).

Different VAT invoicing rules apply for supplies of goods / services performed on a permanent basis, under an operational and / or financial leasing agreement, as well as for supplies of immovable assets and performance of building works on the customer's territory.

Taxpayers have to pay special attention to the correctness of filling in VAT invoices, as tax authorities are entitled to apply drastic fines for non-compliance in this respect (i.e. MDL 500 or around EUR 33 per each inadequately or incompletely filled in VAT invoice), while customers (VAT registered businesses) may run the risk of being disallowed from crediting related input VAT.

VAT returns and settlement of VAT payable

VAT returns are submitted monthly (i.e. the fiscal period for VAT purposes is the calendar month) with the tax authorities by the end of the month following the reporting one. The settlement of the payable VAT liability has to be performed by the same deadline. The monthly VAT position of the Company has to be determined as the difference between output VAT charged on supplies of goods / services and deductible input VAT related to purchases.

VAT refunds

Under the current Moldovan VAT legislation, VAT payers are entitled to obtain a refund of VAT, in a specific amount, if they meet the following conditions:

- Deductible input VAT exceeds the output VAT charged on the supplies of goods and / or services;
- A specific type of activity is being carried out by the business (e.g. production of bread / milk and bakery / dairy products, exports of goods / services, etc).

Should the second condition not be met by a business, the exceeding amount of the deductible input VAT would not be refundable, but only carried forward to the next fiscal period, settling against future output VAT liabilities.

Leasing companies are also eligible for VAT refund, if the input VAT exceeds the output related to supplies performed under financial / operational leasing agreements.

According to the law, the term of reimbursement is 45 days from the date the claim is submitted to the tax authorities.

It should be noted that initiating a VAT refund process requires compliance with a set of conditions imposed under a specific Governmental Decision.

Besides the aforementioned, VAT payers who performed capital investments in Moldova, except for Chisinau and Balti municipalities, have the right to obtain the refund of input VAT exceeding the output, provided it relates to certain types of investment (i.e. performed after 1 January 2008, not related to investments in dwellings and means of transportation).

13 Introduction to PricewaterhouseCoopers

PricewaterhouseCoopers in Moldova

PricewaterhouseCoopers entered the Moldovan market in 1996 and was established as a legal branch of the Romanian firm. We have continuously expanded the scope of our services and currently offer a full range of professional services to both international and Moldovan enterprises. Overseen by fifteen partners and employing over 600 specialists and support staff, PricewaterhouseCoopers operates in Romania and Moldova from a network of five offices in Bucharest, Timisoara, Cluj-Napoca, Constanta and Chisinau.

Our client base includes some of the largest Moldovan and multinational companies in Moldova. Our close interactions with economic and state bodies allow us to keep up with the fast-changing environment in which businesses have to work in Moldova.

Service lines include:

- **Assurance Services:** external and internal audit, financial and accounting reviews and investigations; regulatory consulting; training courses;
- **Advisory Services:** the Moldovan Advisory Services practice, in cooperation with Romanian Advisory Services practice provides three types of services: Transactions Services, Crisis Management and Performance Improvement;
- **Tax and Legal Services:** all aspects of inbound investment into Moldova, corporate structuring of investments and trading activities, international tax planning, indirect taxation (customs and VAT), individual taxation and human resources advisory. Our lawyers are qualified to give advice on national and international aspects of business activity, including advice and assistance on establishing a company, further advice on various corporate and commercial matters, competition, real estate, regulatory compliance, assistance in commercial and tax litigation.

Assurance Services

The Assurance Services practice comprises internationally trained Moldavians and foreign accountants. All our Assurance Services staff is familiar with local and international accounting practices. As part of our long-term development strategy, PricewaterhouseCoopers Moldova requires its local auditors to obtain an internationally recognised professional qualification in accounting (UK ACCA) to enhance their understanding of International Financial Reporting Standards.

PricewaterhouseCoopers knowledge and experience gained over the period of reform in all of the former Eastern European countries enables its specialists not only to advise on audit and non-audit matters, but also to put them in context and to advise on the likely impact that the pace and direction of economic and financial change will have on a commercial activity in Moldova.

As a result of a long-term presence, PricewaterhouseCoopers Moldova has developed strong relationships with key contacts, including government ministries and leading professional organisations. These relationships enable the firm to be well placed to assist in resolving queries on accounting, reporting and related regulatory issues.

Advisory Services

The Moldovan Advisory Services practice, in cooperation with Romanian Advisory Services practice provides three types of services:

- **Transaction Services**
- **Crisis Management**
- **Performance Improvement**

Transaction Services

Transaction Services refers to assistance with and executing all types of financial transactions, providing advice in mergers and acquisitions, privatisations, financial and operational due diligence, value advisory and business valuation including real estate and asset valuation, feasibility studies and business plans, market analysis, project finance (including Public-Private Partnership schemes), finance raising and post-deal services.

PricewaterhouseCoopers provides a full range of services to guide clients through complex business transactions, and supports companies through every aspect of a transaction, from identifying the appropriate acquisition or divestiture candidates to assisting with deal structuring and capital sourcing. A wide range of privatisation services including lead advisory, target identification, company profiles, analysis of privatisation options, and transaction support are available, as well as assistance and support for companies seeking new capital, or companies involved in an acquisition, divestiture, restructuring or shareholder buyout. Services in relation to transactions, such as identification and evaluation of a transaction through due diligence, structuring services, market analysis and post-deal services are provided.

The transactions department has over 4,700 experts worldwide and around 10 in Romania.

Crisis Management

Crisis Management services refer to corporate recovery and turnaround, optimised exits, insolvency/liquidation, as well as dispute analysis and investigations. PricewaterhouseCoopers was Romania's first Big Four consulting firm to develop a dedicated team of professionals specialised in business recovery and insolvency. It advises on and implements a complete range of solutions for business recovery situations, corporate bankruptcy and implementation of large-scale turnarounds for underperforming corporations. The practice has extensive experience in the management of underperforming loan portfolios, as well as in divestment of the underperforming assets of a business (optimised exits) in order to extract or preserve the optimum value for shareholders.

Dispute analysis and investigations practice involves corporate investigations, fraud risk management, background research of entities, computer forensics and cyber crime investigations, as well as investigations on insolvency and bankruptcy, together with intellectual property.

The Crisis Management network has over 2,500 experts worldwide and around 10 in Romania.

Performance Improvement

The Performance Improvement department is a department within PricewaterhouseCoopers that is dedicated to helping clients improve their financial and operational performance. Our Group works closely with other advisory practices in the firm to assist clients in meeting their most pressing challenges. The Performance Improvement department has over 7,000 experts in 90 countries and over 30 people in Romania, all of them with knowledge of the local business environment.

The assistance we provide is targeted at strengthening management control, increasing operational effectiveness and thereby increasing shareholder value. We know from experience that improving performance requires companies to focus on four distinct aspects: business model, financial drivers, management system and value creation system.

In our experience, projects are judged a success when the expected business benefits are clearly defined up front and when the project is managed to demonstrate achievement of those business benefits. By employing this principle in our methodologies, the PwC Performance Improvement team strives to provide superior value to our clients

Tax Advisory Services

PricewaterhouseCoopers Moldova's tax advisory practice comprises international and local tax experts, and customs, VAT, individual taxation and human resources specialists. As the country's largest tax consulting department, we specialise in all areas of tax, including:

Corporate Taxation

The Team has extensive experience in advising clients based on Moldavian laws and their interpretation by tax authorities, as well as their interrelation with international regulations and treaties. PricewaterhouseCoopers specialists are highly qualified to advise on all aspects of inward investments in Moldova, and the structuring of those investments in terms of profit tax, withholding tax, dividend tax and local tax regulations. The team provides proactive advice on international tax planning and structuring; mergers and restructuring, and undertakes company health checks and due diligence projects, and assistance with tax authorities (during tax inspections, and lodging of objections). Some of the members of the team are former employees of the Ministry of Finance, State Tax Service Headquarters.

Indirect Taxation

PricewaterhouseCoopers indirect tax specialists have extensive experience in resolving complex issues related to indirect taxes, customs procedures and foreign trade. Services available include VAT consultancy and tax reviews; VAT planning and efficiency schemes for domestic and cross-border operations; assistance with standard and fast VAT refund procedures; assistance during tax inspections; support and advice during appeals. Customs consulting includes tax planning for minimising import duties; implementation of temporary customs regimes; authorised exporter status and simplified customs procedures implementation; use of bonded warehouses and customs-free trade zones; intellectual property rights; obtaining import/export licences; assistance during customs clearance and audits; support during customs litigation or complaints.

Integrated Personnel Solutions

Human Resource Consulting Services

Tax and Legal Services department offers Integrated Personnel Solutions, bringing together all of the professionals working in the human resource consulting arena - specialists in individual tax, payroll, benefits, assessment, education, equity, reward, staffing, regulatory, legal, and process management - offering clients irrefragable quality services. Services available include individual advice, ranging from assistance with obtaining work and residence permits, to advice and assistance with all matters regarding Moldova's personal income taxation legislation; executive recruitment and selection; salary surveys; outplacement and human resources audit.

PayWell

The 3rd Moldovan edition of the survey comprises information provided by 10 companies, covering a total headcount of 2,000 employees and 170 analysed positions across the general market.

PayWell Moldova 2009 – Salary and Benefits Survey analyses the compensation strategies and benefits systems in the leading companies, active on the Moldovan market. The survey report represents a practical tool that will assist you in developing competitive policies related to recruitment, compensation and benefits, employee retention and overall reward management.

Legal services

PricewaterhouseCoopers Legal Moldova (PwC Legal Moldova) is a member of international network of PricewaterhouseCoopers Legal which comprises more than 1,900 business lawyers in 71 countries.

PwC Legal Moldova provides full range of legal and business advisory services, including the following:

Corporate & Commercial

Business set up & Licensing – Consulting on the most appropriate legal form of organisation; Assistance in setting up companies branches and representative offices in Moldova; Drawing up and reviewing shareholders' agreements; Analysis of the company's types of activities from the regulatory and licensing perspective. Consulting and assistance in obtaining licences and other authorisations;

Corporate Legal Support – Consulting and assistance in various corporate matters; Consulting and assistance concerning the changes within existing companies, company reorganisation and winding-up);

Commercial Documents – Drawing up and reviewing various commercial agreements and documents; Assistance in negotiations concerning commercial agreements.

Mergers and Acquisitions

Legal Due Diligence;
Structuring – Legal feasibility analysis of the proposed transaction structure; Advice on legal aspects to be taken into account upon company (re-)structuring; Consulting and assistance in obtaining necessary approvals from state authorities; Review

of the documents provided by the counterparties; Preparing the necessary corporate approvals for the deal; Share Purchase Agreement – Drawing up and reviewing the required documents (Preliminary sale-purchase agreement, Sale-purchase agreement, Escrow agreement, etc.); Adjusting share sale-purchase agreements, based on the issues identified within the due diligence; Assistance in negotiations concerning the clauses of share sale-purchase agreements; Assistance (including with the notary) in concluding share sale-purchase agreements; Assistance in registration of the ownership title over shares;

On going assistance – Providing assistance to either the buyer or the seller during the entire process of target evaluation, exchanging pre-contractual correspondence, conducting negotiations, concluding and implementing agreements.

Real Estate

Analysis of the legal status of the real estate - Performing legal analysis and providing legal opinion on the status of the target property;

Structuring of the real estate transactions – Legal feasibility analysis of the proposed transaction structure; Advice on legal aspects to be taken into account upon concluding transactions with real estate;

Assistance within the Acquisition Process – Drawing up and reviewing the required documents (Preliminary sale-purchase agreement, Sale-purchase agreement, Escrow agreement, etc.); Assistance in negotiations concerning the clauses of the agreements; Adjusting sale-purchase agreements, based on the issues identified within the legal analysis; Assistance with the notary in concluding the agreements; Assistance in registration of the ownership title over the Real Estate;

Legal Support – Drawing up and reviewing real estate related agreements (lease, easement, superficies, etc.); Providing legal advice on various real estate matters.

Privatisation

Consulting on the procedure of public property privatisation (state owned shares, state enterprises as going concerns, plots of land, etc.); Drawing up and submitting the required documents; Representing the client with state authorities; Assistance in concluding the agreements and registration of the ownership title with the relevant authorities.

Competition

Advice on various competition law matters; Reviewing the agreements and company activity from the perspective of competition legislation; Representing client interests with the National Agency for Competition Protection, including during inspections; Consulting and assistance in obtaining approvals from the National Agency for Competition Protection; Consulting and assistance in competition related litigation.

Employment and Immigration

Employment - Advice on various substantial and procedural labour law matters; Assistance in connection to preparation, review and negotiation of individual and collective employment agreements; Drawing up and reviewing individual labour agreements, internal regulations and employment-related procedures; Adjustment of the labour related documents of the company to the imperative rules of labour law; Consulting and assistance in connection to individual employment termination and collective redundancies; Assistance in negotiations with trade unions; Representing of client interests with state authorities (e.g. Labour Inspection), including during inspections; Consulting and assistance in relation to labour litigation.

Immigration - Advice on the foreign citizen employment structure (local employment agreement, secondment, etc.); Drawing up and reviewing work immigration related documents (employment agreements, services agreements, secondment letters, etc.).

Commercial, administrative and tax litigation

Commercial and administrative litigation - Legal opinion on potential or existing litigation; Advice on various dispute resolution issues; Assistance and representation of client interests before courts of law considering commercial disputes; Assistance and representation of client interests with administrative tribunals (disputes against state authorities / public law disputes); Consulting and assistance in recognising and enforcement of foreign court judgements in Moldova; Monitoring the enforcement of court rulings, assistance in enforcement proceedings.

Tax Dispute Resolution – Pre-trial resolution; In-court settlement; Consulting with regard to tax crimes;

Arbitration and ADR - Assistance and representation of client interests before arbitral tribunals; Assistance in challenging the arbitral awards; Consulting and assistance in recognising and enforcement of foreign arbitral awards in Moldova; Consulting and assistance with regard to the alternative dispute resolution methods.

Regulatory compliance

Advice on various regulatory compliance issues; Reviewing the agreements and the company activity from the perspective of regulatory legislation (Banking and capital markets, Insurance, Pharmaceuticals, Consumer Protection, Personal Data Protection, etc.); Representing client interests with regulatory authorities (e.g. National Bank of Moldova, National Commission for Financial Market, etc.); Consulting and assistance in obtaining approvals, authorisations from regulatory authorities.

Intellectual Property

Consulting on registration, protection and legal regime of trademarks, copyrights, patents, as well as other intellectual property rights; Representing client interests with the State Agency for Intellectual Property Protection; Consulting and assistance in transactions on acquiring and transfer of intellectual property rights; Drawing up and reviewing agreements related to intellectual property rights; Assistance in registration of the intellectual property right with the relevant authorities; Reviewing of the legal status of intellectual property rights; Consulting and assistance in relation to litigation with regard to intellectual property.

Appendices

Useful sources of information

Many government websites have pages written in English. These can be useful to get a flavour of government policies and initiatives in various areas of the economy. Caution should be exercised, however, before relying on information in English. Although the Moldovan web pages are generally well maintained and up to date, the same cannot be said for the English versions.

Appendix A Government Ministries & Bureaux

Ministry (Department)	Tel. Number	Websites
The Government of Moldova	(+373 22) 25 01 01	www.gov.md
The Ministry of Agriculture and Food Industry	(+373 22) 23 34 27	www.maia.gov.md
The Ministry of Culture and Tourism	(+373 22) 22 76 20	www.turism.gov.md
The Ministry of Constructions and Territorial Development	(+373 22) 20 45 69	www.mcdt.gov.md
The Ministry of Defence	(+373 22) 25 22 22	www.army.gov.md
The Ministry of Economy and Commerce	(+373 22) 23 74 48	www.mec.gov.md
The Ministry of Education and Youth	(+373 22) 23 33 48	www.edu.gov.md
The Ministry of Ecology and Natural Resources	(+373 22) 20 45 07	www.medi.gov.md
The Ministry of Finance	(+373 22) 22 66 29	www.mf.gov.md
The Ministry of Foreign Affairs and European Integration	(+373 22) 57 82 07	www.mfa.gov.md
The Ministry of Health	(+373 22) 72 99 07	www.ms.md
The Ministry of Informational Development	(+373 22) 50 44 20	www.mdi.gov.md
The Ministry of Internal Affairs	(+373 22) 22 45 47	www.mai.gov.md
The Ministry of Justice	(+373 22) 23 47 95	www.justice.gov.md
The Ministry of Transport and Road Management	(+373 22) 22 10 01	www.mtgd.gov.md
The Ministry of Social Protection, Family and Child	(+373 22) 26 93 01	www.mpsfc.gov.md
The Ministry of Reintegration	(+373 22) 25 01 46	www.reintegrarea.gov.md
The Ministry of Local Public Administration	(+373 22) 20 01 70	www.mapl.gov.md
The Bureau of Interethnic Relations	(+373 22) 24 15 28	www.bri.gov.md
The Bureau of Migration and Asylum	(+373 22) 27 69 00	www.migratie.md
The National Bureau of Statistics	(+373 22) 40 30 00	www.statistica.gov.md
The Standardisation and Metrology Service	(+373 22) 74 85 88	www.ssm.gov.md
The Customs Service	(+373 22) 54 94 60	www.customs.gov.md
The Border Service	(+373 22) 25 96 40	www.border.gov.md
The Agroindustrial Agency "Moldova-Vin"	(+373 22) 21 00 73	www.aamv.gov.md
The Licensing Chamber	(+373 22) 27 23 36	www.licentiere.gov.md
The State Registration Chamber	(+373 22) 27 73 18	www.mdi.gov.md
The Center for Combating Economic Crimes and Corruption	(+373 22) 25 72 57	www.cccec.gov.md
The Forestry Agency "Moldosilva"	(+373 22) 27 23 06	www.moldosilva.gov.md
The Cadastre and Land Relations	(+373 22) 21 22 44	www.arfc.gov.md
The Sport Agency	(+373 22) 23 27 82	www.sport.gov.md
The Agency of Material Reserves, Public Acquisitions and Humanitarian Aid	(+373 22) 24 33 66	www.tender.gov.md
The National Bank of Moldova	(+373 22) 22 16 79	www.bnm.org
The Public Property Agency	(+373 22) 23 43 50	www.app.gov.md
Main Tax Authority	(+373 22) 82 33 02	www.fisc.md
Chamber of Commerce and Industry	(+373 22) 22 15 52	www.chamber.md

Appendices

Appendix B Macroeconomic Indicators

	2004 ³	2005	2006	2007	2008
Gross Domestic Product, mil. EUR	2,089.69	2,398.55	2,713.71	3,218.95	4,107.19
in % compared to previous year	107.40	107.50	104.80	103.00	107.20
Volume of industrial production, mil. EUR	1,147.60	1,323.13	1,356.47	1,576.85	1,938.21
in % compared to previous year	108.20	107.00	95.20	98.70	100.70
Investments in fixed capital at the expense of all financing sources, mil. EUR	335.32	496.66	667.74	914.57	1,157.54
in % compared to previous year	107.60	121.40	124.00	120.70	100.40
Retail sales of goods – total, mil. EUR	1,081.36	1,241.43	1,416.26	1,700.15	2,259.71
in % compared to previous year	105.60	105.30	106.90	107.60	108.40
Export, mil. US dollars	985.20	1,091.30	1,051.60	1,341.70	1,591.40
in % compared to previous year	124.70	110.80	96.40	127.60	118.60
Import, mil. US dollars	1,768.50	2,292.30	2,693.20	3,689.50	4,898.90
in % compared to previous year	126.10	129.60	117.50	137.00	132.80
Deficit of trade balance, mil. US dollars⁴	-783.30	-1,201.00	-1,641.60	-2,347.80	3,307.50
in % compared to previous year	127.90	153.30	136.70	143.00	140.90
Average monthly salary per employee in the national economy, EUR	71.96	84.01	102.91	124.41	165.34
in % compared to previous year	123.80	119.50	128.70	121.70	122.50
Real salary per employee, %					
in % compared to previous year	110.10	106.80	114.20	108.40	108.80
Unemployment rate, %	8.1	7.3	7.4	5.1	4
Consumer Price Index, in % compared to previous year	112.40	111.90	112.70	112.30	112.70

³ Rates used in this Appendix represent the official annual average exchange rate for the respective year.

⁴ Official data reported by National Bureau of Statistics in USD

Appendices

Appendix C Bilateral Investment Treaties

Moldova has negotiated a series of treaties on protection of investment with a number of countries. Investment protection agreements with the following countries are currently in force:

Country	In force
Albania	23.12.2004
Austria	01.08.2002
Azerbaijan	28.01.1999
Belarus	19.11.1999
Belgium and Luxembourg	20.04.2002
Bulgaria	12.06.1997
Bosnia and Herzegovina	09.06.2008
China	01.03.1995
Cyprus	27.03.2008
Croatia	20.03.2007
Czech Republic	21.06.2000
Finland	21.06.1997
France	03.11.1999
Georgia	25.02.1999
Germany	15.06.2006
Greece	27.02.2000
Hungary	16.08.1996
Israel	16.03.1999
Italy	26.08.2001
Kyrgyzstan	16.01.2004
Kuwait	06.04.2004
Latvia	14.04.2000
Lithuania	Ratified on 18.02.2000
Netherlands	01.05.1997
Poland	27.07.1995
Russian Federation	18.07.2001
Romania	15.06.1997
Slovakia	15.11.2009
Slovenia	01.06.2004
Spain	17.01.2007
Switzerland	29.11.1996
Tajikistan	20.10.2003
Turkey	16.05.1997
Ukraine	20.05.1996
United Kingdom	30.07.1998
United States of America	26.12.1994
Uzbekistan	17.01.1997

Appendices

Appendix D Banks Operating in Moldova

Bank	Email	Tel. Number
Banca de Economii	bem@bem.md	(+373 22) 21 80 05
Banca Sociala	office@socbank.md	(+373 22) 22 14 81
BCR, Branch Chisinau	office@bcr.md	(+373 22) 22 05 49
Comertbank	secretary@comertbank.md	(+373 22) 83 98 39
Energbank	office@energbank.com	(+373 22) 27 60 24
EuroCreditBank	info@ecb.md	(+373 22) 50 01 01
Eximbank	info@eximbank.com	(+373 22) 30 11 02
Fincombank	fincom@fincombank.com	(+373 22) 26 98 22
Mobiasbanca	office@mobiasbanca.md	(+373 22) 25 64 44
Moldindconbank	computer@micb.net.md	(+373 22) 57 68 24
Moldova – Agroindbank	aib@maib.md	(+373 22) 85 65 65
Universalbank	ub@mail.universalbank.md	(+373 22) 26 97 87
Victoriabank	office@victoriabank.md	(+373 22) 21 02 02
Unibank	welcome@unibank.md	(+373 22) 25 38 01
Procreditbank	office@procreditbank.md	(+373 22) 27 17 07

Appendices

Appendix E Hotels and Restaurants

Hotels	Tel. Number
Chisinau***	(+373 22) 57 85 01
Club Royal Park *****	(+373 22) 57 40 80
Codru ****	(+373 22) 20 81 02
Cosmos ***	(+373 22) 54 27 70
Dacia ****	(+373 22) 23 22 51
Flowers Hotel ****	(+373 22) 26 02 02
Jazz Hotel ***	(+373 22) 21 26 26
Jolly Alon Hotel ****	(+373 22) 88 17 51
Leogrand Hotel and Convention Center ****	(+373 22) 20 12 01
Luna Hotel ***	(+373 22) 23 35 23
Elat Hotel ***	(+373 22) 29 25 74
Nobil Luxury Boutique Hotel *****	(+373 22) 40 04 00
Villa Natali***	(+373 22) 23 36 63
VisPas Hotel ****	(+373 22) 24 21 29
Restaurants	Tel. Number
Alaverdy (Georgian food)	(+373 22) 44 50 82
Barracuda (Eastern European cuisine)	(+373 22) 22 15 87
Cactus (Moldo-Mexican cuisine)	(+373 22) 50 23 94
Coliseum (Italian food, Pizza)	(+373 22) 29 28 00
Dublin Irish Pub	(+373 22) 24 58 55
El Paso (original Mexican food)	(+373 22) 92 11 66
Equator (Moldo-American)	(+373 22) 20 20 20
Green Hills Nistru Cafe (Turkish-Moldovan)	(+373 22) 22 32 95
Green Hills Nistru Restaurant	(+373 22) 22 32 95
Hunter's Lodge	(+373 22) 63 93 29
La Roma Club	(+373 22) 22 85 90
La Taifas (traditional Moldovan cuisine)	(+373 22) 22 76 92
Monte Cristo (Moldovan cuisine)	(+373 22) 23 53 99
Old City (Moldovan cuisine)	(+373 22) 22 50 63
Berlin (Beer Restaurant)	(+373 22) 75 25 80
Vatra Neamului (traditional Moldovan cuisine)	(+373 22) 22 68 39
Nori (Japanese)	(+373 22) 21 10 80
Robin Pub	(+373 22) 24 11 27
Passepartout	(+373 22) 27 94 82
Pani-Pit (European Food)	(+373 22) 24 01 27
Hutoroc (Ukrainian food)	(+373 22) 22 21 02
Peter the Great (Russian cuisine)	(+373 22) 44 43 25
Pizza House	(+373 22) 23 51 62
The Beermania	(+373 22) 22 73 19

Appendices

Appendix F Tax rates

Corporate Income tax rate	<ul style="list-style-type: none"> • 0% CIT rate in 2009; • legal entities, homestead and individual entrepreneurs are entitled to apply for nil CIT rate; however, the computation of taxable base for CIT purposes and filling in the CIT return according to approved procedures is compulsory; • a fine of 25% is applied from the under-reported (diminished) taxable income for legal entities and individual entrepreneurs. 												
Tax depreciation rates	<ul style="list-style-type: none"> • Property (which has a life expectancy of over one year and for which the value exceeds MDL 3,000 (EUR 196)) <table> <tr> <th>Property Category</th><th>Useful life in years (UL)</th></tr> <tr> <td>I category (5%)</td><td>UL ≥ 40</td></tr> <tr> <td>II category (8%)</td><td>40 > UL ≥ 25</td></tr> <tr> <td>III category (10%)</td><td>25 > UL ≥ 20</td></tr> <tr> <td>IV category (20%)</td><td>20 > UL ≥ 10</td></tr> <tr> <td>V category (30%)</td><td>UL < 10</td></tr> </table>	Property Category	Useful life in years (UL)	I category (5%)	UL ≥ 40	II category (8%)	40 > UL ≥ 25	III category (10%)	25 > UL ≥ 20	IV category (20%)	20 > UL ≥ 10	V category (30%)	UL < 10
Property Category	Useful life in years (UL)												
I category (5%)	UL ≥ 40												
II category (8%)	40 > UL ≥ 25												
III category (10%)	25 > UL ≥ 20												
IV category (20%)	20 > UL ≥ 10												
V category (30%)	UL < 10												
Withholding taxes	<p>WHT rates on payments to residents</p> <ul style="list-style-type: none"> • 5 % of payment made on benefit of resident individual, unless these payments have either salary nature or are tax exempted; • 10% on individual's income derived from lease, rent, usufruct of movable and immovable property, advertising campaign, gambling activities; • 15% on interest paid to individuals (except for individuals older 60 years) and royalties; • 15% final withholding of dividends, except those payout to resident individuals and related to the fiscal periods prior 1 January 2008, as well as payout to resident legal entities; • 15% WHT will be applied under certain specific requirements on the monetary and non-monetary payments performed for the benefit of resident individuals; • WHT shall not be applied on payments between resident legal entities. <p>WHT rates on payment to non – residents</p> <ul style="list-style-type: none"> • 15% of dividends, as well as, of monetary and non-monetary payments made to non-residents, irrespective of their nature, given the fact that certain conditions are met; • 10% for service fees received by a non-resident for services if they were performed on the territory of Moldova; • 10% of capital gain received from the sale of real estate located on the territory of Moldova or from the sale of the shares, if the shares are sold to a Moldovan resident; • 10% on royalties, as well as on other income defined by the domestic tax law. 												
Individual tax rates	<p>Progressive personal income tax rates:</p> <ul style="list-style-type: none"> - 7% - for annual income up to MDL 25, 200 (EUR 1,647) - 8% - for annual income that exceeds MDL 25,200 (EUR 1,647) 												
Personal allowances (and/or credits)	<ul style="list-style-type: none"> • MDL 7,200 (EUR 471) - personal allowance for individuals • MDL 7,200 (EUR 471) – individuals' spouse's tax exemption • MDL 1,680 (EUR 110) - per year for each dependant (except for invalids from childhood, who are entitled to the MDL 7,200 (EUR 471) exemption per year) 												
Tax on foreign nationals working in Moldova	<ul style="list-style-type: none"> • non-residents employed by Moldovan employer, are subject to the same income tax rates as Moldovan residents • no personal, spouse or dependant's exemption. 												
Indirect taxes	<p>Value added tax</p> <ul style="list-style-type: none"> • 20% - standard VAT rate; • 8% - for certain operations with bakery/diary products, pharmaceutical products; • 5% - for import/local supplies of natural and liquefied gas; • 0% - for exports of goods/services, international transportation services, etc. <p>Excise duty</p> <p>A list of excisable goods is set out in the law. Excise duty rates are specifically assigned by type of excisable goods (i.e. by tariff classification code).</p>												

Appendices

Appendix G Double Tax Treaties *

Nr.	State	Dividends	Interest	Royalties
1	Albania	5 / 10	5	10
2	Armenia	5/15	10	10
3	Austria	5/15	5	5
4	Azerbaijan	8 / 15	10	10
5	Byelorussia	15	10	15
6	Belgium	15	15	0
7	Bosnia & Herzegovina	5 / 10	10	10
8	Bulgaria	5 / 15	10	10
9	Canada	5 / 15	10	10
10	China	5 / 10	10	10
11	Croatia	5 / 10	5	10
12	Czech Republic	5 / 15	5	10
13	Cyprus	5 / 10	5	5
14	Estonia	10	10	10
15	Finland	5 / 15	5	3 / 7
16	Germany	15	5	0
17	Greece	5/15	10	8
18	Hungary	5 / 15	10	0
19	Israel	5 / 10	5	5
20	Japan	15	10	0 / 10
21	Kazakhstan	10 / 15	10	10
22	Kyrgyzstan	5/15	10	10
23	Latvia	10	10	10
24	Lithuania	10	10	10
25	Macedonia	5/10	5	10
26	Montenegro	5/15	10	10
27	The Netherlands	0 / 5 / 15	5	2
28	Oman	5	5	10
29	Poland	5 / 15	10	10
30	Romania	10	10	10 / 15
31	Russian Federation	10	0	10
32	Serbia	5/15	10	10
33	Slovakia	5/15	10	10
34	Slovenia	5/10	5	5
35	Switzerland	5 / 15	10	0
36	Turkey	10 / 15	10	10
37	Tajikistan	5 / 10	5	10
38	Ukraine	5 / 15	10	10
39	Uzbekistan	5 / 15	10	15
40	United Kingdom	0 / 5 / 10	0 / 5	5

* This list includes only those double tax treaties which are currently applicable.

The exchange rate used in the Guide to doing business and investing in Moldova 2009 was the average exchange rate for 9 months 2009: 1EUR=MDL15.1

Notes

