



Policy Brief: Trends in 2007

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The 'liberalisation' initiatives launched recently by the top-leadership of the country (i.e. capital amnesty, fiscal amnesty and zero-rate for income tax of the legal persons) found the Moldovan society largely unprepared. The explanation which is provided by the national authorities to justify the reason for initiating a set of such radical proposals is quite vague yet and suggests an unfortunate lack of clarity on the expected impact as well as collateral effects which may follow the initiatives. Even the most obvious matters, stated by governmental officials on public broadcasted programs or in front of the legislative assembly, resemble more a series of exprompt moves, made in the absence of credible and systematic evaluations, which is sad because the initiatives may have huge consequences for the future of this country and implicate significant losses to the state budget and national economy overall. This Policy Brief attempts to assess and forecast some of its direct implications and proposals.

1. The proposal of capital amnesty was formulated in the absence of credible estimations regarding the proportions of the capital that is expected to be legalized. The volume of collections after its amnesty and the further impact upon the economy of the Republic of Moldova and the national public budget lacks with certainty in the public discourse of authorities. It is unclear and illogic the way how national authorities have determined the 5% tax rate in the context of legalization procedure of the capital. As by IDSI Viitorul experts, the process of legalization of the unofficial economy can start only in conditions when this rate does not overcome 3% of the capital value. There are possible advantages, visible interests and as many risks in the implementation of this policy. Coordination and implementation of capital amnesty policy would bring maximum 500 mln. lei in the budget with the risk of legalizing the capital of some criminal groups.

2. Fiscal amnesty (of debtors) was presented by the authorities as a policy of business „taming”, the cost of the problem being estimated at little over „2 bln. lei and certain penalties” (n.a.). Still, IDSI Viitorul experts identified debts up to 2,5 bln. lei. The officials justify the initiative of the president stating that anyway, „the government does not have the capacity to collect more than 15% of this debt.” Our analysis shows that the state could, relatively easy, return at least 40% or approximately 1 mln. lei if it looks closer to certain specific policies which are detailed below.

3. The costs of the initiative to establish the zero-rate for the income tax for legal persons are estimated at nearly 500-600 mln. Lei which represent an underestimated number with at least 300 mln. Lei, consider IDSI Viitorul experts. In our opinion, this initiative will increase the vulnerability of the state budget against the economic fluctuations of the market, losing an important connection with the real economy. In these conditions, any changes in consumers' behavior will directly affect the tax collections to the state budget, registering negative fluctuations of up to 20% annually. We consider that this fact should put on guard those who ignore the risks associated with these very serious decisions.

Remittances: The increase in capital and remittances from abroad represent currently the umbrella that protects the business and private persons from the risks of the market (inflation, currency instability, access to markets). Economic agents and population have enough tools to demonstrate the legal origin of the goods possessed. The problem is the credibility of the discourse formulated by the state and the safe guarantees that it offers. There should be stimuli and attractive arguments to motivate the citizen that years in a row suspected banks and the state wanting to steel his money, to legalize his capital, as well as actions to ensure the correct and true information of the public upon the types of capital that is foreseen in the process and specific procedure of capital amnesty.

Today, **the overall amount of remittances that reach Moldova is estimated at nearly 70 bln. lei. To be stated here that remittances function for Moldova's population generally as a safe „protection belt” for the most disadvantaged groups of the population, abandoned in transition.** Remittances do not reach the banking system and do not serve at budget completion but represent guarantees of individual survival. In the absence of a practice of incomes originated from remittances it is difficult to imagine how a natural person could be imposed to declare the property he owns in full legality and largely independent from the state structure competencies and structures. By forcing them to pay 5% of the value of goods possessed would imply, in reality, a kind of penalty of the state imposed on those who took in fact a rational choice when searching for a job abroad, keeping the moral obligation to support the family remaining at home. Income from remittances is used generally either for the current consumption or for family estate or education investments. The state objective is that maximum from remittances income to be invested. Legalization, thus, in case of natural persons supposes exactly the punishment of those who invested money originated from remittances because only these values exist and can be taxed. As long as goods are not sold, any legal reason to impose a higher value than the one declared by the owner of the goods is absent.

For natural persons, capital amnesty is premature, state the IDSI Viitorul experts. The lack of a tax collection practice on the increase in capital of natural persons, transforms in populism any trial of legalization of the value of material goods possessed. In the absence of several elements specific to capital elements, the citizens cannot be convinced about the goodwill of state initiatives and are not motivated financially. As a confirmation serves the fact that until currently in the Republic of Moldova there is no precedent regarding tax payment on capital growth. Still, if the state insisted to introduce these taxes, all real estate market would be immediately transferred into unofficial economy. The lack of clear messages from authorities and any unthought actions could lead to distortions on the real estate market. Financial resources owned can be easily transformed into real estate and taken out from the fiscal amnesty incidence. Therefore we consider that natural persons should not constitute an objective of the capital amnesty. The target of a possible amnesty policy should be only the economic agents (companies).

Since year 2000 until now, the value of real estate goods increased by 7 times which represents for economic agents a legal guarantee for this type of capitalization. Even though economic agents paid in cash the biggest part of the cost of goods purchased, and their balance value is

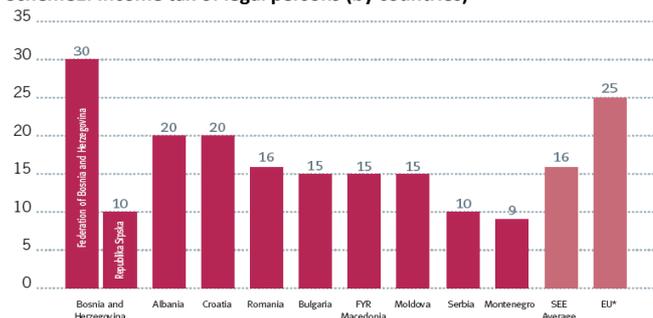
relatively small, they have a very strong alibi in their justification given the overall unstable statute of the market economy in Moldova. The value of real estate goods increased so significantly that it is difficult to establish if we talk about shadow capital that needs to be legalized or about a simple capital growth that is taxed according to the existent legal framework.

IDSi Viitorul experts consider that, only the financial resources owned by companies that are not reflected in the official statistics can directly fall under the incidence of the capital amnesty policy. The rest of the goods owned by economic agents will be considered a truly "capital growth". According to the fiscal code (Article 37) the capital growth is acknowledged and respectively taxed only in the moment of sale, exchange or other form of alienation. Until then, the state can not intervene and should not be encouraged to intervene in economy because it will introduce major distortions in the functioning and regulation of the business environment. We consider that, the only possibility to speed up capitalization of goods possessed by economic agents from the Republic of Moldova would be their positive enhancement with economic instruments. In this context, we consider that the best enhancement policy for capitalization would be that the tax paid for capitalization to be compensated through the **reduction of the rate from the income taxation paid as a consequence of deduction of values of legalized goods from the taxable income.** It is crucially important for the Moldova to maintain (for at least 20 years since the beginning of the capital amnesty) the income taxation of the economic agents. Thus, under the conditions of clear rules of the game, economic agents will be able to estimate correctly the benefits and costs of capital legalization in a stable economy.

Introducing the „zero-rate” for income taxation of legal persons will totally discourage the economic agents that would be willing today to amnesty their capital. The conclusion of IDSi Viitorul experts is that the third initiative reduces at minimum the positive effects of the first initiative (capital amnesty). We consider that the best formula to promote a possible policy for capital amnesty, concerning the material goods, would be linked to the usage of the following syntagm: "capital growth" and not "capital amnesty". Thus, the state does not blame and does not suspect anyone for the existence of unclear and doubtful origins of some material values. Moreover, even those who purchased legally properties will be motivated to implement a policy of capitalization growth, hoping that this way it will be able to obtain further on reductions on income taxation.

Changing the syntagm may bring immediate "image" benefits to the state and underline its 'bona fides' intentions. Another rationale that would encourage economic agents to declare their capital growth is the possibility of its amortization and respectively, deduction from the taxable sum. In case when the income tax has the zero-rate, the need to do this operation disappears. This is the second reason why IDSi Viitorul experts would reconsider the initiative of the "zero-rate" on the income tax.

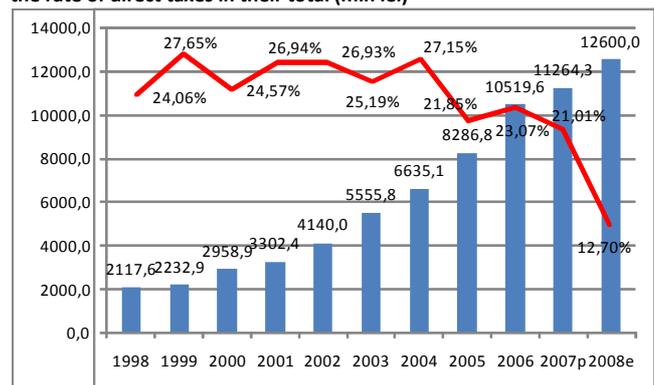
Scheme1. Income tax of legal persons (by countries)



Source: Investment Reform Index 2006, Progress in Policy Reforms to improve the Investment Climate in South East Europe, OECD 2006, Paris, France

Income tax of legal persons in Moldova is lower than the average in the region of South East Europe and much lower than in the EU states. IDSi Viitorul experts consider that under these conditions the decision of the Moldovan authorities to establish the „zero” rate for the income tax of economic agents would differ negatively from the model of applied fiscality on a regional level (Eastern Europe) and European-continental, without assuring more regulatory stability in exchange. According to the *Investment attractiveness of countries in South East Europe report* prepared by OECD, Moldova at this chapter is very well-placed. Moreover, the Action Plans signed by Moldova and its Western partners refer especially to a different series of priorities to improve the investment climate: preventing and combating corruption, simplifying the regulation mode, improving the judicial system and reducing state intervention in economy, and does not presume the assumption of certain wrong fiscal policies without a positive impact upon economy. In case when authorities would approve such a policy, IDSi Viitorul experts estimate that the fiscal burden will shift even more from real economy towards the consumption sphere, respectively independent citizens and especially poor categories of population will suffer from an additional burden that the business from the unofficial economy prefers not to suffer. This fact will dramatically affect the implementation of the objectives established by SCERS as well as policies foreseen in the Action Plan.

Scheme 2. Collection of direct and indirect taxes in the National Public Budget and the rate of direct taxes in their total (mln lei)



Source: National Bureau of Statistics, IDSi Viitorul experts' estimations

In case of introduction of „zero-rate” to income tax of legal persons – erroneous action and economically unjustified – IDSi Viitorul experts estimate that imports will speed up, and the decline of local production will increase. Our explanation takes into account the fact that in 2005, the value added tax on imports of equipment was introduced in the Republic of Moldova. These two actions spur short-term businesses without possibilities to acquire expensive technologies and equipment which diminishes the competitiveness and modernization of the economy. In our opinion, this fiscal policy had reverted in fact the natural priorities of the legal-economic context of the country: **taxation takes place before the transaction (VAT) and not after (income taxation).** A real and most effective incentive for sustainable growth would be, according to our opinion, the introduction of a "zero-rate" for VAT for equipment imports.

We consider that currently, the maximum rate of taxation of capital cannot overcome a rate of 3%. This objective statement is valid and relevant however only if the income tax rate of legal persons will stay unchanged for the upcoming 15-20 years, starting with the introduction of this policy. This type of state firm guarantee can be ensured only in case when it becomes a distinct objective of medium and long-term fiscal policies adopted by the Parliament of Moldova. The tax rate on capital amnesty differs from one state to another but for Moldova according to the existent realities this rate cannot overcome 3%. To encourage

economic agents to reevaluate their properties it is necessary for the tax paid at this operation to be compensated by further payment economies of income tax taking into account the increased payment of the tax on property. The formula for calculus is presented as such:

$$I_{FiscalAmnesty} = \frac{I_{NaturalPersonsIncome}}{BankingInterestRate \left(\frac{100}{WearNorm\%} \right)}$$

In this formula we have not taken into account the tax on property which starting with 2007 fluctuates from 0,02% to 0,25% annually. Concluding from the evolution of the average rate of banking interest rates for deposits (see table 1), the interest rate used in calculus needs to equal at least 12% annually.

Tab.1 Medium rate of banking interest rates for deposits, %

Year	Rate
2004	15,16
2005	12,99
2006	11,93
January, 2007	14,03
February, 2007	13,94

Source: National Bank of Moldova

Because goods that fall under the incidence of amnesty (or capital growth) are of category I and less II¹, we consider that the maximum effective value of the wear will equal 7%.

Tab.2 Wear norm on categories of property

Property category	Wear norm, %
I	5
II	8
III	10
IV	20
V	30

Source: Fiscal Code, Article 26

Income tax for natural persons was calculated at 15%. Making the

respective calculus, we have: $I_{cc} = \frac{15\%}{1,12 \left(\frac{100}{7} \right)} \approx 3\%$

In case if Moldovan authorities forecast a further reduction of income tax for legal persons it is necessary for this scope to be reflected in the document of long-term fiscal policy, adopted by the Parliament in the context of this policies. If we consider the real banking interest rate for deposits is 13% while the effective rate of amortization equals 6%, we can state then that the tax for capital amnesty should not overcome 2,1%. Only under these conditions, the business climate would consider the conditions and discourses of the Moldovan authorities advantageous and credible. Lack of some estimations based on calculus formula and credible and accepted by both parts forecasts put up questions related to the conditions under which these initiatives were prepared. We mention that, if a "zero" income tax rate for legal entities will be established it is little probable that economic agents will legalize (capitalization grows) their goods.

To positively enhance economic agents to legalize their capital, it is extremely important that the tax for capital amnesty to fluctuate between 2,1-3,0%.

Unconditional amnesty is crucial to ensure the normal development of the process of entering into legality of the capital of unofficial economy.

The success of capital amnesty of 2002, in Italy, was possible only after the Government assured firmly that it will not question the origins of the amnestied capital. The capital amnesty should not be connected to identification of some proves, actions or criminal origins which raise important problems of moral level against authorities and society in general. IDSI Viitorul experts would like to find out if the authors of the proposed policies for debates have consulted also the public opinion, at large (in addition to the existing professional business associations and lobbying groups), the society as a whole, which may have a rather different perception on what means in fact "the amnesty of hidden economy, with respective grey and black zones on its corner"; and finally, in what conditions people would accept such a transaction between the state and agents of the unofficial economy? According to a study published by Capital (No.15, April 12, 2007), Moldova is faced today with the most dramatic discrepancy of incomes in Europe between the superior managerial echelon of private enterprises and the lower echelon, the executive of the employees of these enterprises, the difference being of 77 times (!). Under these conditions, we anticipate that the objective reaction of the society will be very negative regarding the legalization of capital accumulations with uncertain origins (condemnable, by the majority of population). In our opinion, the adoption of such unpopular policies should be preceded by important pluralist debates and relevant for the citizens.

Avoiding negative and false encouragements. Relations between the business and authorities have to be based on mutual interest and not on threats and doubtful declarations. Capital amnesty has been (and probably will be in the future) implemented by many countries; with some of them transforming this type of economic intervention of the state in a kind of sui generis political tradition with strong electoral emphasis. Moldovan authorities should prove that they do not follow this example. Chile managed the greatest "performance" on a global level, decreeing 18 amnesties in 11 years. In other states, these amnesties repeated fewer times but their repeatability produced pervasive economic clientele-based oligarchic governance and fiscal instability at its utmost. Therefore, any declaration presented to the public by Moldovan officials that "this policy is the only amnesty ever considered by the state of Moldova" raises serious doubts and cannot serve as an argument of encouragement to declare the capital to the conventional business. Other legal guarantees are requested on the surface of it and not walks and talks of populist background.

Recent estimations made up by IDSI experts regarding the budgetary cash flow received the fiscal amnesty takes into account the experience of many other states that passed through such processes, and provides a balanced approach on what are the potential risks and advantages that these countries have got out of it. Their experience in fiscal amnesty is different and should be considered on its full diversity. Belgium, for example, collected only 61mln. US dollars at its time as a consequence of fiscal amnesty, or, 20 times less than it planned which constituted only 0,025% of the GDP. In the conditions of the Republic of Moldova, this result would give the state budget 12 mln. lei or, almost the same as the Central Government spends to maintain its official cars/limousines. The best result of fiscal amnesty until now was obtained by Ireland that managed to collect 2,5% of GDP, or 7 times more than it planned. The experience of other countries is closer however to the specific experience of Belgium than of Ireland. Otherwise stated, the majority of capital amnesties are considered at the international level as very risky actions that can bring doubtful benefits in conditions of obvious risks. The objectives proposed by the governments are, that as a result of the capital amnesty official policy, to collect nearly 0,5% from GDP or, in case of the Republic of Moldova, this would mean nearly 200 mln. lei. In IDSI Viitorul experts' opinion, even in conditions of ideal implementation of the capital amnesty policy, the Republic of Moldova could obtain maximum 500 mln lei.

¹ According to the calculus methodology (HG 338/21.03.2003 regarding the approval of the catalogue of fixed means and immaterial actives) majority of constructions fall under category I and complex equipment in Category II or for simple equipment, category III.

Overall, we believe that the application of amnesty on fiscal debts is an extremely vicious practice. **If the capital amnesty is a widespread practice all around the world, and has clear objectives, then what is understood by fiscal amnesty is something totally a different practice, rarely met and whose practical scope is largely obscure and marginal to the general economic mainstream of country.**

Cancelling the fiscal debts has in the end a series of rather negative and perverse consequences for the entire economic system and its political subsystems. In our opinion, the direct effects of the fiscal amnesty will produce only:

- Substantial losses for the budgetary standing of the country;
- Discouragement of those who honestly paid their legal taxes to the state in the previous years;
- A sudden decrease in the fiscal discipline
- Spurring inefficiency
- Risking losing budgetary incomes in the future

Currently, fiscal debts of economic agents amount nearly 2,5 bln lei.

The structure of these accumulated debts is the following: debts of economic agents to the national state budget constitute currently 966 mln lei, debts accumulated to the local/municipal budgets represent nearly 272 mln lei², debts to the social insurance budget – 1243,4 mln lei³, and medical insurance budget – the debts are insignificant and represent almost 4 mln lei⁴. **To be stated here that state-owned enterprises have accumulated almost 441 mln lei, or about 18% of the total debt in Moldova.**

Tab. 3 Synthesis of state enterprises debt, on October 1, 2006

Indicators	State enterprises			
	Total	Including:		
		Basic payments	Penalties	Fines
Total debt, mil. lei	441,5	202,2	177,6	61,7
<i>Including:</i>				
- state budget	377,7	151,6	164,5	61,6
- budgets of administrative-territorial units	13,7	7,9	5,8	-
- social insurance state budget	49,6	42,6	6,9	0,1
- Fund for mandatory insurance of medical assistance	0,5	0,1	0,4	-

Source: Note-report regarding the results of the monitoring of the analysis of economic-financial situations of state enterprises and companies with the state rate of 50+1% in the social capital, on October 1, 2006.

More than half of the debtors have accumulated debts lower than 5000 lei. It is obvious that they are not to be seen here as the main 'beneficiaries' of the proposed policy on fiscal amnesty, nevertheless, when the Ministry of Finance in Moldova declares that it is impossible to return the money from the unpaid taxes it refers exactly to this category of contributors. We notice that, the general number of small debtors is used only as a rhetorical argument to exempt from important payments certain categories of payers that did not pay from bad intention and for whom there are fiscal instruments more than sufficient to collect the state debt. IDSI

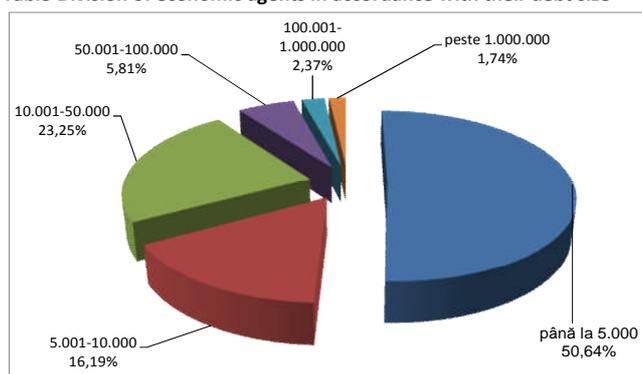
² Ministry of Finance: regarding the execution of the national public budget in 2006

³ E X T R A S from the verbal note nr.15/1 of the session of the College of the Ministry of Finance with the participation of representatives of the National House of Social Insurances

⁴ R E P O R T regarding the results of the activities developed by the State Fiscal Service in 2005

Viitorul experts note that this type of policy cannot contribute to the growth of competitiveness of debtors; it does not encourage them to improve their management, to develop their capacities of production and innovation, to reduce irrational costs, etc. IDSI Viitorul experts note that real promoters of this initiative (fiscal amnesty) are actually, the 'traditional clients' of the former Council of Creditors under the Prime-Minister Cabinet, which has been finally closed down in September 2006, at the request of the IMF presented to the Government. It is to be emphasized here that this decision was one of the main conditions in the negotiation of the IMF-RM Memorandum and restart of the external funding to the country. On its turn, settling up the dispute between Moldovan Government and international financial organizations was a condition of utmost importance to many other political commitments that warmed up the country's agreements with the European Union since 2005.

Tab.5 Division of economic agents in accordance with their debt size



Source: Main State Fiscal Inspectorate. Release nr.17-6-07/1-1146 as of 05.12.2006

The state needs to have a clear policy to return and not forgive the debts.

The existent legislation offers many instruments that could be used to avoid accumulation of 2,5 bln lei debt. Moreover, assertion stating that "only 10% can be returned" suggests the superficial quality of fiscal organs and their unseriousness. The state has to use the whole spectrum of possibilities to return the maximum possible of the debt, according to the legislation.

We consider that in year 2007 Moldova needs a policy of the state returning the debt against the national public budget which would allow the collection of at least one bln lei. For this however, more complex and diverse measures need to be implemented to return the debt. In this regard, we propose a list of priorities:

Total amnesty. For enterprises that do not function for at least 2 or 3 years and that have initiated the process of closing the enterprise and the total debt does not overcome 5 thousand lei. Thus, the ballast-enterprises will be liquidated that do not function de facto and are only reflected in the statistics.

Fines and penalties amnesty. This amnesty refers to all enterprises that until a fix date cover all fiscal debts against all budgets.

Fines and penalties amnesty and convergence of main debts in share parts of the state in the given enterprise. This procedure can be used first of all with enterprises where the state holds some shares and enterprises where the state and shareholders accept such coverage of debts.

Application of the bankruptcy procedure. This procedure will be applied in the rest of the cases. It is mentioned here that on December 5, 2006, the State Fiscal Inspectorate had warned a number of 2,700 of economic agents only in Chisinau Municipality (the capital) on the urgency to initiate the bankruptcy procedure. This was the compulsory practice of the insolvency law, forcing those economic agents to apply officially with an application of bankruptcy in the court of justice. The fact that they have

not yet initiated the procedure of bankruptcy until now is clearly a drawback of the judiciary system, of its inaction rather than a lack of legal solutions to be applied in this particular case.

Such a multidimensional approach will allow the speed up of debt return against the state budget and maximum return of uncollected resources without bringing prejudices to the national economic system and following constantly the objective of improving and educating the existent economic environment, including contributors that exist in conditions of market economy.

IDSI Viitorul experts consider that the spontaneous appearance of these three initiatives to be a dangerous signal for the economic stability and the rule of law. The lack of a critical and detailed analysis concerning the effects and their impact can cause a tremendous damage as long as the society does not have enough analytical information; there is no balanced communication and the state institutions function in a regime of regimentation. The rush of promoting these radical proposals in the Parliament and in the Government without passing the regular procedure of consultation, information and evaluation, specific to the rule of law and especially to the states where the economy does not function and the rule of law is in an incipient stage, is suspicious.

Policy recommendations to normalize the state – business relationship in Moldova

1.State authorities shall change their approach and policy towards business environment. The official position that the state „shall to towards some concessions today in order to get a moral right tomorrow to increase by 3 times the fines and thus expand the repressions on business” is very primitive and, largely, counterproductive, which may produce similar results with those registered by the Russian Federation, in 1993, when the process of „capital amnesty” served only as a pretext for a massive intervention of the state in the economy, and consecutive reprisals of the economic subjects on various occasions and at different intensity. The amnesty policy shall be supported by a consistent package of measures to improve the collection of taxes, elimination of cases of „exceptional” annulation of tax debts, preferential treatments of some „close-to-power” groups of business, expansion of the state capacity of identification of new economies and of non-fiscalized commerce/trade. In the absence of such a complex and responsible approach, the amnesty will be the first out of a long series of populist actions, till the contrary prove, while the first results of the process, in case they will be minor and unsubstantial, will certainly discourage the business to use the legal procedure for legalizing their share of unofficial capital, lacking the confidence that the state has serious intentions in this regard.

2.Fiscal amnesty shall aim two strategic goals: collecting the debts to the national public budget and improving the business environment in Moldova. In our view, the amnesty can be equated with a sanitary action for the overall hygiene of the business environment. In the conditions (set up by the current proposals of the Government), the business environment of Moldova will remain largely uncompetitive, indisciplined, underperformant and prone to fiscal abuses. As a result, the state will be forced to come back to the need to amnesty again and again in order to „clean up” the business environment, and this will be done in less than 3 years from now. This kind of vicious practice will destroy any resemblance of economic coherency in this country and will substantially deorganize the work of the fiscal bodies.

3. Fiscal amnesty has no immediate and positive consequences on the investment climate of the country. We think that the stated expectations that fiscal amnesty will encourage Foreign Direct Investments (FDI) are largely erroneous and demagogical. Most of the fiscal debts to the national public budget has been collected by the local (autohtonous) business entities. In case, the state will intervene with such a policy that cancel their accumulated debts, it will remain largely in its current form, being uncompetitive, irresponsible to the market drive, and pre-modern; while, foreign investors will be faced with a great doze of unloyal competition, which will negatively influence the investment attractiveness of the country. We shall emphasize that today, Moldova is placed on the lowest rate of regional and continental (European) investment climate, according to the rate of FDI in its economy.

4. In order to improve the functioning of the fiscal system of Moldova it is crucially important to consider the adoption of the flat tax on the profit tax for business and on the income tax for physical/individuals/persons. This change shall make no distinction between the physical and legal persons, or on the origins of incomes (share incomes, salaries, bank incomes, revenues from economic activities, etc). Lacking this crucial instrument, the fiscal system of the country will remain largely unstable, non-transparent, with various possibilities (legal and less-legal) to avoid the payment of the income tax and profit tax. We propose to state authorities to seriously consider the introduction of the flat tax on all kind of entities (i.e. physical persons and legal business subjects). We estimate that the most adequate rate of the flat tax for Moldova would be a rate of 12%. We have analyzed the experience of most of the South-Eastern and Central European countries, which understood to increase their overall regional and international attraction by flat tax on incomes. In 2004, Slovakia has introduced the flat tax on profit for business at 19%, and this was the signal which made the international car-makers Hyundai and Peugeot to open immediately two car-making plants, while in 2005, Volkswagen launched car-production plants, which made Slovakia to be called a Central European „Detroit”. In 2005, Romania has introduced the flat tax on profit/income at 16%, while the most recent example is provided by Makedonia, which introduced since January 1, 2007 a flat tax of 12%. To be mentioned here that their previous fiscal/tax system were in many respects identical to the existing system of taxation in Moldova. Comparing the geographic and economic dimensions of these countries to Moldova (mainly Slovakia and Makedonia), we may observe that such a fiscal system would rapidly ensure positive results on tax collection activities, it will bring external/international recognition and attraction, as well as a considerable internal credibility for the compulsory declaration of incomes. We estimate that the introduction of the flat tax in Moldova at 12% would increase substantially the share of the incomes in the overall structure of the national public budget revenues, which has been severally reduced in the Last 7 years.

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