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## Moldova Profile

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

### 1.3 Population and Urbanisation

The Republic of Moldova has a population of 3.39 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, 39.0% of the population live in urban areas. Chisinau has a population of 780,300 people.

The population of Moldova is predominantly Christian of various denominations: Orthodox (93.3%), Roman Catholic, Reformed and Greek Catholic.

### 1.4 Language

The official language of the country is Moldovan (equivalent to Romanian), although Russian is also commonly spoken. The language uses the Latin alphabet and is part of the Romance language family.

In addition, many Moldovans speak English and/or French, and business is often conducted in one of these two languages.

### 1.5 Education

Education is mandatory from the age of six to fifteen. The Moldovan state education system includes primary, secondary, and higher education institutions. There are 1,539 educational institutions in the Republic of Moldova. The majority of them are State Institutions (98.5%) and only 23 of them are private, including 21 high schools and 2 gymnasiums.

There are 31 institutes of higher education, including universities, 17 of which are state institutions, which provide training in management and economy, law, social sciences, agriculture, medicine, humanitarian sciences, engineering, processing technologies, architecture, constructions and other subjects. In 2006, the number of students studying in state institutions amounted to 106,800 people, an increase of 2.2 % from the previous year. On the other hand, the number of

- Moldova has a population of 3.39 million
- GDP grew by 4.0% in 2006
- **0% corporate income tax (CIT) rate** applicable starting with 2008 for all legal entities (see further details in Chapter 8).

### 1.1 General Description

Moldova is a small, densely populated country that has been independent since 1991. It is situated in the South Eastern Europe, north of the Balkan Peninsula. With an area of 33,700 square kilometres (about 12,600 square miles), it stretches 350 km from North to South and 150 km from East to West. In the North and East Moldova borders Ukraine and in the West borders Romania.

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". These beautiful forests continue to hold great environmental importance. The underground water reserve, mostly drinkable water, is estimated at 200 million cubic metres. The soil is black earth (chernozem) and is rich in humus. An extremely favourable combination of climatic and soil conditions creates high yields of cereals, grapes, tobacco, fruit and vegetables.

### 1.2 Political System

The Republic of Moldova has been an independent State since 27 August 1991. The Constitution dates from 29 July 1994. The Parliament is unicameral, with 101 members and is elected for four years. The Constitutional form is that of a Parliamentary Republic. Parliament elects the President who then nominates the Prime Minister. Cabinet ministers, selected by the Prime Minister, have to be approved by Parliament before taking up office.

The latest elections took place in March 2005. The current President is Vladimir Voronin.

students studying in private institutions was 21,200, which is 2.2% less than in the 2005/06 academic year.

In May 2005, the Republic of Moldova adhered to the Bologna Process for an Integral European Higher Education Area.

The number of post-secondary institutions has grown in recent years and private education has become increasingly popular. English language business administration courses have been introduced in co-operation with the US and Canada, as well as with the European MBA programme, run by the Grenoble Graduate School of Business (GGSB) from France.

In 2005, a distance learning project was initiated by the State University of Moldova and Keiser University of Florida USA. The project is based on three years of study of management in business speciality. At the end of the project, students are awarded two diplomas: a "Bachelor's degree" from Keiser University and its equivalent from the State University of Moldova.

## 1.6 The Economy

The Republic of Moldova is committed to its European integration efforts, on both the political and economic fronts, and it aims to strengthen economic relations with neighbouring Balkan countries. Moldova joined the United Nations on 2 March 1992 and became a member of the World Trade Organisation in May 2001.

GDP growth has remained relatively stable over the past few years.

GDP totalled MDL 44.07 billion (EUR 2.7 billion) and increased by 4.0% in 2006\*

In 2006, production volume decreased by 15% to MDL 84.9 billion (EUR 5.1 billion), the intermediate consumption decreased by 16.1% to MDL 52.5 billion (EUR 3.1 billion). The net product and import taxes decreased by 21.4% to MDL 6.69 billion (EUR 405 million).

The decrease in production volume was caused by the suspension of wine exports to Russia and the diminution in production volume of enterprises in such main areas as wine and other alcoholic drink production, tobacco production, glass and glass article production, etc.

The country's historic strength is in agricultural processing, especially in wine production and the

processing of fruits and vegetables. Moldova's dark-earth soil, which is ideal for growing wine grapes, tobacco and sugar beet, is one of Europe's most fertile soils.

Agricultural output decreased by 5.4% in 2006, due to an 8% decrease in vegetable production.

The biggest industries of the country include steel manufacturing, agricultural machinery, white goods and textiles, etc.

Inflation increased to 12.7% in 2006 compared with 10% in 2005 and 12.5% in 2004.

The 2006 budget revenues were approved at MDL 12.09 billion (EUR 732 million) and expenses of MDL 12.16 billion (EUR 736 million).

## 1.7 Transport and Communications

### Transport

In 2006 the volume of transported goods by all means of transportation decreased by 4.4%.

**Roads:** 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. 90% of roads need repair. There are no motorways and in winter snow can make certain areas temporarily impassable.

In 2007, Moldova envisages attracting strategic investors to build the highway Criva-Giurgiulesti and other roads of national importance. Among these, the following projects of road construction are to be launched: Chisinau-Leuseni, Chisinau-Comrat, Orhei-Rezina and Chisinau-Balti. Moldova envisages allocating MDL 2 billion (EUR 121 million) to the restoration and construction of roads in 2007. Additionally, the World Bank decided to provide Moldova with EUR 630 thousand to develop a program for road restoration.

For comparison, in 2006 the Government of Moldova allocated MDL 160 million (EUR 9.6 million) for road repairs.

**Rail Transport:** The state enterprise "Calea Ferata" runs Moldova's railroad. Calea Ferata carried a total of 4.8 million passengers in 2006, which represents a 5.7% increase from 2005. The railway network still needs considerable investment.

\* All sums in the text were converted into EUR at the following conventional rates: EUR 1 = MDL 16.5 and EUR 1 = USD 1.26. The data from the text was round off. Due to conversion some data might not correspond to the official data.

**Water Transport:** Moldova's main waterway is the Dniester river, which has access to the Black Sea via the Ukrainian ports.

**Air Transport:** 15 air carriers operate in Moldova, which perform regular flights on 15 routes. The biggest air carriers are the national companies, "Air Moldova", which performs regular flights on 11 routes, "Moldavian Airlines" and "Tandem Aero". Based on parity principles, foreign operators such as "Austrian Airlines", "Tarom", "Turkish Airlines" and "Club Air" perform regular flights as well. The "Aeroportul International Marculesti" and JSC "Nobil Air" perform charter routes. "Air Moldova" was the first company in Moldova to introduce electronic tickets in 2006.

In 2006 Moldova signed the Aviation Cooperation Agreement with the EU.

## Communications

### Fixed and Mobile Telephone services:

JSC "Moldtelecom" administers the fixed telephone network, data transmission and Internet, and offers Internet access to other Internet Service Providers (ISP).

The number of fixed telephony subscribers increased by 88.700, about 10% compared to 2005, reaching 1.18 million. In 2006, JSC "Moldtelecom" connected 80.200 new subscribers while other operators completed 8.400 connections.

Based on the number of subscribers and amount of income, JSC "Moldtelecom" holds 97.3% of the fixed telephony market.

In 2006, JSC "Moldtelecom" investments remained at the level of 2005, at about MDL 678 million (EUR 41 million). The average revenue per subscriber grew by 2.6% and reached MDL 179.6 (EUR 11). Investments by other operators grew by 7.6 times as much to MDL 18 million (EUR 1.1 million). Average revenue per subscriber, has been increased by 2.4 times as much to MDL 588.1 (EUR 35).

JSC Moldtelecom launched mobile communication services in CDMA-2000 standard at frequency of 450 MHZ named Unité on 1 March 2007. According JSC Moldtelecom, mobile communication services in this standard should cover 94% of Moldova's territory.

There are three GSM mobile providers – Orange, Moldcell and Eventis Mobile.

As of 25 April 2007, Orange is the new name of the company, which was previously called Voxel (trade marks Voxel and Tempo).

The main shareholders of Orange are France Telecom Mobiles International, Orange Romania and IFC. Orange was initially granted an exclusive licence but anti-trust legislation allowed an additional licence to be granted to Moldcell.

Moldcell started its operations in Moldova in April 2000, launching a new phase in the development of the Moldovan mobile communication sector. Moldcell's shareholders are: MolFintur SRL and Fintur Holdings BV.

On 26 December 2006, the National Regulatory Agency in Telecommunications and Informatics decided to issue a third licence for the performance of mobile telephone services to "Eventis Mobile".

In 2006, the number of mobile communication subscribers in Moldova increased by 38% to 1.358 million.

The density of mobile telephony per citizen increased from 32.18% in 2005 to 39.56% in 2006. By the end of last year, Orange covered 94.48% of the territory of Moldova, including 96.96% of the population. Moldcell covered 93.09% of the territory and 91.54% of the population.

Orange sales volume exceeded MDL 1315.4 million (EUR 79 million) and Moldcell sales volume was MDL 570.3 million (EUR 34,5 million).

The average revenue per Orange subscriber reached MDL 143 (EUR 8.6) and the average revenue per Moldcell subscriber reached MDL 104 (EUR 6.3).

**Post** services are available at most post offices with money transfer services, including Western Union and Money Gram.

The National operator of postal communication in the Republic of Moldova is the State Enterprise "Posta Moldovei". The latter has a wide network of offices throughout the entire country, rendering services to people in 1.533 localities.

**Television:** The cable-TV provider Sun-TV (Sun Communications) is the main television provider in Moldova. The system includes channels such as CNN, Discovery, Eurosport, EuroNews, BBC, Cartoon Network, HBO and others, mainly in Russian or Romanian languages (translations or subtitles).

The European Bank of Reconstruction and Development (EBRD) became a partner of Sun Communications company, after launching an investment project of EUR 6.3 million.

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

**Internet:** Internet providers operating in the Republic of Moldova include: Sun Communications, Arax-Impex, Meganet, Riscom, StarNet, Telcom Technologies and others.

By 1 January 2007, 42 licence holders were authorised to provide fixed communication services. In 2006, only 16 of them provided such services. JSC "Moldtelecom" with a share of 98.64% is the basic player in this market. The rest part of the market is divided between other operators, such as SC "Riscom", Arax-Impex, Sicres, "Telcom Technologies", "Starnet", "Telemedia Group" etc.

JSC "Moldtelecom" Internet Point of Presence has direct access to the Global Network via three fibre optic cables with a total capacity of 34 Mbps, connected to the Frankfurt (Germany) Sprint - internationally recognised operator. Moldtelecom offers Internet services to other ISP and direct Internet subscribers via its own public telephone networks or via leased lines.

Information technologies are gradually assuming an important role in the development of the Republic of Moldova's economy and over the past few years the promotion of IT-services, such as mobile communication, Internet technologies and data transfer has increased. The number of economic entities dealing with IT is growing.

In 2006, IP-telephony traffic doubled – from 19.1 million minutes to 41.3 million minutes. The most popular international phone calls from the Republic of Moldova were made to: Russia, Ukraine, Romania and Spain. On 1 January 2007, the National Regulatory Agency in Telecommunications and Informatics had 213 companies registered as having the right to provide IP-services. In 2006, 23 of them provided services of international telephony. Although "Moldtelecom" is the main player in this market, its share has reduced significantly, from 52.4% to 45.8%, since 2005. Other operators include: «Transneogrup», «Telcom Technologies», «Sicres», «Isabel», «Telemedia group».

## 1.8 Business Visitors

For any business trip to Moldova a degree of advance preparation is recommended. Prepared planning can go a long way towards avoiding unnecessary frustrations.

### Visa Requirements

All travellers to Moldova require passports (with validity of over six months remaining) and obtaining visas is compulsory for many visitors. Visas can be purchased from one of Moldova's embassies or consulates. To obtain a visa, visitors are required to present an invitation or booked accommodation from a Moldovan company or organisation, except from Croatia, Israel and Turkey.

Since 1 January 2007, citizens of EU member states, Community of Independent States' members, USA, Canada, Japan and Switzerland do not need entry visas for Moldova. From 26 January 2007, visas are not required for the citizens of Kingdom of Norway and the Republic of Iceland.

Additionally, holders of diplomatic passports from Croatia, Serbia, Turkey, Israel and Chinese Republic do not need entry visas for Moldova.

In exceptional cases, citizens of Turkey can obtain short stay and/or transit visas on arrival at Chisinau airport.

Transit visas are issued to foreign citizens and non-residents upon presentation of an entry visa to a third country.

#### Types of visas and costs:

■ single entry (during 1 month)	EUR 48
■ double entry (during 1 month)	EUR 60
■ multiple entry (during 1 month)	EUR 83
■ multiple entry (during 2 month)	EUR 118
■ multiple entry (valid for 3 months)	EUR 141
■ multiple entry (valid for 6 months, with permanent stay for up to 90 days)	EUR 190
■ simple transit	EUR 24
■ double transit	EUR 48

## Currency

Moldova introduced its own currency in November 1993.

The Moldovan currency is the “Leu”, plural “Lei”, abbreviated as MDL.

Notable points are:

- On 30 October 2007, the official exchange rates were USD 1 = MDL 11.49 and EUR 1 = MDL 16.56;
- Transactions between residents must be performed in MDL;
- Most prices are denominated in MDL but prices for some goods and services are unofficially indicated in a convertible currency (USD) but payable in MDL;
- Individuals (residents of the Republic of Moldova and non-residents) are entitled to take out of the country banknotes, coins and cheques in the national currency of Moldova in an amount that does not exceed EUR 10,000 per person, without presenting any documents;
- There are no limits on the amount of foreign currency that can be brought into the Republic of Moldova;
- Cash and credit cards (Visa Card, Master Card, and Maestro Card) may be used in Moldova but not many places accept traveller's cheques. Cash is the preferred method for transactions and can be exchanged easily at official exchange points.



## Statutory Holidays

1 January	New Year's Day
7 and 8 January	Christmas (Orthodox)
8 March	International Women's Day (Gifts and flowers are given to women)
Two days of Easter	Easter (Orthodox, dates depending)
First Monday after Easter	Memorial Day
1 May	International Labour Day
9 May	Victory Day
27 August	Independence Day (Republic Day)
31 August	Language Day
14 October	Chisinau city Day (for other localities, their official day as established by local authorities).

Additionally, the period between New Year and Christmas is characterised by very limited business activity. In summer, some companies, government agencies and the courts operate with reduced hours and staff.

# Business Environment

- Successful privatisation of housing has laid the foundation for the development of the real estate market
- **Fiscal amnesty and capital legalization** were implemented on 11 May 2007

## 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.

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;
- Implementation of the Regulation Automated Inter-bank Payment System.

## 2.2 The Aims of Government Policy

The Government of Moldova acknowledges the need to revive the economy and decrease social tension in the country whilst continuing to integrate into the international community.

## 2.3 Free Entrepreneurial Zones

Certain free entrepreneurial zones (FEZ) and industrial parks (IP) operate in Moldova as: Expo-Business-Chisinau, Tvardita, Valkanes, Taraclia and Ungheni-Business and also a Free International Port - Giurgiulesti.

Since the establishment of the first free entrepreneurial zone in 1995 until the beginning of 2007, the amount of attracted investment totalled EUR 70 million, of which around EUR 12.6 million was invested in 2006.

The largest investments - EUR 27 million was made in the free entrepreneurial zone "Expo-Business-Chisinau". The total investment in FEZ IP "Taraclia" was EUR 10.6 million, in FEZ "Tvardita" – EUR 8.3 million and FEZ IP "Valkanes" - EUR 7.7 million.

FEZ "Ungheni-Business" has the largest increase in investments. Within three years of commencing activity in this zone the amount of attracted investments reached EUR 15.4 million.

## 2.4 Small and Medium-Sized Businesses

The government acknowledges that small and medium sized enterprises (SME) play a crucial role in the transition process. The SME sector is not only a source of employment, but also a key source of innovation, entrepreneurship and productivity growth.

The classification of companies in small or medium-sized is performed based on the following criteria: the annual average number of workers (for small enterprises – not exceeding 49 workers, for medium-sized enterprises – not exceeding 249), the annual amount of sales revenue and the annual amount of assets (for small enterprises – not exceeding MDL 25 million (EUR 1.5 million), for medium-sized enterprises – not exceeding MDL 50 million (EUR 3 million)).

The number of SMEs increases every year. They represent 98% of all Moldovan enterprises.

The majority of SMEs perform trading activities due to the small amount of capital investment required and the quick capital turnover rate.

## 2.5 Participation in International Organisations

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.

Moldova joined the Special Data Transfer Standard (SDTS) of the International Monetary Fund in May 2006, envisaging a complex approach to the transfer of economic and financial data for the international capital market.

Government strategy includes the prospect of the country joining the European Union. However, strenuous efforts must be made across a range of areas to meet the preconditions.

## Support from International Financial Institutions

World Bank lending has provided consistent support for the country's economic reform program. Early lending focussed on providing adjustment support, strengthening the private sector in both the agriculture and enterprise sectors, and improving economic and financial management in the energy sector.

Since 1993 the Word Bank has financed 25 projects in Moldova, totalling EUR 483 million, of which EUR 344 million has been already paid.

The actual portfolio of the Word Bank comprises 12 investments projects and 8 grants. The most important projects are: Competitiveness Enhancement (EUR 7.7 million), Quality Education in Rural Areas (EUR 7.8 million), RISP II (EUR 11.8 million), Trade and Transport Facilitation in Southeast Europe Project (EUR 5.67 million), Rural Investment and Services (EUR 11.8 million), Social Investment Fund 2 Project (EUR 15.8 million), Pilot Water Supply and Sanitation (EUR 9.5 million).

The EBRD is also active in Moldova, both in equity investment and in providing financing to investors. In addition to its participation in the electricity privatisation, the EBRD is financing major investments in transport, heating and water supply, as well as the development of the banking system.

In 2006, EBRD implemented in Moldova 11 projects and 3 increases of the financed limits within the framework of Program for Trade Financing in the amount of EUR 24.4 million (including with the participation of IMF).

The IMF has provided Moldova with technical assistance in a number of areas, including fiscal management, public expenditure, tax and customs, monetary accounting system, bank supervision, monetary policy/central bank organization, and in various statistical areas.

Since 1993, Moldova has had seven arrangements with the IMF in support of the Government's economic adjustment programs: Compensatory and Contingency Financing Facility (CCFF), Systemic Transformation Facility (STF), two Stand-by arrangements (SBA), Extended Fund Facility (EFF), and two Poverty Reduction and Growth Facilities (PRGF). Total Fund credit and loans outstanding at end-December 2006 amounted to about EUR 111 million.

## 2.6 Land Ownership

Under current Moldovan law, the only limitation on acquisition of lands relate to agricultural and forested lands. Thus, such 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 lands. Nevertheless, the title over such lands can be obtained by other means, such as inheritance.

## 2.7 The Property Market

The property market has developed continuously over the past few years. Privatisation of housing has been successfully completed and played a significant role in the consolidation of the national real estate market. In 2006, as well as in the previous years, housing prices increased continually. In 2006 the price of real estate increased by 20-25%.

The average price for a square metre of housing space in Chisinau has increased from EUR 512 in January 2006 to EUR 630 by December 2006.

Commercial real estate has also seen increasing demand. The price per square metre of office space in Chisinau is about EUR 550-1,570. For shops the price per square metre amounts to EUR 780-1,970 and for storage facilities, EUR 95-140.

Rent rates currently remain relatively steady. On average for 2006, rent for commercial real estate for offices in Chisinau was EUR 110-395 for one square metre per annum, depending on the class of building and its location.

## 2.8 Capital legalisation

Starting with 11 May 2007 entered into force the Law on capital legalisation.

Objects of capital legalisation are monetary funds, immovable assets, securities, shares not declared previously and/or declared at a reduced value and wherefrom taxes and duties, social contributions and medical insurance contributions have not been paid, as well as positive differences resulting from capital assets re-evaluation.

Subjects of capital legalisation process are individuals (Moldovan citizens) and resident legal entities, which have relations with the budgetary system of the Republic of Moldova (except for legalization of monetary funds) and whose capital fall under the provisions of these amendments and which were voluntarily declared.

The capital legalisation shall be performed on a voluntary basis, paying a 5% tax from the legalized monetary assets, as for other assets – from the difference between the declared value of legalized capital and the value of the transaction.

The law establishes guarantees granted to subjects of capital legalisation and, in particular, the inviolability of the legalized capital, confidentiality of the information, interdiction for authorized public authorities to bring to responsibility persons, which have legalized their capital. The subject of the legalization is exempted from payment of income tax resulting from capital increase.

Legalisation of monetary funds may be performed starting from May 11, 2007 until December 30, 2008. Legalization of immovable assets, securities and shares may be performed starting from May 11, 2007 until December 31, 2008.



## Chapter 3

# Foreign Investment, Privatisation and Foreign Trade

- The amount of foreign direct investments constituted EUR 283 million in 2006
- The Foreign Investors Association is active in Moldova
- Foreign and domestic investments are given equal treatment
- Foreign trade totalled EUR 2.9 million in 2006

## 3.1 Foreign Investment

### Current Investment Overview

The amount of foreign direct investments constituted EUR 283 million in 2006, an increase of 34.6% on the previous year.

Investments in subscribed capital increased by 27.8% in 2006, amounting to EUR 99.5 million. The amount of foreign investments increased in the banking sector from EUR 1.75 million in 2005 to EUR 26.2 million in 2006 and decreased in other sectors from EUR 76.1 million in 2005 to EUR 73.4 million in 2006.

The biggest foreign investments in 2006 were from the Netherlands, Russian Federation, Germany, Romania, Italy and Spain.

## 3.2 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 the regional and international scenes.

In 2007, the FIA published the 2006 WHITEBOOK (the second edition). It contains a number of concrete proposals for improving the investment climate in Moldova. The 2006 WHITEBOOK regards not only

regulations that are already in force, but also those being drafted.

### 3.3 Rights and Guarantees

Business entities, with or without foreign equity, must be registered in compliance with the legislation governing the specific form of business through which the investment is conducted.

Foreign and domestic investors are treated equally in accordance with the "Law on enterprises and entrepreneurial activity" and the "Law on investments in entrepreneurial activity".

There are no restrictions on the 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 for limited liability companies; MDL 20,000 for joint stock companies; MDL 15 million for insurance companies, etc.) The allocation between foreign and local investors does not matter. Legislation permits 100% foreign ownership in companies.

Moldova has concluded several bilateral treaties for the mutual guarantee of investment (see Appendix II for a list of countries with which Moldova has signed such agreements).

### 3.4 Privatisation

The Law on public property management and its privatisation has been approved on 4 May 2007. Simultaneously the Law on privatisation (dated 1991), Law on the Program of privatisation for the years 1997-1998 have been abolished.

The Law regulates the relations in the field of public property management and its privatisation in the off-budget sector of the national economy.

The list of goods not due to privatisation has been enclosed as an appendix to the Law.

With a view to implementing the Law on public property management and its privatisation, the Government of the Republic of Moldova has approved the Regulation establishing the process for carrying out commercial privatisation tenders for state-owned land. The Regulation establishes the method of organising and carrying out commercial tenders for the privatisation of

state-owned land assigned for construction, and the method of payment and concluding sale-purchase agreements for such land.

The lists of state-owned goods, land allocated for construction and assets under construction due for privatisation have been approved.

### 3.5 Foreign Trade

Moldova is a member of the World Trade Organisation, which helps to reduce the barriers of mutual trade between countries, and enhance private sector progress.

The volume of Moldovan foreign trade in 2006 totalled EUR 2.92 million, an increase of 8.7% from 2005.

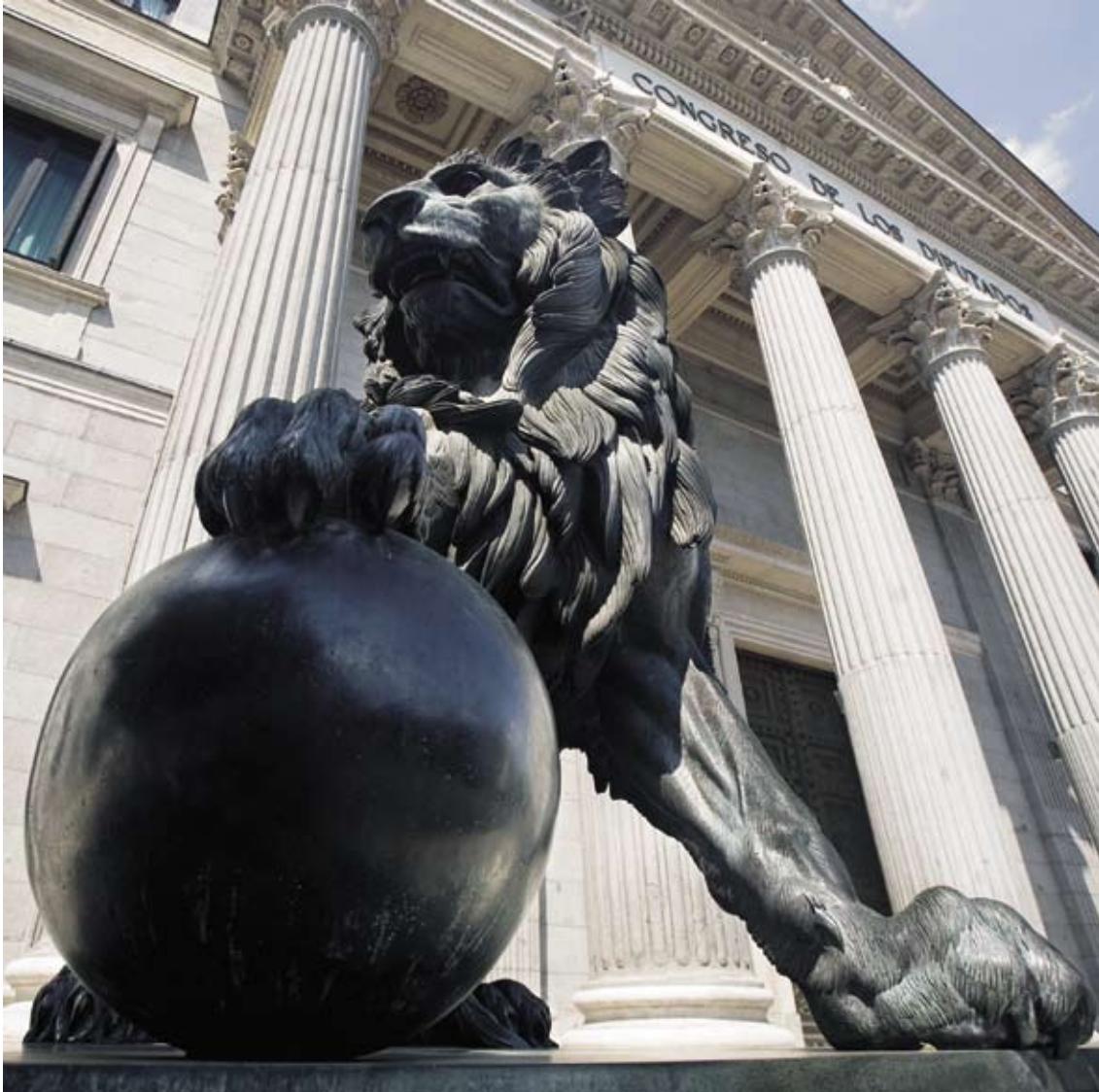
Export volume in 2006 totalled EUR 828 million and decreased by 3.6% against the previous year. Moldovan

exports to CIS countries constituted 40.3% (EUR 334 million), decreasing by 23 % compared with 2005.

The export volume to European Union countries amounted to EUR 290 million, which represents 35% of Moldova's total export volume, or a 13.6% increase compared with the previous year. Exports to Central and Eastern Europe totalled EUR 136.8 million, increasing 43.1% compared with 2005. The countries that receive the largest shares of Moldovan exports are: Russia (17.3%), Romania (14.8%), Ukraine (12.2%), Italy (11.1%) and Belarus (7.0%).

Import volume in 2006 totalled EUR 2.11 million, which is 17.5 % more than in 2005. Imports from EU countries were increased by 11.3%. Imports from CIS and Central and Eastern Europe countries increased by 12.8% and 32.4%, respectively.

The major exporters to Moldova are: Ukraine (19.2%), Russia (15.5%), Romania (12.9%), Germany (7.9%) and Italy (7.3%).



## Chapter 4

# Banking and Finance

- Moldova's banking system consists of 15 commercial banks
- The National Bank's monetary and currency policy for 2007 was adopted in December 2006
- In 2005-2006, The National Bank of Moldova (NBM) issued new standard acts, which regulate various aspects of banking activity

## 4.1 The Banking System

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

Moldova's banking system experienced major changes during the past few years. In August 2005, shareholders of the Businessbank decided to self-liquidate the bank owing to the meagre results of its activities. The authorisation of this bank was cancelled on 29 June 2006. This was the second time in the history of Moldova's banking system that a commercial bank self-liquidated. The first was the self-liquidation of the Greek commercial bank ICB Moldova.

In January 2006, a Representative Office of the Raiffeisen Bank has been registered. The setting up of a representative office in Moldova is a part of the Raiffeisen Banking Group strategy, for which Central and Eastern Europe is a key region.

In addition, in March 2006, the EBRD and Western NIS Enterprise Fund sold 9.78% and 9.88%, respectively, of their shares in Moldova-Agroindbank. The buyers were a Dutch and three Slovenian banks: Poteza Adriatic Fund B.V. (Netherlands) – 4.66%, Factor Banka (Slovenia) – 4.99%, Activa Invest (Slovenia) – 4.99%, and Druga Penzija (Slovenia) – 4.99%.

In May 2006, Veneto Banca (Italy) acquired from Canadian Royal HTM group of Toronto a 100% stake in the Joint Stock Commercial Bank "Eximbank".

Finally, in 2007 the French Bank, Societe Generale purchased major share quota of "Mobiasbanca" JSC.

## 4.2 The National Bank of Moldova (NBM)

The National Bank of Moldova (NBM) is an independent institution whose main objective is securing and maintaining the stability of the national currency. An administrative department heads the bank: five members including the President of NBM are appointed by Parliament for seven-year terms. The responsibility of the department is to issue NBM policy guidelines.

The NBM represents the country in international forums and organisations on matters pertaining to monetary policy, banking regulations and others.

The primary functions of the National Bank are:

- To establish and manage the monetary and foreign currency policy of state;
- To provide ongoing analysis of the current economic situation and make recommendations;
- To license, control and regulate the activity of financial institutions;
- To grant credits to Government and commercial banks;
- To manage currency reserves;
- To issue banknotes.

The National Bank's monetary and currency policy for 2007 was passed in December 2006. This policy was established on the basis of macroeconomic forecasts for 2006-2008 concerning the projected economic development in Moldova and in line with its low inflation policy.

The monetary and currency policy of NBM is based on the following monetary indicators:

- Growth of monetary mass of 9.7%;
- Growth of M2 (money in circulation, deposits in MDL, instruments of monetary market) mass of 20%;
- Level of M2 monetisation (correlation of monetary mass M2 to GDP) at the level of 32% by the end of 2007.

As noted in the NBM's policy, in 2007 the surplus of liquidity in the banking system will remain at the level of 2006 and will depend on money transfers from abroad,

including investments and transfers of individuals, NBM's currency market interventions, amount of state financial means transferred to NBM's account by the Ministry of Finance and the change of monetary mass in circulation. To guarantee the planned inflation level for 2007, NBM will implement a number of macroeconomic principles of monetary and currency policy which will stimulate surplus liquidity reduction and restraining inflation expectations. NBM will continue to increase the number of operations aimed at surplus liquidity sterilisation using all possible instruments.

The NBM applies the whole 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 and REPO transactions); sales Certificates of the National Bank; deposit operations; required reserves; NBM base rate; overnight credits and deposits; Lombard facilities; etc.

During 2006, NBM issued Certificates amounting to MDL 6.673 million (EUR 404 thousand) with the payment terms between 5 and 28 days.

In 2005-2006, the NBM issued new standard acts to regulate diverse aspects of banking activity.

### **Regulation on credit standing facilities extended by NBM to banks**

The Regulation hereof regulates the modality of extending credit standing facilities by NBM to maintain the liquidity of banks and ensure timely payments performance. The credit standing facilities extended to banks in Moldovan lei are intraday credits and overnight credits.

### **Regulation on Automatic Inter-bank Payment System**

The Regulation defines the rules under which the Automated Interbank Payment System (AIPS) is used. AIPS represents the system through which the interbank payments in Moldovan lei are performed in the Republic of Moldova. The participants in AIPS are: NBM, banks licensed by NBM and Tiraspol settlement centre.

### **Regulations on foreign currency control on the territory of Moldova**

The amendments to the Regulations on foreign currency control on the territory of Moldova were made in July 2006. The main amendments state the increase to EUR 10,000 of the foreign currency amount that can be taken out of the country by residents without the submission of confirmatory documents or authorisations from the National Bank of Moldova.

### **Regulation of bank licensing**

The amendments to the Regulation of bank licensing are aimed at protecting shareholders' interest, preventing surplus risks and supporting competitiveness in the banking sector. They also establish that the list of affiliated persons including individuals as well as legal entities are provided to NBM, making reference to the criteria of affiliation. Legal entities should present information of the name, locality, directors' names and shareholding. Individuals should present information on their surname, place of work, share participation in the capital and other information.

### **Instruction on foreign agreements**

The National Bank has adopted a new Instruction on foreign agreements. The new Instruction simplifies the procedure of control applied by NBM for foreign agreements. Thus, the registration procedure for foreign agreements has been replaced with a notification procedure. The number of documents presented to NBM has been reduced, as has the length of the examination period - from 30 to 15 working days.

## **4.3 The Foreign Exchange Market**

The regulation and control of foreign currency is the responsibility of the National Bank. The NBM systematically collects and publishes information from commercial banks about currency exchange operations on the market, as well as giving and cancelling licences for foreign exchange activities and providing methods of establishing the official Moldovan Leu (MDL) exchange rate etc.

Exchange operations can be carried out in banks, stock exchanges and currency exchange points, where exchange facilities are provided for individuals.

For the first time, at the beginning of 2006, the exchange sale rate exceeded the rate of 13 MDL per 1 USD.

From January to October 2006, the USD continued to be the most used currency on the foreign currency market in Moldova. The currency shares within this market were as follows: USD 66%, EURO 29.9 %, Russian Rouble 3.4 % and other non-convertible currencies 0,7%.

Between January and October 2006, the currency reserves increased by EUR 60.5 million, from EUR 470 million (at the end of 2005) to EUR 531.2 million (at the end of October 2006).

## 4.4 Banking Market

The level of foreign investments in the share capital of banks by 31 December 2006 represented 62.7% (which represents an increase of 12.1% from the beginning of the year).

Total Moldovan bank assets in 2006 increased by 27%, to MDL 22.7 billion (EUR 1.37 billion) from 2005.

Banks must be registered with, and operate under licences issued by the NBM. Licences are granted to commercial banks depending on the size of their equity, as follows:

- To obtain an "A" category authorisation, banks should reach and maintain a tier I capital within at least the minimum necessary capital;
- To obtain a "B" category authorisation, banks should reach and maintain a tier I capital at a level higher than two-fold the amount of the minimum necessary capital;
- To obtain a "C" category authorisation, banks should reach and maintain a tier I capital at a level higher than triple the amount of the minimum necessary capital.

From 1 January 2006, the minimum capital necessary for a tier I capital is MDL 50 million (about EUR 3 million).

The minimum capital necessary for a tier II capital is MDL 100 million (about EUR 6 million).

The minimum capital necessary for a tier III capital is MDL 150 million (about EUR 9 million).

As of April 2007 seven banks had type C licences and eight banks had type B licences.

Commercial banks may engage in the following main activities:

- Attracting deposits (with or without interests);
- Granting credits;
- Issuing and managing debit and credit cards, checks, security bills, etc;
- Buying and selling local and foreign currency;
- Consulting services.

Annually, banks are required to publish their annual report and the independent auditor's opinion. In addition, banks are required to present their quarterly reports to the NBM.

A bank must report transactions which under Moldovan legislation meet the criteria on money-laundering transactions. Financial Institutions must have procedures for money laundering, including, at a minimum, the following:

- Internal methods, procedures and control measures;
- Permanent training of employees, and strict selection to provide a high professional level of people selected for certain positions;
- Using audit services for system's control purpose.

## Credit activity

Credits for industry and trade occupy an important part of the credit portfolio - 48.9%. Followed by credits for agriculture and food industry - 18.7%, credits for real estate, construction and development - 10.6% and consumer credits - 9.2%.

By 31 December 2006 total volume of credits for vine, winemaking branch and trade constituted MDL 1.53 billion (EUR 92.7 million) or 11.1% of the total credit portfolio and 6.8% of asset volume. The credits for business extension in amount up to MDL 700,000 (EUR 42 thousand), with share of 9.8% in total credits' portfolio, constituted MDL 1.35 billion (EUR 81.8 million). The balance of consumer credits up to MDL 700,000 (EUR 42 thousand), with a share of 8.4% in total credits' portfolio increased to 80.3% - to MDL 1.16 billion (EUR 70.3 million).

The amount of non-performing credits represented, by 30 September 2006, 5.2% of total credits (representing a decrease of 0.1% from 31 December 2005).

Deposits of individuals also registered a considerable increase of 34.1%, to MDL 9.24 million (EUR 560 thousand) from 2005.

## Repatriation

Current legislation contains strict rules on the repatriation of hard currency. Banks are directly responsible to the NBM for monitoring the way in which regulations on hard currency repatriation are observed. Failure to observe the deadlines set for collecting hard currency receivables earned from exports by Moldovan residents entails severe sanctions. In addition, hard currency pre-payments made for imports of goods and services that have not been finalised within a set time are also governed by repatriation rules.

Legislation regulating the repatriation procedure provides a maximum repatriation term for foreign currency of one year.

The state authority in charge of supervising the repatriation procedure is the tax authority.

## 4.5 Financial Markets

### Primary Securities Market

In 2006, 14 issuance of entities securities were registered for a total amount of MDL 0.7 million (EUR 42 thousand).

In the same period, 74 additional issuance of securities were registered for a total amount of MDL 683 million (EUR 41 million). This amount represents an increase of MDL 325.3 million (EUR 20 million) from 2005. The total amount of issues involving foreign investors represented MDL 516 million (EUR 31.3 million).

### Secondary Securities Market

The total amount of transactions on the secondary market constituted MDL 1.14 billion (EUR 68 million) – which represented an increase of MDL 577.1 million (EUR 35 million) compared to the amount of transactions on the secondary market in 2005.

The amount of off-stock transactions registered during 2006 was MDL 792.7 million (69.8%), while the amount of transactions performed on the stock exchange represented MDL 343 million (30.2%).

## Insurance Market

Moldova has 33 insurance companies, which provide support and assistance at all stages of the insurance process.

On 6 April 2007, the new Insurance Law came into force. Under the new Insurance Law, insurance companies can be incorporated only in the form of open Joint Stock Companies. The minimum share capital of an insurance company is MDL 15 million (EUR 90 thousand). Existing companies have to change their form of organisation (if appropriate) and increase the statutory capital up the minimum required level within 5 years. Insurance companies are prohibited from carrying out any other activities.

Total assets of 33 Moldovan companies owning licences for insurance activity constituted MDL 759.4 million (EUR 46 million) by 1 October 2006, MDL 249.6 million (EUR 15.1 million) or 48.95% more than at the same date in 2005 (MDL 509.8 million).

According to the information of the State Inspectorate on insurance supervision, during nine months of 2006 net assets of insurance companies constituted MDL 257.3 million (EUR 15.6 million); paid equity constituted MDL 156 million (EUR 9.5 million); insurance reserves constituted MDL 328 million (EUR 19.9 million).

During nine months of 2006, the volume of insurance bonuses of Moldovan companies constituted MDL 410.6 million (EUR 24.8 million), which is MDL 95.1 million or 30.2 % more than during the same period of 2005 (MDL 315.4 million). According to the information of the State Inspectorate on insurance supervision, the volume of insurance compensations constituted MDL 135 million (EUR 8.2 million) (MDL 86.2 million - during nine months of 2005) or 33% of the volume of insurance allocations (27.3% during nine months of 2005). The share of individuals constitutes 44.6% or MDL 188.3 million (27.3% or MDL 86.2 million during nine months of 2005).

# Corporate and Business Law

- Legislation allows the establishment of a wide range of business entities, including wholly foreign owned companies and subsidiaries
- 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

## 5.1 Legal Framework

The Commercial legislation of Moldova is represented by a complex system of laws, most of which have been subject to significant amendments in recent years.

The current legislative basis for investment and business operations includes the following:

- Civil Code;
- Law on Entrepreneurship and Enterprises;
- Law on Investments in Entrepreneurial Activity;
- Law on State Regulation of Foreign Trade;
- Law on Joint Stock Companies;
- Law on Limited Liabilities Companies;
- Law on Insolvency;
- Law on Protection of competition.

In compliance with the Law no. 424-XV of 16 December 2004 on the revision and optimisation of the legal framework of business activity, the Government of the Republic of Moldova approved a decision on the Register of the official acts adopted by the Government and central administrative authorities, regulating the business activity.

The Government also approved the decision on the Nomenclature of the authorisations, permits and certificates, issued by the central administrative authorities and the subordinate bodies to individuals and legal entities for carrying out business activity.

The law on the basic principles of entrepreneurial activity was approved in 2006. This law incorporates the

following principles: transparency of decisions on the regulation of entrepreneurial activity, analysis of the effect of regulations, and equitability in relations between the state and entrepreneurs. This Law establishes the basic principles and rules concerning the procedure for amending the laws which regulate such entrepreneurial relations. The Law comes into effect on 1 January 2008.

## 5.2 Forms of Business Organisation

Under the Civil Code and the Law on Entrepreneurship and Enterprises, the following legal forms of business organisation are possible:

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

The most widespread forms are limited liability companies and joint stock companies. Banks and insurance companies can be registered only as a Joint Stock Company.

### Limited Liability Company (SRL)

The Law on Limited Liability Companies has been approved on 14 June 2007. The Law contains provisions concerning the incorporation, reorganisation and liquidation of limited liability companies, and on company property and statutory capital (formation, increase, decrease), associates and steering bodies, etc.

According to the Law, a limited liability company can be incorporated by one or several individuals and / or legal entities, the number of whose can not exceed 50 members.

The founders of a SRL do not have shares as in a joint-stock company. The ownership contribution of each owner is specified in the company's constitutive documents. At the end of the year, profits may be distributed among the founders depending on their contribution to the share capital, upon the decision of the General Meeting of Founders.

The minimum capital requirement for a limited liability company is MDL 5,400 (EUR 327), 40% of which must

be paid before the company is registered. The rest of the authorised capital has to be paid no later than six months after registration.

If the limited liability company is formed only by one Founder, 100% of the company's share capital should be paid prior to the registration.

The supreme body of a Limited Liability Company is the General Meeting of Founders, which has to meet at least once a year.

The founders of the company have a pre-emptive right to purchase other members' "shares" before they are offered for sale to a third party.

### **Joint Stock Company (SA)**

The capital of a joint stock company is divided into equal shares and distributed among shareholders according to their contributions.

The shares of joint-stock companies have to be registered with the National Commission on financial market.

Starting with the 1 January 2008, the minimum statutory capital of a joint-stock company cannot be less than MDL 20,000 (EUR 1,210).

Types of contributions to the ownership capital are determined by the Memorandum of Incorporation and may be money, fully paid-in securities, other assets, including ownership rights or other rights that have monetary value.

Statutory capital of joint stock companies must be formed before registration, except for non-monetary contributions, which have to be transferred to the company within one month of registration.

The supreme administrative body of the companies is the General Meeting of Shareholders, which should be held no less than once a year. Its decisions are mandatory for the company and its shareholders. Between General Meetings, the Board of Directors and/or its Chairman represent shareholders' interests.

## **5.3 Enterprises with Foreign Investments (including joint ventures)**

The Moldovan Law on investments in entrepreneurial activity provides for the following forms of investments:

- Property rights on movable and immovable assets;
- Intellectual property rights (copyright, know-how, goodwill);
- Any right granted by law or an agreement, any issued licence or authorisation;
- Rights deriving from shares or other forms of participation in companies;
- Monetary receivable rights or other forms of investor liabilities with an economic or financial value;
- Cash.

There is no minimum limit for the amount of foreign investment that can be placed into a company's capital. A foreign enterprise is a company with a capital formed by 100% foreign investments.

In the Republic of Moldova enterprises with foreign investments can be founded as a joint-venture company or as a company exclusively with foreign capital.

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

Foreign investors and enterprises have the right to purchase the shares and securities of other enterprises.

### **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 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.

A branch and/or a representative office established in the Republic of Moldova by a resident company with foreign investments are not legal entities.



## Registration

Every enterprise, branch or representative office has to be officially registered in Moldova before commencing activity.

Registration 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 according to the procedures in force (if they are drafted or issued abroad), except 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.

The authorities cannot require additional documentation.

To perform certain activities, legal 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.

## 5.4 Competition Law

Under the current competition legislation, the Agency for Protection of Competition (The Agency) is empowered to supervise the way companies comply with competition legislation.

The Agency starts 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 the EU legislation.

# Labour Relations and Social Security

- In 2006 the average monthly salary was MDL 1,695 (EUR 102.7)
- Projected average salary for 2007 is MDL 2,015 (EUR 122)
- Moldova has a well educated labour force (good knowledge of foreign languages)
- Employer's social insurance contribution has fallen to 25%

## 6.1 Labour Relations

### Availability of Labour

Moldova has a wide choice of potential employees: both skilled and non-skilled labour is available. Chisinau has a strong language school sector and, as a result, a number of professional personnel fluent in foreign languages are available.

### Employer / Employee Relations

Employer / Employee relations in Moldova are regulated by the Labour Code and Collective Labour Conventions (at national, territorial, branch and company level).

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

The basic principles regulated by the Labour Code are individual labour agreements, working time, dismissal, holidays, payments (salaries and compensations), guarantees and responsibility, special protection measures for certain categories of workers (i.e. expectant mothers, young people) and resolution of labour conflicts.

Other relevant laws in this context are the Law on labour protection, the Law on wages, the Law on trade unions and the Law on patronage organisations.

### Trade Unions

Trade unions, historically, were very strong in negotiations on labour relations. Trade union activities are regulated by the Law on trade unions (professional unions).

Unions are generally organised by branch of industry; there is also a Confederation of Independent Trade Unions of Moldova. Union membership for workers 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.

All national level trade unions have the status of a corporate body and have to be officially registered. Unions represent a considerable negotiating force, being particularly effective in obtaining minimum wage legislation as well as other basic rights for employees. They also conclude annual collective labour agreements at different industrial and company levels.

Unions have no right to participate in the management of a company and its commercial activity. Nevertheless, sometimes business decisions are discussed with unions, because of potential negative social consequences for employees.

## 6.2 Working Conditions

The conclusion of an Individual Labour Contract with all employees is compulsory. Labour Contract clauses cannot be stricter than the provisions of the Labour Code. The contract should be concluded indicating position of employee, salary level and other important issues.

There are three basic types of employment contracts in Moldova:

- For indefinite periods of time;
- For a fixed period, but no more than for five years;
- Project-specific contract, which is terminated when task is completed.

Moldovan labour legislation also provides for a trial period of employment which can be extended for up to three months (in certain cases up to six months).

### Wages and other Salary Rights

The average salary was MDL 1,695 (EUR 102.7) in 2006, having increased by 28.6% from the previous year.

In 2006, the financial services sector recorded the highest monthly salary levels - MDL 3,865 (EUR 234.2). The lowest wages were registered in the agricultural and educational fields – MDL 890 (EUR 54) and MDL 1,212 (EUR 73.5) per month, respectively.

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

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

## 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.

Overtime can generally be accepted only in certain cases and 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, although this is specific to individual enterprises.

## Paid Holidays and Vacations

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.

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 preferences 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.

## Health and Safety

Employers have to ensure the necessary safety level at work and, if damage is caused to the health of an employee, the company takes responsibility for it (including material welfare).

Professionals with specific hazards must be supplied with special clothes, boots and other individual protection facilities where necessary.

## Termination of Employment

Labour Contracts between employees and employers may be terminated in the following circumstances:

- Terminating the employment contract on the initiative of an employee requires a minimum of two weeks written notice without offering reasons for leaving;
- The contract can be dissolved earlier if both parties agree;
- To terminate the employment contract on the initiative of an employer, there are certain conditions stipulated by the Labour Code (such as: legal reorganisation of the company, lack of qualifications, systematic non-compliance with regulations/ requirements or the absence of the employee from the working place and others).

## 6.3 The Social Insurance 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 25% of the gross salary of its employees to the Social Security Fund;
- Employees pay a contribution to the Social Security Fund of 4% of the gross salary, which is deductible for income tax purposes.

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.

## 6.4 Foreign Personnel

The following laws and regulations govern the legal status of foreigners in Moldova:

- Law on legal status of foreigners and people without citizenship;
- Law on investments in entrepreneurial activity;
- Law on entrance to and departure from the Republic of Moldova;
- Law on migration;
- Regulations establishing the procedure for giving and cancelling immigration certificates and work permits.

In general, foreign persons have the same rights and obligations as Moldovan citizens. However certain exceptions are 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 personnel can get visas and residency permits as is necessary for their activity in enterprises with foreign investments.

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

### Work and Residence Permits

All foreign citizens who stay in the country for more than 90 days must be registered with the local authorities and obtain a temporary immigration certificate and a residence permit. Those who intend to work in the Republic of Moldova also have to obtain a work permit.

### Medical Insurance

Medical insurance for foreign citizens and stateless people located in Moldova is compulsory.

The medical insurance required for foreign citizens and stateless people is based on the type of residence permit (temporary or permanent) they have in the Republic of Moldova.

Under Moldovan legislation, and if international agreements do not provide otherwise, foreign citizens and stateless people with permanent residence in the Republic of Moldova benefit from the same rights provided by obligatory medical insurance as the citizens of Moldova.

This category of person is granted obligatory insurance policies and is entitled to benefit from such medical services as those included in the united program offered by accredited medical institutions of Moldova.

Insurance policies are issued for the period of labour contracts upon their signing.

### Living Conditions

Over the last few years, Moldovan cities have developed rapidly.

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 (attached to the American Embassy).

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

A visitor can also enjoy theatres, concert halls, cinemas, bars, nightclubs and casinos and one small English language cinema in Chisinau, which shows films in English with Romanian subtitles.

# Accounting, Audit Requirements and Registrations

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

bankers, suppliers, customers, employees or potential investors. As a result, both meaningful financial information and disclosure were somewhat lacking.

At the international level, the Republic of Moldova was ahead of other newly independent states in the development of accounting, which is evidenced by the activities of the Association of Professional Accountants and Auditors of the Republic of Moldova (ACAP). The body was set up as a result of the Moldovan Accounting Reform project financed by USAID and became the first country-associate member of the International Federation of Accountants (IFAC). However it has only limited official status or responsibility for the regulation of the accounting and audit professions in Moldova.

In 1994, Moldova adopted a State programme aimed at bringing accounting regulations into line with international standards and, on 4 April 1995, the Law on Accounting was approved by Parliament. The current accounting system came into force on 1 January 1998, according to the Decision of the Government of Moldova on accounting reform, which approved the conceptual framework for future development of accounting standards in accordance with IAS. A new "chart of accounts" and the first 12 National Accounting Standards were introduced. This system is obligatory for all registered economic entities.

The order and the title of the National Accounting Standards correspond to the relevant IAS existing in 1993 and broadly the content is similar. There are no similar National Accounting Standards corresponding to IFRS's, effective 1 January 2004 and thereafter.

The full list of current National Accounting Standards are shown in Appendix V.

Whilst the move towards IFRS and greater transparency of financial information is to be commended, it is advisable that users of Moldovan financial statements do not assume that they comply in full with IFRS. Less than 50% of the total number of equivalent IFRSs has been adopted and none of the NAS have been updated for amendments introduced in IFRS.

## Current 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:

## 7.1 Background

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

Currently, the Law on Accounting and the Law on Auditing do not comply with the 4<sup>th</sup> and 7<sup>th</sup> EU Directives on Accounting and the 8<sup>th</sup> Directive on Auditing. However, the Government of the Republic of Moldova is currently reviewing these Laws with the intention of ultimately complying with EU Directives.

## 7.2 Accounting

### Moving Towards International Financial Reporting Standards

Historically, accounting in Moldova, as it was in the former Soviet period, was directed towards providing information to two select user groups, the Tax Authorities (accounting profit was broadly similar to taxable profit) and the Government. This led to the preparation of financial statements that did not take into account the needs of other users such as shareholders,

- Laws and Government Decisions, detailing significant new pieces of legislation;
- Norms (or regulations), providing a detailed explanation of how the Laws or Government Decisions can be implemented;
- Orders of the Ministry of Finance providing additional guidance on accounting and tax issues.

## 7.3 The Chart of Accounts

The principle underlying the Chart of Accounts is that almost all companies record the same item in the same 3-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 peculiarities, 4-digit (called level II account) or 5-digit (called level III account) sub-accounts are used. A brief summary of the current Chart of Accounts for a commercial company is given in Appendix VI. (Note that the Chart of Accounts for banks and insurance organisations is different).

The annual financial statements submitted to the authorities include Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Shareholder Equity. Ministry of Finance Instruction on "Chart of Accounts" sets the account numbers of this standard grouping. However, the grouping of accounts is not always consistent with that which 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.

## 7.4 Preparation and Approval of Financial Statements

### Legal Requirements

The legislative and normative framework of the current auditing system includes:

- The Law on Auditing Activity;
- National Standards on Audit issued by the Ministry of Finance;
- Regulations on licensing auditing activity approved by the Ministry of Finance.

In addition, further regulations exist for enterprises in specific industries such as public quoted, investments funds, banks and insurance companies.

Auditing activity must be carried out by an auditing company holding a licence issued by the Ministry of Finance, National Commission on financial market or National Bank, as appropriate.

### Auditing Standards for Legally Required Audits

The National Standards on Auditing (NSAs) were approved and published in 2000 and are based on the 1999 and 2000 IFAC technical pronouncements (see Appendix VII). NSAs become effective for audits of financial statements covering periods beginning in or after January 2001.

In addition, 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.

All registered auditors are required under the law to perform audits in accordance with the National Standards on Auditing set by the Ministry of Finance.

### 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 "Auditors report on Financial Statements" suggests formats for the audit report as well as audit reports guidelines.

### Securities Commission Requirements

Companies subject to regulations on securities are required to appoint auditors licensed by the National Commission on Financial Market (NCFM). These companies must submit an auditor's opinion to the NCFM at least once a year.

## Chapter 8

# Taxation of Corporations

- In 2007, the standard corporate income tax (CIT) rate is 15%
- Starting with 1 January 2008, legal entities will apply the **0% CIT rate**
- Starting with 11 May 2007 the **fiscal amnesty** is implemented, i.e. outstanding liabilities recorded as at 1 January 2007 of legal entities and individuals towards the state budget, social fund and medical insurance fund are annulled
- Fiscal year is the calendar year for all entities
- Quarterly / monthly system of tax reporting and payment

## 8.1 Background

The Moldovan Fiscal 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 both legal entities and individuals. The Fiscal Code establishes the general norms of taxation and the tax rates.

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

The national taxes, duties and contributions, include:

- Income Tax;
- VAT;
- Excise Taxes;
- Privatisation Tax;
- Customs Duties;
- Road Fund Duties.

Local taxes and duties include: real estate tax; duties on the use of natural resources; 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, resort fee, 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. The 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.

## 8.2 Corporate Income Tax (CIT)

### Taxpayers

The following entities are CIT liable:

- Moldovan companies;
- Foreign companies doing business in Moldova through a Permanent Establishment.

### Territoriality

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

### CIT Rate

The current standard CIT rate is 15%, while in 2008 it will be reduced to 0%.

The above CIT rate is applied to both Moldovan entities and foreign entities operating through a Permanent Establishment in Moldova.

The tax legislation sets forth the definition for "Permanent Establishment" and "Representative Office".

### Representative Offices

Under Moldovan legislation regulating 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 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.

The specific Tax Reporting Statement has to be prepared on a yearly basis and submitted by Representative Offices to the tax authorities by 31 March of the year following the reporting one.

## Permanent Establishment (“PE”)

As per the Moldovan Fiscal Code, a PE represents a fixed place of business through which the non-resident carries on, 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. The PE needs to be registered with the tax authorities within three days from the appearance of the tax liability.

When assessing its taxable income, the PE is allowed to deduct the expenses incurred while generating it, subject to certain limitations and restrictions.

## Computation of Taxable Income

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

The accounting 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.

For a new business entity, the fiscal year is considered the period beginning on the registration date till the end of the calendar year.

For reorganised entities and for entities that ceased to exist, the fiscal period starts with the calendar year till the removal from the State Register.

## The taxable income

The taxable income of an enterprise is calculated 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.

The annual accounts are used as the basis for calculating taxable income (further details on required adjustments are given below).

The implementation starting with 2008 of the nil CIT rate

does not eliminate the liability for legal entities of filling in CIT returns on a standard basis. Moreover, from 1 January 2008, a fine of 25% of the non-declared amount (diminished) of the taxable income shall apply. Thus, all specific provisions regarding the computation of the taxable income and submission of the CIT returns shall normally be applied further on.

## Non-taxable revenues

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

- Contributions to the capital of a business entity in exchange for an 80% equity interest in the capital of the given entity;
- Income earned from benefiting from an income tax exemption;
- Money 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 a period exceeding three years and certain securities issued for a period 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.

## Deductibility of 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;
- Research and development expenses incurred during the fiscal year as current expenses;
- Interest payments, provided they represent a usual and necessary expense incurred in connection with the business activity, except for certain specific cases;
- Depreciation of fixed assets calculated depending on the category of property and in accordance with the established rates.

## Limited deductibility

The deductibility of certain expenses is limited, including:

- Business trip expenses and representation expenses, expenses on insurance of business entities, within the limits approved by the Government;
- Waste, spoilage and exhalation expenses, within the annual limitation established by company directors;
- Repairs expenses of fixed assets recorded in the balance sheet (up to 15% of fiscal value);
- Repairs expenses of fixed assets (used according to the operational leasing agreement, within the limit of 15% of the lease payment amount);
- Bad debts;
- Expenses not justified by supporting documentation – 0.1% of the total amount of the taxable income;
- Charity and sponsorship expenses borne for the benefit of specific beneficiaries – up to 10% of taxable income;
- Interest payable for the benefit of the foreign investor in specific cases.

## Fully non-deductible expenses

In addition, a number of expenses are specifically non-deductible, including:

- Amounts paid to interdependent persons without approval of necessity and which do not correspond to the market value;
- Expenses incurred by activities generating non-taxable income;
- CIT, as well as other taxes paid to third parties;
- Amount paid for the acquisition of land;
- Amount paid for the acquisition of property for which the amortisation (depreciation) is calculated;
- Losses resulting from the sale or exchange of property, fulfilment of works and rendering of services between interdependent parties;
- Payments made in favour of patent holders;
- Contributions to the reserve fund, done before taxation;
- Fines and penalties;

- Payments, other than salary (including benefits in kind), made in favour of employees.

## **Accounting and fiscal depreciation**

The Fiscal Code makes an explicit distinction between accounting and fiscal depreciation.

Depreciable property means tangible property, recorded in the balance sheet and used within the entrepreneurial activity, of a kind which is likely to lose value, because of wear and tear or obsolescence and which has a life expectancy of over one year and for which the value exceeds MDL 3,000 (EUR 182).

Under the tax legislation, in case the acquisition of the fixed assets is partially financed from external sources, their depreciation for fiscal purposes will be partially computed; with respect to totally external financing of fixed assets' acquisition the depreciation for fiscal purposes will not be computed at all.

Under the Moldovan Fiscal Code, depreciation of fixed assets is calculated depending on the category of property and in accordance with the established rates under the declining balance method of depreciation.

In Moldova, the assigning of fixed assets for depreciation purposes to one of five categories is carried out taking into consideration certain specific regulations.

The Catalogue of fixed assets approved by the Government includes around 800 asset descriptions and provides a regulated recommendable useful life for each separate asset. The following summarised information from the Catalogue must be observed (see below):

## **Thin capitalisation rules**

As a general rule, deduction of interest and negative exchange differences is allowed for tax purposes, provided they are borne for deriving taxable incomes.

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

Specific rules on the deductibility of interest on the tax treatment for exchange differences related to foreign currency borrowing shall apply:

#### Deductibility of interest on borrowings

The Fiscal Code provides different deductibility rules for the interest related to loans (credits), used for carrying out operational activities and for the interest related to loans (credits) used for investment activities performed on an occasional basis.

If the interest paid by the Moldovan company relates to its operational or day-to-day activity, the Fiscal Code states that expenses incurred be treated as ordinary and necessary for carrying out entrepreneurial activity and the interest paid is totally deductible.

In 2007, the limitation is applicable only for entities whose shareholder is a foreign citizen or a tax-exempt person and under specific circumstances (i.e. holding over 50% of the Company's share capital and the value of loans granted by the shareholder represents more than 50% of the Company's total borrowed capital).

In 2008, the deduction of interest paid or calculated by a legal entity (except for financial institutions) to individuals or other legal entities is allowed only within the limits of the National Bank of Moldova prime interest rate (refinancing rate) for November of the year prior to the current financial year.

According to the Fiscal Code, the interest on borrowings should be capitalised to related fixed assets until they are put into operation.

If the interest relates to an investment activity performed by the Moldovan Company, on an occasional basis or is not substantial, the interest is deductible within the limits of this income.

#### Deductibility of exchange differences arising from foreign currency borrowings

Under Moldovan tax regulations, exchange differences incurred within the reassessment of the foreign currency borrowings are treated either as income or expenses for the respective fiscal period and are taxed / deducted accordingly (i.e. based on the general rule).

However, under certain special circumstances (e.g. high depreciation of the national currency) and according to specific tax provisions, foreign exchange differences may not be treated as expenses, but are capitalised to the balance sheet value of the related assets.

#### **Transfer pricing ("TP")**

The TP norms are currently at an initial stage in Moldova. Under Moldovan tax provisions, transactions concluded between joint owners or related persons are taken into consideration, only if the interdependence of these persons does not influence the outcome of the transaction.

With reference to the transactions carried out by Moldovan companies with related parties, Moldovan tax law provides the following:

- no deduction is allowed for losses incurred on the sale or exchange of property, performance of work or supply of services between related parties, carried out either directly or through intermediaries;
- no deduction is allowed for expenses incurred in relation to related parties, if they do not correspond to the justified market price and do not represent necessary and ordinary business expenses.

Under Moldovan tax law, the sources of information on market prices for specific transactions are the following:

- information from public and statistics authorities and bodies regulating the price formation, or, should it be unavailable:
- information on market prices published or made public through the mass-media, or
- official data and / or data made public on quotations (transactions registered) set at the stock exchange nearest the seller's (purchaser's) headquarters. When no transactions have been registered at this stock exchange or the sales (purchases) took place at a different stock exchange, the information on quotations set at this stock exchange should be used, as well as information on quotations set for state securities and state bonds.

In addition, according to the tax law:

- taxpayers also have the right to present data on market prices from other sources to the MTA, and
- the MTA has the right to use such information only if there are reasons to consider it trustworthy.

#### **Fiscal relief**

According to local tax provisions, a taxpayer is entitled to tax relief by way of an ordinary credit for income taxes paid abroad, which cannot exceed the CIT calculated by applying the Moldovan tax rate (i.e. 15%) to taxable incomes obtained abroad. The Moldovan Company should have available documentation attesting the taxes paid abroad.

A tax paid abroad is creditable for the year in which the income is taxable in Moldova.

### Fiscal losses

Companies may carry forward fiscal losses, in equal instalments, for five years following the year in which the losses were incurred.

The loss carry forward is allowed, provided the Company records taxable incomes. Should not all instalments be carried forward and the Company records fiscal losses, the remaining part of the previously recorded fiscal losses may not be cumulated.

For the purpose of reducing the tax base due to tax losses from previous periods, the tax base shall firstly be reduced by losses incurred earlier.

## Reporting and Payment Requirements

### General aspects

As a general rule, CIT is paid on a yearly basis, by 31 March of the year following the reporting one.

However, all business entities, including the PE of non-residents, whose annual CIT liability for the previous year exceeds MDL 400 (EUR 24), have to perform interim tax payments on a quarterly basis (up to 31 March, 30 June, 30 September and 31 December). The size of the interim quarterly tax payment is computed as ¼ of the forecasted CIT for the current year or of the CIT due for the previous year.

Agricultural entities and farms pay interim taxes twice a year (31 March and 31 December).

These interim payments are deductible upon calculation of the company's annual CIT.

An annual CIT return has to be prepared (based on the annual Financial Statement) and submitted to the tax authorities by 31 March of each year, following the fiscal year-end of 31 December.

Representative offices must also submit to the tax authorities by 31 March of the year following the reporting year the specific Tax Reporting Statement on the activity conducted during the year.

### Administration of taxes

Administration of taxes, duties and contributions is regulated through the Fiscal Code Chapter V "Tax Administration".

As per the Law on fiscal amnesty which took effect on 11 May 2007, no tax inspections will be performed on the accuracy of calculation and payment of tax liabilities and other payments for fiscal periods up to 1 January 2007, except the case voluntary requests are made by the taxpayer (e.g. for refund purposes). Tax authorities shall totally exercise their attributions with respect to fiscal periods starting with 1 January 2007.

In 2007, penalties for late payment of taxes, duties and contributions are computed by applying the 0.052% per each day of delay. Additionally, a fine of 2% per month could be applied by the Moldovan tax authorities on the amount of the outstanding tax liability. Starting with 11 May 2007, the latter is annulled.

As already mentioned, from 1 January 2008, should the taxable income be decreased (diminished) by a taxpayer applying the 0% CIT rate, a fine of 25% of the non-declared amount (diminished) of the taxable income will apply.

### Tax ruling

Under the Fiscal Code, tax payers who calculate taxes incorrectly based on specific tax authority's written explanations are exempted from the responsibility for fiscal infringements committed.

Additionally, according to the Fiscal Code, a very advantageous clause for businesses is that every tax provision which leaves room for interpretations should be treated for the benefit of the taxpayer.

## 8.3 Capital gains

As a general rule, real estate assets and shares are treated for tax purposes as capital assets. The income earned from their sale is therefore deemed a 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.

The capital gain rule applies to Moldovan Companies selling these assets on an occasional basis and whose ordinary activity does not include transactions with lands, buildings and shares.

Should such assets be sold within the frame of the ordinary business activity (i.e. operational activity), the capital gain's taxation rule does not apply.

Consequently, CIT is calculated according to the general rule by applying the standard tax rate to the Company's total taxable income.

## 8.4 Dividend tax

Dividends are subject in 2007 to a 15% preliminary CIT if payable in advance, before the end of the fiscal year. The preliminary CIT is calculated by the company distributing the dividends by applying the gross-up method. This tax is offset against the final CIT liability due.

The preliminary CIT payment shall not be applicable on interim dividend payouts in 2008.

In 2007, for any dividend payments, including advance dividends paid by a resident entity to a non-resident, the domestic withholding tax (WHT) rate is 10%. No WHT is applicable on dividend payments (including advance dividends) to Moldovan individuals, due to the specific tax exemption for such income.

If the shareholder of the Moldovan Company is a Moldovan entity, dividends are included in its annual income and taxed based on the general rule.

Starting with 1 January 2008, dividends distributed by resident companies will be treated as taxable income for all the categories of beneficiaries.

Resident legal entities shall include dividends in their gross income and apply the 0% CIT rate in 2008.

As regards the dividends paid out to non-residents, as well as to resident individuals, a 15% domestic WHT rate will apply in 2008 (except for resident individuals under certain specific circumstances). In case of distribution to individuals, this taxation will be a final one.

## 8.5 Withholding Tax

### WHT on payments to residents

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

- 10% final withholding of an individual's income derived from lease, rent, usufruct of movable and

- immovable property, advertising campaign;
- 15% of interest paid to individuals (except for individual entrepreneurs and farms) and royalties. The beneficiary deducts (i.e. recover) the 15% WHT from his due income tax;
- 5% of payments for advertising, audit, management, marketing, consulting services, and services with respect to installation, repair and exploitation of computers, as well as other services related to information technologies. The services providers deduct (i.e. recover) the 5% WHT from their CIT due.

A WHT return shall be submitted to the Moldovan Tax Authorities (MTA) and the amount of the WHT shall be paid, by the end of the month following the one when the payment was made.

Further to the implementation of the 0% CIT rate starting with 2008, the 5% WHT mentioned above shall not be applied on service payments. Furthermore, a 15% WHT will be also applied, among others, 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 thereof.

### WHT on payments to non-residents

Under local tax provisions for 2007, non-residents are subject to WHT (without deducting the related expenses) as follows:

- 10% for service fees received by a non-resident for services if they were performed on the territory of Moldova;
- 10% of dividends and interests, while in 2008 the WHT on dividends provided by the domestic tax law shall be 15%;
- 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. The taxable basis is estimated based on the capital gain rule, namely 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 Fiscal Code.

The Moldovan Fiscal 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.

A WHT return should be prepared and submitted to the MTA, and the amount of the WHT paid, by the end of the month following the one when the payment to the non-resident was made.

The Double Tax Treaty (DTT) concluded by Moldova with the relevant country may provide for a more favourable regime than that provided by the local provisions. For the application of a DTT, the foreign beneficiary of such incomes provides the Moldovan entity with its fiscal residency certificate before the payments are actually made.

A non-tax avoiding measure is to be introduced on 1 January 2008, whereby a final 15% WHT is to be applied 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. It is questionable whether the 15% WHT can be avoided by applying the provisions of the DTT.

## 8.6 Double Tax Treaties

Appendix VIII includes details of the DTT signed by Moldova with other countries.

## 8.7 Tax Exemptions

Although under the current Moldovan tax provisions, a large number of CIT incentives described below are being provided, applying for them would not be tax feasible starting with 2008, due to the implementation of the nil CIT rate. However, the law neither contains any guarantees, nor does it stipulate any timeframes during which the nil CIT rate is applicable.

Below are the main tax exemptions stipulated by the current provisions of the Moldovan Fiscal Code which are applicable in 2007.

### Small Business Companies

The following are entitled to a three-year full CIT exemption:

- Companies with an average number less than 19 employees for which the aggregate turnover does not exceed MDL 3,000,000 (EUR 182 thousand),

regardless of the type of activity;

- Farming undertakings;
- Agricultural cooperatives that meet the legal requirements.

This exemption does not apply to:

- Business entities that hold a dominant market position;
- Business entities in which the combined stake of the shareholders (founders) who are not small business representatives exceeds 35%;
- Business entities that produce and import excisable goods;
- Fiduciary and insurance companies;
- Investment funds;
- Banks and other financial institutions;
- Business entities which perform exchange activities and pawn-shops;
- Business entities which perform gambling activities.

To be entitled to a tax exemption, business entities must submit an application to their territorial tax authorities.

At the end of the tax exemption period, business entities may benefit from a 35% reduction in standard CIT rates for another two fiscal years.

Business entities can only benefit once from a full CIT exemption and from the subsequent 35% reduction in the CIT rate.

### Investment tax incentives

Generally, the most attractive investment CIT incentives are:

- A 50% CIT reduction for a 5-year period - for businesses with investments in statutory capital or that make capital investments of over EUR 197, 000;
- A 100% CIT exemption for entities with investments in statutory capital, or that make capital investments of more than EUR 1.6 million, 3.94 million, 7.88 million, 15.75 million or 40 million. The whole period of exemption can be up to seven years depending on the amount, and if certain conditions are met.

The term "*Capital investment (expenses)*" is defined in Moldovan tax law as expenses incurred by the beneficiary of the incentive in relation to the acquisition and / or improvement of 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.

## Residents of the International Giurgiulesti port

Companies that are residents of the International Giurgiulesti port and which make capital investments of an amount equal to EUR 3.94 million are exempt from income tax for five consecutive years starting from the fiscal period in which the company reached the aforementioned figure and declared taxable income.

Residents that have made additional capital investments of an amount exceeding EUR 3.94 million are entitled to an additional income tax exemption for two consecutive years after the fiscal period in which the company invested the said amount and declared taxable income.

The income derived from port operations is subject to income tax at the following rates: 25% of the standard income tax rate during the first 10 years following the tax period in which the port residents registered taxable income; and 50% of the standard income rate after the expiration of the first 10-year period.

## Free Entrepreneurial Zones (F.E.Z.)

The tax legislation provides the following benefits for companies that are resident of an F.E.Z.:

A 50% reduction from the standard CIT rate for income derived from goods exported from the F.E.Z. outside the Republic of Moldova;  
A 25% reduction from the standard CIT rate for income derived from sources others than export of goods;  
A 100% CIT exemption for three years following a EUR 788 thousand investment within the F.E.Z.;  
A 100% CIT exemption for five years following a EUR 3.94 million investment in the F.E.Z.

## IT companies

Business entities, whose main activity is software development, can receive exemption from income tax for a five-year period, upon submitting an application to the tax authorities.

To qualify for this tax incentive, the entity must not have debts to the state budget and over 50% of its income must be generated by sales of its own manufactured software.

Furthermore, individuals, who work for IT companies in positions specified by the law and who meet all other relevant conditions, are exempt from salary income tax for a period of five consecutive years.

## Farming entities

From 1 January 2006, farming entities performing activities specifically dealt with in the tax legislation are exempt from tax on income derived from the sale of own agricultural produce for a period of five consecutive years.

## Commercial banks and Micro financing Organizations

Commercial banks as well as the Micro financing Organizations are fully exempted from CIT on income obtained from long-term (over three years) loans and borrowings and are subject to 50% CIT exemption for income obtained from long-term loans and borrowings from two to three years.

The mentioned CIT exemption applies on income from financing investments intended for particular legislative goals.

## 8.8 Other Taxes

### Tax on immovable property

Tax on immovable property is a local tax paid on real estate (land and/or constructions on it) by the proprietor or owner of material rights. Residents and non-residents owning real estate located on the territory of Moldova have similar obligations.

Immovable property is subject to a compulsory local tax, based on the value of the property, and payable to the local authority budget. It is divided into a tax on immovable property and a tax on land.

The followings are subject to taxation: immovable property, including land located within or outside the municipal area, and/or improvements to it (buildings, apartments, etc.).

The maximum tax rate on immovable property used for entrepreneurial activity is 0.1% of the property's book value.

On living spaces, the maximum tax rate is 0.25% of the property's estimative value, depending on its location.

The tax on immovable property is paid quarterly by legal entities and by 15 August or 15 October of the current year by individuals.

## Tax on advertising placement

The suppliers of advertising services pay tax for advertising placement. This tax is included in advertising services fees and paid by customers of the services through an invoice.

## Land Improvement Duty

Land improvement duty constitutes MDL 40 (EUR 2.4) per year for each employee. Business entities pay this tax quarterly.

## Taxes on natural resources

The Moldovan Fiscal Code sets out the types of taxes for natural resources, the categories of taxpayers, the tax rates, the methods for applying and paying taxes, as well as the tax concessions granted when taxes are calculated and paid.

The title provides for the following taxes 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.

The taxes are paid quarterly.

## Road taxes

A new title of Fiscal Code "Road Taxes" came into force on 1 January 2007. It sets out the types of road taxes, the methods for applying and paying taxes, as well as the tax concessions granted when taxes are calculated and paid.

Road taxes are levied for the use of roads and/or of zones for the protection of roads outside local areas. The system of road taxes entails the following:

- road tax applied to vehicles registered in Moldova (including those temporarily registered in Moldova);
- road tax applied to vehicles not registered in Moldova;
- road tax applied to vehicles of which the total weight,

load on axle or overall dimensions exceed the allowable limits;

- tax for performing building and assembling works within zones for road protection which are situated outside the local area (e.g. buildings and improvements, parking areas, except for units aimed at providing road services);
- tax for placing advertising within zones for road protection which are situated outside the local area (e.g. advertisements, panels, stands, installations and constructions (situated separately or on building walls and roofs), suspended electromechanic and electronic hangings, other technical advertising means); and
- tax for placing equipment for road service purposes within zones for road protection which are situated outside the local area (e.g. fuel stations, technical service stations, vulcanization stations, wholesale units, enterprises for public alimentation, etc).



## Taxation of Individuals

- The minimum individual income tax rate is 7% and the maximum income tax rate is 20%
- Personal exemption for resident individuals is currently MDL 5,400 (EUR 327) per year
- Gains from gambling activities are income tax exempt

A foreign individual on a local employment contract is in the same position as a Moldovan employee (unless employed with by a specific international organisation).

If a person has any other income except salary, he/she should file a tax return with the tax authorities before 31 March of the subsequent fiscal year.

### Territoriality and Residence

A person is considered resident of Moldova, if one of following conditions is met:

- He/she has a permanent domicile address in Moldova, even if at the moment he/she is abroad for study, treatment or on a business trip;
- He/she is physically present in Moldova for a period exceeding 183 days during a fiscal year.

A person is considered a non-resident of Moldova if none of the above conditions are met or if:

- The person has the status of diplomat or consul (or member of family);
- The person is an official of an international organisation established based on an inter-state agreement to which Moldova is party, or is a member of the family of such official;
- The person is in the country solely for study or business trip;
- The person crosses territory of Moldova (transit).

### 9.2 Gross Income

The taxable income base (including benefits in kind) from all sources is reduced by the deductions and exemptions an individual is entitled to.

Individual taxable income includes:

- Income from any professional or entrepreneurial activity;
- Benefits in kind, payments received for personal services, provided in the form of salary, bonuses from employers, honorarium, commission fees etc.;
- Rental fees;
- Capital gains on sale, exchange or alienation of capital assets;
- Interests, royalty, annuity (except social security benefits and benefits received on the basis of interstate agreements);
- Investment or financial income from abroad (dividends, interests, royalty and rent payments received from non-residents).

However, for 2008, only two PIT rates are provided, namely:

- 7% - for an annual income up to MDL 25,200 (EUR 1,527);
- 18% - for an annual income exceeding MDL 25,200 (EUR 1,527).

Income tax is withheld from an employee's salary and paid by the employer at the same time as monthly salaries are paid. Payment is made through a bank payment order. The employer files monthly tax returns concerning the salaries paid and the related taxes withheld.

Non-taxable sources of personal income are:

- Benefits from insurance contracts;
- Compensation for health damage and other sick compensation on health insurance contracts;
- Dividends received by resident individuals, who do not perform entrepreneurial activity, from a resident business entity;
- Interest received on deposits placed in Moldovan banks, until 2010;
- Income of personnel of certain international organisations;
- Lottery winnings and others;
- Donated or inherited patrimony;
- Compensation for moral damage;
- Indemnity for professional disease;
- Gains from gambling activities;
- Gains from promotional campaigns where their value does not exceed MDL 540 (EUR 32.7).

## Employee Gross Income

Employee's gross income includes basic pay, overtime pay, supplementary pay, awards and bonuses, compensation for unused holiday or vacation time, and all other monetary or in kind benefits, as well as other services obtained without payment. Income from each item is defined as the total amount of revenues received, irrespective of the period in which it was generated.

## Capital Gains and Losses

Capital gains or losses derive from the sale of capital assets.

Capital assets include:

- Securities used in business activity;
- Acknowledgments of debt;
- Private property not used in business activity, which is sold at a price that exceeds its fiscal value;
- Land;
- Option to purchase or sell capital assets.

The taxpayer is allowed to deduct capital losses only to the extent of capital gains.

The amount of taxable capital gain deriving from the sale of houses or apartments is reduced by MDL 10,000 (EUR 606) for each year after 1997 during which the individual owned the asset and used it as his main residence.

## Taxation of Non-residents

Taxable income of a non-resident is taken into account only if it is received from sources located in Moldova. Expenses, losses and other payments directly related to the income are not deductible.

The salary of non-residents working in Moldova is subject to income tax at the same rates as that of Moldovan residents. Individuals, who are non-residents, are not entitled to personal exemptions, spouse exemption or dependant's exemption.

Salary of foreign personnel in certain international organisations and diplomatic offices are exempt from taxes, when provided by appropriate arrangements.

Payments made for the benefit of non-resident individuals are subject to WHT at the following rates:

- 10% on royalties;
- 10% of insurance premiums under the contracts on insurance and reinsurance, concluded on the territory of Moldova;
- 10% on other incomes not specified in items above and established by Tax Code.

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

## Exemptions and Deductions

Each resident taxpayer is allowed to claim a personal exemption of MDL 5,400 (EUR 327) per year.

Deduction of personal and family expenses is prohibited.

## Tax Administration

The salary income tax is deducted by the employer and paid through a bank transfer within one month following the month in which the salary payment was made.

Annual tax returns must be filed with tax authorities personally (before 31 March of the year following the fiscal year) if the taxpayer has various incomes in addition to salary.

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

- Individual residents with tax liabilities for payment of income tax;
- Individual residents who do not have tax payment

liabilities, but derive income from sources other than wages and exceed the amount of personal exemption of MDL 5,400 (EUR 327) a year;

- Individual residents who do not have tax liabilities, but derive income from wages exceeding MDL 21,000 (EUR 1,272) a year;
- Individual residents, who do not have tax liabilities, but derive income from wages and any other sources exceeding MDL 21,000 (EUR 1,272) per year.

If salary is the only source of income, an employee does not need to file a tax return.

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 new tax return with accurate data. Any overpaid amount should be offset against debts on other taxes or reimbursed to the taxpayer. It also can be offset against future income tax.

## 9.3 Other Taxes

### Social Security Contributions

Contributions to the Social Fund are obligatory payments, 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 25% of the gross salary for their employees to the Social Security Fund.

Employees pay an individual contribution of 4% of their gross salary (the percentage applies to a base capped at three times the average salary for the respective year, i.e. MDL 6,045 (EUR 366) for the year 2006). The social security contribution is deductible for income tax purposes for both the employer and the employee.

Residents of Moldova, who work abroad may conclude an individual contract with the National House of Social Insurance, and pay an annual fixed social security contribution of MDL 2,318 (EUR 140) for 2007.

It is not compulsory to pay social insurance contributions for foreign citizens working in Moldova.

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

### Medical Insurance Contributions

The compulsory medical insurance contribution, calculated as a percentage of wages and other forms of payment and remuneration, is established at the rate of 2.5% for each payer category (employers and employees).

The legislation also provides for an annual fixed amount of the medical insurance contribution paid by other categories of taxpayers, which constitutes MDL 1,209 (EUR 73) for 2007.

Specific provisions apply for expatriates.



## Indirect Taxation

### 10.1 Value Added Tax (VAT)

#### Scope of VAT

The Tax Code describes the supply of goods as being the transfer of ownership over goods by selling, exchanging 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, including the transfer of property under rental, usufruct, operational leasing and other arrangements, the provision of assembling and building work, etc.

#### Import of goods and services

Should no specific exemptions be provided by law, VAT on imported goods is payable in customs on the amount of the customs value and import customs duties, except for VAT.

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

In such cases, import VAT liabilities should be settled on the date the payment for these services is performed (i.e. external invoices are settled).

#### Territoriality rules

The taxation of services with VAT is strictly related to the territoriality rules.

Under Moldovan VAT regulations, the place of supply for services is generally deemed as being at the supplier's premises, except for certain specific instances, namely:

- Services connected to immovable assets are VATable where the respective immovable assets are being located;
- Transport services is VATable depending on the way the transport is being performed, on the basis of the journey distance;
- Services related to movable tangible goods, services related to culture, art, education, sport or other similar area, as well ancillary services to transportation (e.g. loading/unloading) have the place of supply where services are actually supplied;
- Rental of movable tangible assets is taxed with VAT at the place where the service is benefited of;

#### Value Added Tax

- Standard VAT rate is 20% and reduced VAT rates are 8% and 5%
- Several operations are subject to nil VAT rate and VAT exemption
- Only VAT registered entities are entitled to deduct and refund VAT, provided certain other conditions are met
- Tangible assets transferred as contribution in kind to the statutory capital are VAT exempt, under certain conditions

#### Customs Duty

- *Ad valorem* customs duty rates up to 30%, as well as specific and combined rates apply on the import of goods, depending on the customs tariff codes
- Tangible assets transferred as contribution in kind to the statutory capital are exempt from customs duties
- Moldova is a CEFTA contracting party
- Moldova is granted with GSP+ benefits by the EU (from 1 January 2006)
- Moldova is expected to benefit from Autonomous Trade Preferences (asymmetric trade regime)

#### Excise duty

- Legal and physical entities producing and/or processing, as well as importing excisable goods, are liable to pay excise duties
- Legal and physical entities envisaging to or producing and/or processing excisable goods, shall be awarded with an excise duty certificate before such activities are carried out

- Advertising, consulting, legal, accounting services, hiring and supply of staff, etc. are deemed as having the place of supply at the beneficiary's premises;
- Processing on customs territory of foreign goods has the place of supply at their destination, etc.

Under Moldovan law, the place of supply for goods is considered the place of their location at the moment the delivery or the transfer into possession to the customer is performed. If the transport of goods is performed by the customer or 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/gas is considered the place of their reception.

## Taxable amount

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

Businesses should be aware that under the Moldovan VAT legislation, the VAT-able amount of a taxable supply may not be less than the cost of production, the purchase price, the customs value of imported goods or the cost of services, except for certain specific cases.

In instances where the supply is performed at a price below the market level due to specific reasons agreed upon between the supplier and the customer (e.g. if the customer is an employee), where the goods/services acquired for business purposes are subsequently supplied free of charge to employees, etc., a taxable supply at the market value is deemed to take place from a VAT standpoint.

Additionally, there would be certain specific circumstances, under which the VAT legislation requires the adjustment of the previous taxable amount of a supply (e.g. price changes, returns, discounts).

As regards the taxable amount for financial leasing, the Moldovan VAT law provides that the interest element of a lease instalment is not included therein.

## Taxable regimes

Different VAT rates and regimes are provided by the Moldovan tax legislation, as described below.

### Standard rate

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

### Reduced rates

Under the Moldovan VAT provisions in force during 2007, certain goods are subject to reduced VAT rates, namely: 8% and 5%.

Therefore, the supply of bread and milk, as well as of certain bakery and diary products on the territory of Moldova, except for baby-food which is VAT exempt, are subject to the reduced 8% VAT rate. Furthermore, the same rate applies to the import and supply of drugs (including those produced in the drugstores) and 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.

### Nil VAT rate

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

- The export of goods and services;
- All kind of international transportation for passengers and commodities (including expeditionary services);
- Goods and services imported and/or supplied to international organisations for the performance of technical assistance projects in accordance with the relevant treaties to which Moldova is a party;
- 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.

### VAT exemptions

Among other applicable VAT exemptions, the following ones are in place:

- Dwellings, land, rental thereof, except for the commission fees related to such transactions;
- Food and non-food merchandise for children;
- State property purchased as part of the privatisation process;

- Financial services;
- Commercial and intermediary transactions on the securities market;
- Insurance and reinsurance operations, except for intermediary services thereof (starting with 1 January 2008 the latter shall be VAT exempt);
- Import of fiscal stamps for further marking of excisable goods;
- Goods released on the customs territory under a transit, transformation under customs surveillance, bonded warehouse regimes, etc;
- Import of goods for non-commercial purposes, whose customs value does not exceed EUR 50, etc.

### **VAT may not also be applied on:**

- Goods released on the customs territory and placed under transit, processing under customs control, bonded warehouse, etc;
- Moldovan originating goods previously exported and released back within three years in the same status;
- Goods placed under temporary admission and compensatory goods obtained from outward processing arrangements according to the Moldovan customs legislation;
- Certain goods released under inward processing relief arrangements;
- Supplies performed within Free Economic Zones, etc.

Additionally, the Moldovan legislation provides for a VAT exemption for import/supply of fixed assets aimed at being placed as contribution in kind to the statutory capital.

### **Out of VAT scope**

The total or partial transfer of the right to carry on the business activity by one taxable subject to another is deemed as being out of the VAT scope, provided the recipient:

- Is a taxable subject or becomes by way of this transfer;
- Continues performing this entrepreneurial activity.

### **VAT deduction**

#### **General VAT deduction rule**

Under the current VAT legislation, input VAT incurred in relation to the 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.

Import VAT settled in relation to the services provided by non-resident suppliers deemed as being imported may be deducted, only if they are related to the performance of taxable supplies within the business activity and provided the import VAT was actually paid to the state budget.

Before carrying out the registration for VAT purposes, it is possible to deduct the input VAT only if incurred on acquisitions of fixed assets for agricultural purposes, construction and reconstruction of agricultural goods, etc.

### **VAT payers with mixed regime**

Input VAT incurred for 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 the revenues from both VAT-able and VAT-exempt operations, both amounts being calculated minus the payments in advance.

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

### **Non-deductible input VAT**

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

VAT paid for the acquisition of goods/services that are not used for business purposes may not be deducted for VAT purposes.

### **VAT registration**

In 2007, any business, except for government bodies, non-profit organisations, public agencies, medical-sanitary public and private institutions and holders of business patents, is required to register with the local tax authorities as a VAT-payer, if during any 12 consecutive months it performs taxable supplies of goods/services exceeding the threshold of MDL 200,000 (EUR 12 thousand). The same rule was applicable for the import of services, if their amount being added to the value of the supplies of goods/services performed during any 12 consecutive months exceeds the same threshold.

Nevertheless, based on the amendments to the Tax Code, from March 2007, the threshold of supplies to be reached by businesses for VAT registration purposes was increased from MDL 200,000 (EUR 12 thousand) to MDL 300,000 (EUR 18 thousand). The same threshold has been established for those benefiting from imported services.

The new amendments granted the opportunity to also voluntarily register for VAT purposes, if the total amount of taxable supplies of goods and/or services exceeds MDL 100,000 (EUR 6,060). The mandatory condition to be fulfilled to voluntarily register for VAT purposes refers to the requirement that purchases are paid through bank accounts opened with financial institutions having fiscal relationship with the Moldovan budgetary system.

Upon the registration of the VAT payer, the local tax authorities are required to issue a VAT registration certificate.

## VAT compliance

### Fiscal period

The fiscal period for VAT purposes is considered as being the calendar month, starting with the first day of the month. VAT returns are submitted monthly with the tax authorities by the end of the month following the reporting one.

### Invoicing

The supplier carrying out a taxable delivery must submit a VAT invoice to the buyer. The VAT invoice is issued when the VAT becomes chargeable (i.e. at the date of supply).

Nevertheless, different VAT chargeability rules are in place for supplies of goods and of services. Therefore, the chargeability on supplies of goods is considered the date when they are transferred to the customer. If the goods are transported, chargeability arises when the transport begins, except for the export of goods.

The VAT chargeability for supply of services arises when one of the following occurs: the services are rendered; the VAT invoice is issued; the partial/entire payment is performed. At the same time, the law stipulates that no VAT invoice is issued for payments cashed in advance, or on export of goods/services.

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

### Ledgers

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

### VAT refund

Under current Moldovan VAT legislation, VAT payers are entitled to 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;
- The type of activity consists in production of bread/milk and bakery/dairy products, respectively, of supplies subject to the 0% VAT rate.

For these purposes, VAT payers are assigned different categories of trustworthiness (i.e. with one category from the three existing ones).

The VAT amount to be reimbursed is capped at 20% of the figure subject to the reduced / nil VAT rate. Generally, the term of reimbursement provided under the law is 45 days from the date the claim is submitted to the tax authorities.

Leasing companies may also fall under the VAT refund procedure, if the input VAT amount exceeds the output one within the financial/operational leasing agreements. The refundable difference is capped at 20%.

Should the second condition be not 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.

Please also note that, from 2008, new provisions come into force for VAT refunds.

Therefore, according to new provisions applicable from 2008, given compliance with certain conditions, entrepreneurs, registered for VAT purposes, performing their business activity and situated in Moldovan localities other than Chisinau and Balti, will obtain refund rights for VAT related to capital investments (expenses), except for that related to investments for dwelling purposes and investments in transport carriers.

## 10.2 Customs Duties

### Overview

Moldova's legal framework for customs regimes and customs tariffs is regulated by the Customs Code, Law on Customs Tariff, International Agreements concluded by Moldova to date, as well as by other legal acts.

Generally, any kind of goods and means of transport may enter and leave the territory of Moldova without any restriction. There are limitations that are specifically provided by the legislation in force. They cover goods and means of transport crossing the border by breaching the state security, public order, environment, etc.

### Customs Tariff and Duties

The Law on Customs Tariff establishes the list and value of the customs duty rates depending on the customs tariff classification of the goods. The Moldovan Customs Tariff is based on the Harmonised Commodity Description and Coding System.

Generally, the customs duties are expressed as percentages applied to the customs value (i.e. ad valorem duty rates). The maximum ad valorem rate of customs duties on imported goods is 35% (e.g. for sugar) of the customs value of the goods.

There are also established specific customs duties (e.g. EUR 0,5 per litre for undenatured ethyl alcohol), as well as combined customs duties (e.g. 20%+150 EUR/tonne).

Moldova has also implemented safeguarding measures for certain products (e.g. beet sugar).

### Customs Valuation

Under the 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).

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

### Preferential Tariff Treatment

The preferential tariff treatment is granted by the provisions of the Moldovan legislation or by the international agreements to which Moldova is a party.

Under the FTA Moldova has concluded with other countries to date, the preferential tariff treatment (i.e. exemption from customs duties) is granted upon import and/or export of goods with preferential origin, provided a certificate of origin is available.

Moldova has concluded to date FTA with several CIS countries and is also a CEFTA contracting state.

The FTA of Romania and Bulgaria with Moldova are no longer available since the EU accession date (1 January 2007) of both countries.

Consequently, no preferential tariff treatment is actually applicable upon import of Romanian and Bulgarian originating goods in Moldova, the standard customs duty rates provided by the Moldovan tariff having to be charged (i.e. the respective FTA are no longer applicable).

For goods originating in Moldova and imported to Romania and Bulgaria (as parts of the EU), the tariff preferences granted to Moldova based on the EU GSP+ apply from 1 January 2007.

Moldova is also presently working towards fulfilling the conditions which would allow the granting of additional Autonomous Trade Preferences (ATPs), i.e., asymmetric trade regime.

### Favourable Tariff Treatment

Under the Moldovan customs legislation the following exemptions, among others, from customs duty are provided:

- Goods imported by individuals for personal use not exceeding a set threshold;
- Goods temporarily released on our out of customs territory under customs surveillance within the respective customs destinations;

- Goods placed under transit, bonded warehouse;
- Assets destined to be included as a contribution in kind to the statutory capital;
- Moldovan originating goods previously exported and released back within three years in the same status and the compensatory products obtained under outward processing;
- Goods introduced into Moldova on the basis of an international leasing agreement and placed under the regime of temporary admission;
- Certain movable goods imported by legal entities carrying out leasing activity for the purpose of paying off liabilities derived from lease agreements concluded with Moldovan natural or legal entities;
- Goods imported by legal entities for non-commercial purposes whose customs value does not exceed EUR 50;
- 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.

## Customs regimes

Under the Moldovan law, definitive and suspensive customs regimes are provided.

Definitive customs regimes refer to the import and export, while the suspensive customs regimes comprise: transit, bonded warehouse, inward processing relief (with suspension), processing under customs control, temporary admission, outward processing relief.

## Customs Regime for Individuals

Citizens of Moldova, as well as foreigners, are allowed to move in or out of Moldova any goods under a simplified customs regime, provided such goods are not used for business or commercial purposes. Individuals are exempt from the payment of customs duties of goods whose customs value does not exceed EUR 200 and which are not used for entrepreneurial or commercial activities.

## 10.3 Excise duties

The following are liable to taxation with excise duties:

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

Businesses or individuals 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 individuals or businesses, upon submitting the relevant applications to the tax authorities, to attach the details of the excise premises.

If excisable goods are exported, the excise duty payment liability remains valid up to the moment the repatriation of currency is made and the necessary proof documents (i.e. contracts, payment documents and the bank excerpt, import customs declaration) are provided to the tax authorities. The export of excisable goods by non-excise liable persons may be performed, provided no refund right of the previously paid excise duty is exercised.

Excise duty rates are set either as fixed amounts per unit of goods, as a percentage of the customs value of goods or as a combined rate.

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

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

# 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 seven partners and employing over 450 specialists and support staff, PricewaterhouseCoopers operates in Romania and Moldova from a network of four offices in Bucharest, Timisoara, Cluj-Napoca and Chisinau.

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

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 all significant areas of law, including corporate law, mergers and acquisitions, project finance and privatisation.

### Assurance Services

The Assurance Services practice comprises internationally trained Moldovan and foreign accountants. All 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 the 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 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 answering 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

Transactions services include: assistance with and execution of all types of financial transactions; providing advice on 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 assist clients through every aspect of complex business transactions, from identifying

appropriate acquisitions or divestiture candidates to assisting with deal structuring and capital sourcing. Also provided are a wide range of privatization services, including lead advisory, target identification, company profiles, analysis of privatization options and transaction support. We can also assist and support companies seeking new capital, or companies involved in an acquisition, divestiture, restructuring or shareholder buyout.

The Transactions Department has over 4,700 experts worldwide and around 10 in Romania.

## **Crisis Management**

Crisis Management services include assisting corporate recovery and turnaround, optimized exits, insolvency and liquidation, as well as dispute analyses and investigations. PricewaterhouseCoopers was Romania's first Big Four consulting firm to develop a dedicated team of professionals specializing 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 extracting or preserving the optimum value for shareholders from the management of underperforming loan portfolios, as well as in the divestment of underperforming business assets (optimized exits).

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 of insolvency and bankruptcy, together with intellectual property rights.

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

## **Performance Improvement**

The Performance Improvement Department 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 to meet their most pressing challenges. The Performance Improvement Department comprises over 7,000 experts in 90 countries and over 30 people in Romania, all with detailed knowledge of the local business environment.

Our assistance is targeted at strengthening management control, increasing operational effectiveness and thereby increasing shareholder value.

We know from experience that when improving performance, companies focus on four distinct aspects of their business: business models, financial drivers, management systems and value creation systems.

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

## **Tax and Legal Advisory Services (TLS)**

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 consultancy, they specialize in all areas of tax, including:

### **Corporate Taxation**

The team has extensive experience in advising clients on Moldovan laws and their interpretation by the tax authorities, as well as how they relate to international regulations and treaties. PricewaterhouseCoopers specialists are highly qualified to provide advice on all aspects of inward investment in Moldova, and in the efficient structuring of such 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. It also undertakes company health checks and due diligence projects, and assists with tax authority issues (such as during tax inspections and with the lodging of objections). Some of the members of the team are former employees of the Ministry of Finance, State Tax Service Headquarter.

### **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 the minimisation of import duties; implementation of temporary customs regimes; authorised exporter status and simplified customs



procedures implementation; use of bonded warehouses and customs-free entrepreneurial 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**

The Tax and Legal Services department offers Integrated Personnel Solutions, bringing together all of the professionals from across the human resource consulting arena – including specialists in individual tax, payroll, benefits, assessment, education, equity, reward, staffing, regulatory, legal, and process management – offering clients irreproachable quality services. Services available includes 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.

### **Legal Services**

Legal Services are provided to multinational and local companies concerning module of structuring their investments and activities in Moldova, in a multitude of areas such as: foreign investments, banking, securities and financing, privatisation, mergers and acquisitions, legal due diligence of companies and real estate, corporate structures, competition, trade practices, intellectual property, and employment.

# Appendices

Ministry (Department)	Tel. number
The Government of Moldova	(+373 22) 25 01 01
The Ministry of Agriculture and Food Industry	(+373 22) 23 34 27
The Ministry of Culture and Tourism	(+373 22) 22 76 20
The Ministry of Defence	(+373 22) 24 21 03
The Ministry of Economy and Trade	(+373 22) 22 68 58
The Ministry of Education, Youth	(+373 22) 23 33 48
The Ministry of Environment and Natural Resources	(+373 22) 20 45 07
The Ministry of Finance	(+373 22) 23 35 75
The Ministry of Foreign Affairs and European Integration	(+373 22) 57 82 07
The Ministry of Health	(+373 22) 72 99 07
The Ministry of Industry and Infrastructure	(+373 22) 27 80 59
The Ministry of Informational Development	(+373 22) 50 44 20
The Ministry of Internal Affairs	(+373 22) 25 58 30
The Ministry of Justice	(+373 22) 23 47 95
The Ministry of Transport and Road Industry	(+373 22) 22 10 01
The Ministry of Social Protection, Family and Children	(+373 22) 72 75 72
The Ministry of Reincorporation	(+373 22) 25 01 46
The Ministry of Local Public Administration	(+373 22) 20 01 70
The Bureau of Interethnic Relations	(+373 22) 21 40 80
The Bureau of Migration and Asylum	(+373 22) 27 69 00
The National Bureau of Statistics	(+373 22) 40 30 00
The Standardisation and Metrology Service	(+373 22) 74 85 88
The Customs Service	(+373 22) 54 94 60
The Service of Frontier Troops	(+373 22) 25 96 40
The Agroindustrial Agency "Moldova-Vin"	(+373 22) 21 00 73
The Licence Chamber	(+373 22) 27 23 36
The State Registration Chamber	(+373 22) 27 73 18
The Center for Combating Economical Crimes and Corruption	(+373 22) 25 72 03
The Agency for Forestry "Moldsilva"	(+373 22) 27 23 06
The State Agency for Land and Cadastral Issues	(+373 22) 21 22 44
The Agency of Construction and Territory Development	(+373 22) 20 45 69
The Sport Agency	(+373 22) 23 27 82
The Agency of Material Reserves, Public Acquisitions and Humanitarian Assistance	(+373 22) 24 33 66
The National Bank of Moldova	(+373 22) 22 16 79

**Appendix II****Bilateral Investment Treaties**

Moldova has negotiated a series of treaties on protection on investment with a number of countries.

Investment protection agreements with the following countries are currently in force:

<b>Country</b>	<b>In force</b>
Austria	01.08.2002
Azerbaijan	28.01.1999
Romania	15.06.1997
Belgium	20.04.2002
Bulgaria	12.06.1997
China	01.03.1995
Czech Republic	21.06.2000
Finland	21.06.1997
France	03.11.1999
Georgia	25.02.1999
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
Netherlands	01.05.1997
Poland	27.07.1995
Republic of Byelorussia	19.11.1999
Russian Federation	18.07.2001
Slovenia	01.06.2004
Switzerland	29.11.1996
Tajikistan	20.10.2003
Turkey	16.05.1997
Ukraine	20.05.1996
UK and Northern Ireland	30.07.1998
USA	26.12.1994
Uzbekistan	17.01.1997

Agreements with the following countries which has been ratified:

<b>Country</b>	<b>Ratified but not in force</b>
Albania	28.10.2004
Bosnia and Herzegovina	09.10.2003
Croatia	11.04.2002
Germany	22.09.1994
Lithuania	18.02.2000

	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) 28 06 60
■ Energbank	office@energbank.com	(+373 22) 54 43 77
■ EuroCreditBank	info@ecb.md	(+373 22) 50 01 01
■ Eximbank	exim@eximbank.com	(+373 22) 27 25 83
■ Fincombank	fincom@fincombank.com	(+373 22) 22 74 35
■ Investprivatbank	ipb@ipb.md	(+373 22) 27 43 86
■ Mobiasbank	office@mobiasbanca.md	(+373 22) 54 19 74
■ Moldindconbank	computer@micb.net.md	(+373 22) 57 68 11
■ Moldova – Agroindbank	aib@maib.md	(+373 22) 22 27 70
■ Universalbank	ub@mail.universalbank.md	(+373 22) 29 59 00
■ Victoriabank	office@victoriabank.md	(+373 22) 23 30 65
■ Unibank	welcome@unibank.md	(+373 22) 25 38 01

# Appendix IV

## Appendix IV

## Hotels and Restaurants

Hotels	Tel. number
Chisinau***	(+373 22) 57 85 06
Codru ****	(+373 22) 20 81 02
Cosmos ***	(+373 22) 54 27 57
Dacia ****	(+373 22) 23 22 51
Dedeman ****	(+373 22) 20 12 01
Flowers Hotel ****	(+373 22) 27 67 03
Jazz Hotel ***	(+373 22) 21 26 26
Jolly Alon ****	(+373 22) 23 28 96
Luna Hotel ***	(+373 22) 23 35 23
Monte Nelly ****	(+373 22) 29 47 66
Nobil ****	(+373 22) 22 85 80
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) 20 21 02
Cactus (Moldo-Mexican cuisine)	(+373 22) 50 40 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) 50 41 00
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 04 51
Hunting yard	(+373 22) 78 44 40
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
Gambrinus	(+373 22) 27 44 50
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
Ermak (Russian cuisine)	(+373 22) 22 49 31
Pizza House	(+373 22) 23 51 62
The Golden Stag	(+373 22) 33 77 45

The current list of accounting standards is as follows:

- NAS 1 "Accounting Policy"
- NAS 2 "Inventories"
- NAS 3 "Cost and consumption of an enterprise"
- NAS 4 "Accounting for small businesses"
- NAS 5 "Presentation of Financial Statements"
- NAS 6 "Accounting for agriculture"
- NAS 7 "Cash flow statement"
- NAS 8 "Net profit or loss for the period, fundamental errors and changes in accounting policies"
- NAS 9 "Accounting of scientific research and development activity charges"
- NAS 10 "Events after the balance sheet date"
- NAS 11 "Construction Contracts"
- NAS 12 "Income taxes"
- NAS 13 "Intangible assets"
- NAS 14 "Reporting Financial Information by Segment"
- NAS 16 "Property, Plant and Equipment"
- NAS 17 "Leasing"
- NAS 18 "Revenue,"
- NAS 19 "Employee Benefits"
- NAS 20 "Accounting for subsidies and disclosure of information on state assistance"
- NAS 21 "The effects of changing in foreign exchange rates"
- NAS 23 "Borrowing costs"
- NAS 24 "Disclosures of Related Parties"
- NAS 25 "Accounting for investments"
- NAS 26 "Accounting of pension plans"
- NAS 27 "Consolidated financial statements and accounting for investments in subsidiaries"
- NAS 28 "Accounting for associates"
- NAS 30 "Disclosures in the financial statements of banks"
- NAS 31 "Financial reporting of interests in joint ventures"
- NAS 62 "Simple accounting system"
- NAS 63 "Disclosure of information in the financial statements of savings and borrowing associations and other similar institutions"

# Appendix VI

## Appendix VI

## Chart of Accounts

<b>Class I. Long – term Assets</b>	
111-113	Intangible Assets
121-126	Long-term Tangible Assets
131-135	Long-term Financial Assets
141-142	Other Long-term Assets
<b>Class II. Current Assets</b>	
211-217	Inventories
221-229	Short-term Receivables
231-233	Short-term Investment
241-246	Cash
251-252	Other Current Assets
<b>Class III. Owner's Equity</b>	
311-314	Statutory and Additional Capital
321-323	Reserves
331-334	Retained Earnings (Deficit)
341-342	Non-Owners Equity
<b>Class IV. Long-term Financial Liabilities</b>	
411-414	Long-term Financial Liabilities
421-426	Long-term Accrued Liabilities
<b>Class V. Short-term Liabilities</b>	
511-516	Short-term Financial Liabilities
521-523	Short-term Trade Liabilities
531-534	Short-term Accrued Liabilities
535	Forthcoming Liabilities
536	Non-budgetary Liabilities
537	Liabilities to Founders and Other Co-founders
538	Provisions for Future Expenses and Payments
539	Other short term liabilities
<b>Class VI. Revenues</b>	
611-612	Operating Income
621-623	Non-Operating Income
<b>Class VII. Expenses</b>	
711-714	Operating Activity Expenses
721-723	Non Operating Expenses
731	Tax Expense (Saving)
<b>Class VIII. Managerial Accounting</b>	
811-813	Manufacturing Cost
814	General costs related to construction contracts
816	Costs related to materials transferred for processing to third parties

821	Trade Mark-up
822	Return and Allowance on Goods Sold
846	Revenue from retail sale of goods
<b>Class IX. Off-balance Accounts</b>	
911-913	Leased Long-term Assets
921-925	Tangible Assets That Do Not Belong to The Enterprise
931-934	Securities That Do Not Belong to The Enterprise
941-947	Conventional Liabilities and Payments
951-953	Other Assets and Liabilities recorded on Off-Balance Accounts

- 110. Glossary of Terms used in National Standards on Auditing
- 120. Conceptual Framework of National Standards on Auditing
- 200. Objective and General Principles Governing an Audit of F/S
- 210. Terms of Audit Engagements
- 220. Quality Control for Audit Work
- 230. Documentation
- 240. Fraud and Error
- 250. Consideration of Laws and Regulations in an Audit of F/S
- 260. Communications of Audit Matters With Those Charged With Governance
- 300. Planning
- 310. Knowledge of the Business
- 320. Audit Materiality
- 330. The auditor's procedures in response to assessed risks
- 400. Risk Assessments and Internal Control
- 401. Auditing in a Computer Information Systems Environment
- 402. Audit Considerations Relating to Entities Using Service Organisations
- 500. Audit Evidence
- 501. Audit Evidence – Additional Considerations for Specific Items
- 505. External Confirmations
- 510. Initial Engagements - Opening Balances
- 520. Analytical Procedures
- 530. Audit Sampling and Other Selective Testing Procedures
- 540. Audit of Accounting Estimates
- 550. Related Parties
- 560. Subsequent Events
- 570. Going Concern
- 580. Management Representations
- 600. Using the Work of Another Auditor
- 610. Considering the Work of Internal Auditing
- 620. Using the Work of an Expert
- 700. The Auditor's Report on F/S
- 710. Comparatives
- 720. Other Information in Documents Containing Audited F/S
- 800. The Auditor's Report on Special Purpose Audit Engagements
- 810. The Examination of Prospective Financial Information
- 910. Engagements to Review F/S
- 920. Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
- 930. Engagements to Compile Financial Information

## Appendix VIII

### Double Taxation Treaties to which Moldova is a Party\*

State	Dividends	Interest	Royalties
Albania	5 / 10	5	10
Armenia	5/15	10	10
Austria	5/15	5	5
Azerbaijan	8 / 15	10	10
Byelorussia	15	10	15
Belgium	15	15	0
Bosnia & Herzegovina	5 / 10	10	10
Bulgaria	5 / 15	10	10
Canada	5 / 15	10	10
China	5 / 10	10	10
Croatia	5 / 10	5	10
Czech Republic	5 / 15	5	10
Estonia	10	10	10
Germany	15	5	0
Greece	5/15	10	8
Hungary	5 / 15	10	0
Japan	15	10	0 / 10
Kazakhstan	10 / 15 <sup>10</sup>	10	
Kyrgyzstan	5/15	10	10
Latvia	10	10	10
Lithuania	10	10	10
Macedonia	5/10	5	10
Montenegro	5/15	10	10
The Netherlands	0 / 5 / 15	5	2
Poland	5 / 15	10	10
Romania	10	10	10 / 15
Russian Federation	10	0	10
Serbia	5/15	10	10
Slovakia	5/15	10	10
Slovenia	5/10	5	5
Switzerland	5 / 15	10	0
Turkey	10 / 15	10	10
Tajikistan	5 / 10	5	10
Ukraine	5 / 15	10	10
Uzbekistan	5 / 15	10	15

\* This list includes only the double tax treaties which are currently applicable

## NOTES