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Expected Tax Law Changes for 2016

Due to recent political turmoil in Moldova, the tax and budgetary policy for 2016, which should have entered into force on January 1, has not been approved yet. The draft law, prepared by the new Moldovan Government (in office since January 2016) and passed by the Parliament at the first reading, does not aim at substantially reforming the tax system, but is rather an update of the Tax Code. The following article summarizes the key changes, expected to be included in to the Moldovan Tax Code as of May 1, 2016.

Introduction of a New Wealth Tax

The principal new feature of the 2016 tax policy in Moldova is the introduction of a "wealth tax". This tax should apply to individuals who own real estate in Moldova (except for land) the area of which exceeds 120 square metres and the estimated value of which exceeds 1.5 million Moldovan lei (around 70,000 euros). The wealth tax rate will be 0.8% of the value of the real estate, as estimated by the Real Estate Registry.

The Government intends the tax to enhance the fairness of the Moldovan tax system and impose a larger burden on rich individuals, while also combating tax avoidance (e.g. cases when the income used for buying property was not subject to taxation). According to preliminary data from the Moldovan tax authorities, around 3,000 individuals will be subject to wealth tax in 2016. The Ministry of Finance estimates additional tax revenues of approximately 50 million Moldovan lei (2.3 million euros) to be collected as wealth tax. The taxable base for wealth tax is expected to be widened in the future.

Other Key Changes

The draft law also includes amendments aimed at improving the current legal framework, and clarifications to the existing law. Thus, the deadline allowed for reporting tax losses will be increased from three to seven years, while the currently applicable cap on tax loss deductions in equal installments will be removed. This amendment will undoubtedly have a positive impact on the overall financial results of the companies.

The draft law also provides for an increase of excise rates for a number of excisable goods. The bill proposes that the majority of excise duties (mainly those established as a fixed amount) be linked to the inflation forecast, and excise duty tax rates on cigarettes (overall excise duties) be gradually adjusted to reach the level of countries in the region. Such measures should yield additional revenue to the budget while also reducing the consumption of tobacco products.

Another measure aimed at boosting tax revenue is the substantial increase of road tolls for vehicles not registered in Moldova. However, in light of recent pushback from owners of such cars, the decree of increase may be reconsidered by the Parliament at the second reading.

The draft law contains a number of tax administration amendments, with a view to reducing budgetary costs and enhancing tax compliance. Such measures include:

- simplified rules for issuing and filling in VAT invoices, as well as their registration in the General Electronic Register of VAT invoices;
- updated list of documents necessary for VAT refund related to export operations;
- removing the obligation for certification of computerized information systems used for accounting and tax purposes (under the current tax law, such liability is to be introduced starting from 2017);
- more possibilities allowed for taxpayers to postpone or reschedule the settlement of tax liabilities;
- an updated list of persons subject to indirect methods of taxation.

In this context, it is noteworthy that a moratorium on state inspections has been recently established by the Moldovan Parliament. As a result, taxpayers cannot be subject to tax inspections, whether planned or unannounced, in the period April 1 to July 1, 2016. The Government may extend the moratorium before the expiry of the current three-month term.

According to the provisions included in the Tax Code in June 2015 at the request of the business community, the amendments to the Tax Code should enter into force after 180 days from publication. It seems that the Parliament will once again derogate from this principle and the amendments to the Tax Code, currently under examination, will enter into force on May 1, 2016, i.e. shortly after their publication.

Further Expected Reforms

The initial version of the draft law prepared by the Government contained the formal transfer pricing regulations to be used in Moldova. However, because of negative feedback from the business community, expressed during public consultations, the Ministry of Finance agreed to postpone this initiative.

Although the tax policy for 2016 has not yet been approved, the Ministry of Finance has already started developing the draft tax policy for 2017. The new draft law is expected to include more substantial amendments, e.g. measures aimed at transposing the EU Directives governing indirect taxation into national laws. Work on the new Tax Code will start soon, with the support of international financial donors, according to statements from Government officials.

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