

**THE ANALYSIS OF INCOME TAX PAYMENT IN INSTALLMENTS - AN
INCONSIDERATE STRATEGY IMPOSING NEW PRESSURES ON FISCAL
CONSOLIDATION OF BUSINESS ENVIRONMENT**

**NATALIA MOCANU¹, MARIANA COLESNIC¹, ALA BEȚÎVU¹, ALIN MOCANU²,
CRISTINA TENTIUC¹, NICOLETA MATEOC-SÎRB³**

¹*State Agrarian University of Moldova, Chisinau, Republic of Moldova*

²*Finance Ministry, Chisinau, Republic of Moldova*

³*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of
Romania" from Timisoara, Faculty of Agricultural Management, Timisoara, Romania
e-mail:mocanunatalia@gmail.com*

Abstract: *This paper is a critical study of the prepayment of the corporate income tax. The mechanism of this measure is simple at the first sight and thought by those who serve the government but are paid taxpayers' money: the tax is calculated quarterly based on the profit made in the previous year. Thus, the authors have examined the general tax burden on a company from the Republic of Moldova as compared with some developed countries such as Germany, France, United Kingdom etc. during 2010-2015, and have highlighted the lack of vigor and inconsistency of the Fiscal Code through which the State recognizes its inability to create a friendly and comfortable business environment, where taxpayers would voluntarily pay the taxes. In this context the authors have analyzed the statistical data provided by the World Bank Group and Price Waterhouse Coopers.*

Key words: *prepayment, tax, business environment*

INTRODUCTION

The Tax Code has been amended frequently in recent decades. The usual practice was that the proposed amendments to the Tax Code and the accompanying explanatory notes were not subject to an analysis of regulatory impact assessment (RIA), which is mandatory for all laws and regulations affecting business environment in order to ensure that changes are justified. The major problem, observed and reflected by World Bank Group in the report „Moldova - Policy Priorities for private sector development: Main report” seems to be that certain provisions of the Tax Code (hereinafter - TC) were distorted by the legislation approved by the Government, Ministry of Finance, other ministries or local governments, which greatly weakened the initial beneficial effect. These normative acts were often introduced in order to impose and / or complete TC. Regarding the lack of clarity in the tax rules, National Business Agenda (NBA) states that „the large number of laws and their vagueness, describe procedures in a vague way, favoring misinterpretation or abusive interpretation by tax officials. In these circumstances, business administration costs are increasing concerning the time spent to solve these problems and the involved unofficial payments” [10]. National Business Agenda has reiterated for several times that „the fiscal policy of the Republic of Moldova fails to achieve its objectives of stimulating the economy; it has poor quality, including due to inconsiderate tax system” [8]. Therefore, we should mention that the term of corporate taxpayer, subject to taxation, has come to be synonymous to a simple taxpayer without taking into account its intrinsic properties (the conditions of organizing the production process, technical and material basis etc.).

MATERIALS AND METHODS

The investigations on this topic focused on statistical data from the database of the World Bank and Price Waterhouse Coopers. In order to complete the tasks of research we focused on analysis and synthesis of scientific literature, the systematization of information, we used the comparative analysis and the everyday experience of business environment concerning the „tax fantasies” of the state about prepaid income tax.

RESEARCH RESULTS

Charles Adams starts his work with the inscription at the entrance to the building Internal Revenue Service: „Taxes are what we pay for a civilized society” [1]. A key question for policymakers is the extent to which individuals are willing to pay this price. Throughout the past decades, there has been a growing theoretical, empirical and experimental interest concerning all aspects of tax compliance of taxpayers. Therefore, in this paper the authors pay particular attention to understanding the defining hypothesis: why taxpayers pay taxes? First of all, the basic model of this hypothesis explicitly considered by other social sciences should be extended by introducing aspects of taxpayers' behavior or motivation. Namely, the model Becker used in almost all research on tax compliance, provides that a result is only achieved if the taxpayers pay taxes because they fear of being caught and penalized if they do not report all revenues [3]. However, it is essential to recognize that this character becomes true due to the economic consequences of detection and punishment.

This pecuniary constraint emanated by the state over the individual, is the space where the taxpayer's fiscal behavior is created and manifested, the behavior born from his desire to accept or limit the amount of tax taken by the state.

The research of the interaction between the fiscal sovereign state (as tax collector and manager) and taxpayers (as payers and recipients of public goods and services), becomes a particularly actual in the current economic and financial crisis that worsens budget deficits and imposes new pressures on fiscal consolidation, on the scale of tax evasion and on the increase of the level of taxes and fees collection .

Despite the fact that the Tax Code already assigns the fiscal body the right to estimate tax obligations through various methods, the application of which reflects on people who practice entrepreneurial activity, currently in Moldovan law there are no terms which would determine the impact of used fiscal mechanisms on the economic activity of enterprises. But certainly the new method of paying income tax in installments used under Art. 84 of the Tax Code amended by Law no. 62, no. 63 dated 30 March 2012, enforced on April 3, 2012 and amended by Law No. 71 of 04.12.2015 in force 01.01.2015 [6], is an abusive one affecting short-term liquidity of the business environment because the amounts are paid in advance instead of being invested in innovative ideas, in productive projects that would benefit entrepreneurs.

Leaving aside the comments that any tax is pressure from the State on the taxpayers, because its non-payment involves the use of „tough”, coercive measures by the tax authorities, we should mention that by modifying art. 84 of the Tax Code the State makes decisions in its favour and treats business entrepreneurs with indifference, assuming that economic agents will have the same activity from one year to another, carried out with the same effectiveness and profitability. Arbitrary, businesses are required to pay income tax in „the state treasury” though they are not sure if they will gain income in the future. Through this absurd mechanism state competent organs show us that few of them are

familiar with the specifics of uncertainty of entrepreneurial activity and that you cannot accurately predict such phenomena as climate conditions, consumer demand (which is a vital factor for modern firms), the behaviour of competitors on the market – the factors that can also affect the profitability indicators of a business from year to year.

In fact, by introducing such a mechanism, an uncertain tax is imposed unduly in a certain and inevitable tax amount required by law, firms are imposed to collect in the budget those amounts of tax, despite the change of the financial situation in the entity during the reported tax period.

It is not fair that in an economy, which claims to be a free market, there prevails the phenomenon of anticipated income tax payments for legal persons. Through these absurd methods the State also abuses directly the time of taxpayers who in each tax period (equivalent to 4 quarters) are obliged to pay this tax, and subsequently submit the papers for their regularization. Moreover, there is an extremely high risk on increasing the State's arrears to businesses that may occur if the amount of income tax paid independently exceeds the amount of income tax calculated for the reported period. So, all these mechanisms used by the competent state authorities are leading to negative connotations on the business environment and to the fact that the businessmen declare lower income in order not to pay taxes.

The study conducted by the Independent Analytical Centre Expert-Group confirms that „tax morality”, that reflects the internal motivation of taxpayers to pay taxes, in Moldova is lower than in other countries from Eastern Europe. This modest result of the Republic of Moldova on tax morality is determined by the inefficient functioning of public institutions [2].

The research conducted in this study converges on the hypothesis that a higher tax morality would help reduce the gray economy. In this regard, Torgler and Schneider argue that values and attitudes can affect individual behavior and Spicer and Lundstedt believe that in addition to sanctions a set of rules can determine the choice of paying taxes to the detriment of tax evasion [4].

In confirmation of this thesis we use as arguments the data presented by the World Bank Group and Price Waterhouse Coopers in the publication *Paying Taxes* [7], where they analyze tax systems in terms of compliance of domestic companies with different tax laws and regulations in 189 countries worldwide through three sub-indicators: the total tax rate (see table 1), the time required to comply with major taxes (profit tax, income tax and mandatory contributions and consumption taxes) and the number of tax payments (see table 2).

Table1.

The share of taxes and contributions paid by an enterprise as a percentage of profit, %

Country	2010	2011	2012	2013	2014	2015	
France	65,8	65,7	67,4	67,4	68,9	62,7	
Germany	47	45,6	45,9	49,1	48,8	48,8	
Japan	47,7	48,3	49,2	49,8	51,3	51,3	
United Kingdom	36,1	36,1	35	34,7	33,5	32	
Russian Federation	46,5	46,9	54,1	48,7	48,9	47	
Romania	44	43,5	43,3	43,2	43,2	42	
Republic of Moldova	30.40	30.80	30.80	39,7	39,7	40,2	
United States	46,5	46,4	46,4	43,8	43,8	43,9	

Source: adapted by the auhtor based on the source [11]

Having analyzed this report we noted that the Republic of Moldova is short on tax payments ranking 78 of 189 countries [7] decreasing by eight positions compared to the same period of 2015. This happened because the overall tax burden on a company increased from 39.7% to 40.2% due to the increase of employer’s contributions to obligatory medical insurance.

Table 2.

Number of tax payments per year for OECD countries

Country	2010	2011	2012	2013	2014	2015	
France	8	8	8	8	8	8	
Germany	12	12	9	9	9	9	
Japan	13	13	13	13	14	14	
United Kingdom	8	8	8	8	8	8	
Russian Federation	8	7	7	7	7	7	
Romania	113	113	41	39	14	14	
Republic of Moldova	49	49	49	32	21	21	
United States	11	11	11	11	11	11	

Source: adapted by the auhtor based on thesource [11]

Every tax system presents a divergent structure, which, on one hand, should form the revenue component of the budget, on the other hand - it should encourage the development of fruitful business environment. Unfortunately, we can mention that taxation ranks the Republic of Moldova down the rankings on the ease of taxes payments for a typical company, due to frequent changes in tax legislation and the large number of tax - these are the obstacles to increasing business competitiveness . The tax authorities, by their attitude to the taxpayers, discourage investments and entrepreneurs, who often prefer to start business abroad, where they are backed by the state and are not charged and looked at as evaders.

Regarding the number of taxes and fees payments, a medium sized company in Moldova must make 21 tax payments annually compared to a regional average of 9.5 payments and a global average of 25.6 payments. Even though our country has made

important progress regarding this indicator in recent years because the system of declaring and paying online was recognized (from 32 payments in Paying Taxes in 2013 to 21 payments in Paying Taxes in 2016, which generated a significant increase in the global ranking from 95th place to 78th place), we stand at the upper limit compared to other countries from Central and Eastern Europe. This occurs because in addition to known taxes and payments there are payments in local budget.

CONCLUSIONS

The theoretical analysis and generalization of scientific literature reveals that fiscal morality of the business environment in the Republic of Moldova is lower compared to other countries from Central and Eastern Europe due to frequent changes in tax legislation and the large number of taxes and fees.

Data analysis and generalization of scientific literature emphasize the idea that income tax payments in installments is an „abuse of state”. First, it is important to note that the current tax system does not exercise in a distinctive manner the function of economic category - in order to attract assets in cash flow for economic stability and growth, and does not correspond to the role of tax as an effective and predictable tool of financial resources redistribution. Experts in the field have found that every year, the tax regime is becoming more extensive - model, recognized in international practice, as one of the maximum taxation.

We can certainly say that the State, by introducing prepayment of income tax, shows that the State doesn't understand the dynamics of real business, focusing on its interest and not on the interests of those it represents and who finance its actions. If we really want the economic growth and development of this country it is necessary to focus not on the State and its institutions, but to promote and build a strong, autonomous and transparent business sector and with implementing reforms that would simplify and reduce the burden tax on economic agents.

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