The Importance of fiscality for Economic Development. Case study – Republic of Moldova

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Abstract. *The topicality of the topic lies in the importance of taxation and reforms in this field for the economic development of any state. For the EU, as a conglomeration of states and as an exponent of economic globalization, taxation has a strong influence on the multiple economic processes that take place within this structure, as well as within each member state. Undoubtedly, from the perspective of the possible association with the European Union, for the Republic of Moldova, the fiscal changes with subsequent impact on the socio-economic development have a special importance. However, Community tax policy is difficult to impose in the European area, especially because of the obstacles it faces, especially those caused by the Member States themselves, which are reluctant to apply common rules, in particular to the elimination of various forms of tax discrimination, double taxation or tax evasion. The main tools that the European Union intends to use to bring Member States' taxation closer together are tax harmonization and tax cooperation between Member States.*

Keywords: *fiscality, economic development, tax policy, European integration.*

Introduction

Tax harmonization involves a process of reconciliation between the national legal rules of the Member States, as well as between national legal rules and Community rules, which in fact translates into the obligation of national tax systems to comply with Community rules, the obligation based on the principle of Community rules in relation to the national ones.

Tax harmonization is based on legislative harmonization, which must cover all types and forms of taxation practiced in the Member States (Alexandru, 2002).

The difficulties encountered by the legislative harmonization effort have led the European Union to try to use more efficient and easier to accept means by the states, respectively by using other means of fiscal cooperation between the member states (Agnese, 2015).

The European vector of the Republic of Moldova directs the reform efforts, related to the entire economic system, as well as to the fiscal one, in order to connect to the European standards, outlining new approaches to contemporary taxation (Hallett and Hougaard, 2016). These aspects give the chosen research topic a current context, which is to be capitalized later in practical terms, but also theoretically, through new scientific investigations, a consequence of the complexity of the fiscal issue (Salvador et al., 2014).

The purpose of this research is to investigate the tax harmonization and cooperation of EU Member States and the possibilities of improving the national tax system of the Republic of Moldova from the perspective of integration processes and estimates of the contributory effects of tax systems in the formation of state revenues (Dascalu and Cojocaru, 2011). Fiscal harmonization and the prospect of European enlargement focus on the theoretical approach to taxation as a relevant factor in influencing socio-economic processes and on a study of the tax systems of EU Member States and their changes in the context of EU accession and the correlation of national tax systems with Community requirements.

Literature review

The literature and sources of information are diverse and complex, especially as a result of the impact that taxation has in the field of finance and taxes, but also in our daily lives. The relationship between regional development and fiscal policies has been a major topic in many papers and books published over time. Since 1973, the importance of regional policy and its significant role in the implementation of economic theories have been emphasized by Higgins, who said that "Measures to reduce regional gaps, far from being a luxury to offer when things are otherwise going well in the country, they are the essence of a policy of accelerating growth, reducing unemployment and maintaining price stability. For developing countries, where efforts to accelerate growth are hampered by fears of worsening inflation, reducing regional disparities can be the sine qua non of successful policy development.

A subsequent study by Reed and Rogers in 2004 examines the effects of the 30% reduction in personal income taxes in New Jersey between 1994 and 1996. The tax cut is measured by estimating the difference in difference - that is, the increase in the number of jobs in New Jersey counties compared to counties in New Jersey and other states in the region - and it was small and did not differ significantly from zero.

Recently, in 2014 the research was developed by Ljungqvist and Smolyansky, using a longer period of time (1970-2010). They focus on increasing corporate taxation to reduce employment rates, but vice versa is not available, which means that reductions in corporate tax rates do not necessarily lead to high employment rates, except in times of recession. On the other hand, it is clear that more developed economies are able to attract more foreign investment and positively influence the development policy region. Things are different when it comes to a country where its regions are very different in terms of development. Wisnewski had shown that the level of development is one of the main determinants of foreign investment. Experience in recent decades shows a high correlation between GDP and foreign investment per capita, resulting in a multiplier growth effect (Wisnewski, 2005).

Although foreign investment had played an exceptional role in modernizing some, the overall impact on regional development was adverse; regional disparities have widened through the allocation of foreign investment (Stoilova, 2017).

This may be because once a single investor enters a particular region and offers job creation, the volume of taxes collected increases and they start investing in infrastructure, the other unchanged regions fall apart and the differences become larger; during this time, the economy is developing, but without solving the problems of disparities between regions (Radu et al., 2015). It can be said that theories of regional development and the indicators that can influence differ from one country to another, because even if the members of the European Union follow the same direction, individual goals are set.

Methodology

This article starts from the hypothesis that taxation is a decisive factor in economic development at European level. Starting from general concepts, a customization is made based on a case study at the level of the Republic of Moldova, which is part of the qualitative study. It analyzes, from a quantitative point of view, certain statistical indicators. This quantitative analysis has a design based on taxation indicators in different states of the European Union, but also on residents' perception of the quality of economic life, based on a questionnaire sampled on about 100 people. In this sense, a correlation was made between Eurostat statistical data and the standard of living of the interviewees.

In the realization that it is possible to analyze specialized literary analysis on the one hand, but if one analyzes past, present and future data (estimation), provided by Eurostat. Measurement tools and procedures can be measured for all important or reasonable features.

Results and discussions

Tax competition in the field of direct taxation in the European Union

The debate on taxation in the European Union is very heated (Herhalt and Baker, 2013). In this regard, the literature is fueled by a central question: "What is the best solution to the currently asymmetric tax rates in the Member States: regulated tax harmonization or market-imposed tax competition?" The points of view are spread over the whole range, from total pro-harmonization to purely competitive positions, so that, on the whole, the specialized literature only reveals the ambiguity of the problem, reflected by the heterogeneous approaches and the increasingly complex attempts to express the reality of the European situation.

With regard to the harmonization of tax rates, as shown in Table 1, all efforts have failed, so that today tax rates differ greatly within the European Union in a wide range.

Table 1. Different rates (%) of direct taxes in the European Union in 2019

Member states	Tax	Maximum income tax limit
Austria	25	50
Belgium	34	50
Bulgaria	10	15
Cyprus	10	30
Czech Republic	20	15
Denmark	25	58
Estonia	21	21

Member states	Tax	Maximum income tax limit
Finland	26	53
France	33,33	41
Germany	15,7	45
Greece	25	40
Hungary	10-15	36
Ireland	12,50	45
Italy	31,40	45
Latvia	15	25
Lithuania	20	24
Luxembourg	26	38,95
Malta	35	35
Holland	25,5	34,40
Poland	19	32
Portugal	26,50	42
Romania	16	16
Slovakia	19	19
Slovenia	21	41
Spain	4-30	45
Sweden	26,3	55

Source: author after European Commission- 2020, Taxes in Europe database- 2020, Eurostat- 2020.

In general, the new Member States have a different structure of public revenue compared to the old Member States. While the older Member States derive approximately equal revenues from direct taxes, indirect taxes and social contributions, the new Member States often account for a substantially lower share of direct taxes in total revenue (Bergman, 2016).

The lowest share of direct taxes is registered in Slovakia (only 20.8% of the total), Bulgaria (20.9%) and Romania (23.0%). (Eurostat, 2011). One explanation can be attributed to the tax rates applied in the new Member States, which are generally more moderate for both corporate tax and personal income tax. The effort of different jurisdictions to attract foreign investment will lead them to reduce the burden of direct taxes in order to obtain a higher share in the international capital division.

Competition between different tax systems can reduce public spending or rethink fiscal pressure (Reinhard, 2016). In this way, each country will re-examine its own fiscal system and will try, by reducing the fiscal pressure on movable factors, labor and capital, to attract foreign investment or at least to support the development of those present.

The phenomenon of brain drain is influenced by both the citizen and the central authority, depending on their options. Only with the help of fiscal policy in a real and transparent process of fiscal competition can national authorities efficiently manage public financial resources and, at the same time, public expenditures, in order to avoid the emergence of negative externalities and to attract mobile factors such as capital and force. work around the world.

The fiscal system of the Republic of Moldova – alignment with European standards

One of the important problems of establishing a functioning market economy is the establishment and application of an efficient taxation system, as this system depends, to a large extent, the

formation of state financial resources and the possibility of economic, administrative, social programs, etc. (Cojuhari, 2004). The implementation of such a tax system is a difficult process, followed by reforms of the tax system, reforms in the field of tax administration, as well as reforms of tax legislation. In this sense, the promotion of fiscal reform in the Republic of Moldova in the early 1990s is a logical and rational priority, as the inherited fiscal system did not generally allow the introduction of gradual reforms, through which the state could ensure its budget revenues without affecting to a minimum the development of private initiative.

The tax system had to ensure a unique and equitable attitude on the part of the state towards all taxpayers, regardless of the type of property and the form of management, to ensure the creation of a stable basis for financing state programs and developing the scope of services (Prammer, 2011). In countries that apply real estate tax at market value, the tax rate is higher. For example, in Croatia – it is 5%, in the Czech Republic – 3%, in Hungary – 2-6%, in Macedonia – 2-4%, in Slovenia – 2% of the value of goods. Improving the taxation of real estate, in order to increase the contribution of this tax to the formation of budget revenues, is compelling, especially since in the current conditions this tax does not bring its expected contribution as an important potential source of supplementing state revenues. Fiscal policy measures implemented in the reform years have increased fiscal transparency and have had a positive impact on both public revenues and the activity of economic agents and individuals' economies.

**Table 2. The evolution of the level of fiscal pressure in the Republic of Moldova
in the years 2013-2019**

	<i>Executed</i>		<i>Executed</i>		<i>Executed</i>		
	2013	2014	2015	2016	2017	2018	2019
Share of tax revenues in GDP, %, of which:	25,0	26,4	27,3	25,6	24,8	26,0	26,5
- legally income tax	2,3	2,5	2,7	21,3	0,6	0,4	0,5
- personal income tax	2,4	2,5	2,5	2,4	2,3	2,4	2,5
- VAT	12,5	13,8	14,2	14,5	15,8	17,2	18,0
- excise duty	3,3	2,5	2,6	2,8	2,5	2,7	2,3
- real estate tax	0,2	0,1	0,1	0,1	0,1	0,1	0,1
- land tax	0,5	0,4	0,3	0,3	0,3	0,3	0,3
Share of tax revenues in GDP, % Inclusive	25,6	27,2	29,4	30,3	31,2	30,9	31,3
- contributions to BASS	7,8	8,2	8,1	8,4	9,1	9,2	9,5
- contributions to FAOM	1,1	1,2	1,5	1,9	2,3	2,4	2,5

Source: <http://www.mf.gov.md>.

According to the data in the table, the fiscal pressure in the Republic of Moldova, for the period 2013-2019, reaching the level of 25.6% - 31.3%, is within the limits between 22% -31% of GDP, estimated by World Bank experts, as characteristic of economies in transition.

They consider that, depending on the level of economic development, the fiscal pressure can be at the levels of: 6% -7% of GDP - for VAT; 6% -9% - for personal income taxes; 6% -10% of GDP – for excise duties, etc. (see table 2).

Table 3. Level and structure of tax revenues in countries with economies in transition

No.	Types of taxes and fees	Fiscal base, in% of GDP	Tax rate, %	Revenue, in% of GDP
1.	VAT	40-60	12-22	6-7
2.	Income tax	25-45	20-25	6-9
3.	Insurance contributions sociable	20-50	20-30	6-10
4.	<i>Subtotal</i>	-	-	18-26
5.	Excise duty	-	-	6-10
6.	Other taxes (commerce, patrimony, etc.)	-	-	2
7.	<i>Tax revenue- total</i>	-	-	22-31

Source: www.minfin.md.

The respective recommendations aim at optimizing the correlation of revenues with the level of state expenditures, as well as optimizing the tax system itself by reducing the maximum limits of tax rates, in particular, on personal income taxes, reducing tax facilities, etc. Analyzed from the point of view of the economic content and according to their nature, the budgetary revenues are constituted, in the overwhelming part, from fiscal revenues. That level denotes the importance of the tax system in the formation of state financial resources.

The economic and social consequences, determined by the budgetary-fiscal policy, are dependent on the extent of the distribution-redistribution process of the gross domestic product.

In this sense, it is necessary to present the image that the national budget offers regarding the proportion of redistribution of the gross domestic product through the fiscal system.

The size of budget revenues depends on the degree of development of income-generating economic and social activities, the level of individual and global fiscal pressure, the volume of gross domestic product and its structure, the level of public spending and the extent of primary and secondary GDP distribution processes, through the state budget, the possibilities of capitalization by the state of some goods that belong to it. This growth is supported by economic growth in recent years, the growth of foreign trade, the rapid increase in wages, which directly influence the income calculated from the labor remuneration fund.

Alignment of the fiscal system of the Republic of Moldova with European standards

In order to determine the possibilities of improving the tax system and maximizing its contribution to supplementing budget revenues, it is interesting to research issues related to: the structure of tax revenues and the impact of the tax burden on consumption and labor and capital factors (Doga, 2006).

The main growth factor of this type of tax is the increase of retail trade, partly due to the increase of transfers from abroad and, respectively, the import of goods and services in the republic, as well as the improvement of the fiscal administration. The positive evolution of this type of tax compensated the reduction of excise duties as a share in GDP, which took place due to the fixed excise rates on most items. Foreign trade taxes have kept their share of GDP virtually unchanged

due to the inclusion in this group of fixed payments in the field of foreign operations.

In addition to the trend of increasing tax revenues as a share in the total amount, there is another important trend, which is expected to continue in the period 2012-2014 in the economy of the Republic of Moldova- increasing the share of direct taxes (including social contributions) in global revenues with the indirect ones.

The changes are intended both to reduce the tax burden on the income of legal entities and individuals, and to remove from the shadow economy the income to be taxed.

Figure 1. The evolution of indirect taxes in the state budget of the Republic of Moldova- 2015-2019

Source: www.minfin.md.

Returning to the analysis of the data on each type of tax in the previous tables, it can be seen that, within the domestic tax system, the highest level of pressure is estimated for indirect taxes – VAT (between 12.3% - 18.0% of GDP) and excise duties (2.3% - 3.1% of GDP), followed by the level of fiscal pressure on individuals' incomes (2.3% - 2.5% of GDP) and legal persons' incomes (0.3% - 2.6% of GDP). In the Republic of Moldova, as a method of stimulating the savings of the population and attracting investments, the process of continuous decrease of the maximum income tax rate of individuals can be considered.

The participation of the local fiscal system in the redistribution of GDP is much more valuable through the national public budget, given such components, such as, for example, the State Social Insurance Budget, which accumulates, as direct tax obligations, contributions for insurance social and legal persons available to the state. The fiscal revenues of BPN in the Republic of Moldova also accumulate the compulsory health insurance premiums, the main source of the Compulsory Health Insurance Fund.

As a structure, the revenues of the state social insurance budget in 2011 are characterized as follows: compulsory state social insurance contributions – 73.3%; transfers from the state budget – 26.62%; interest and other income – 0.08%.

Figure 2. The structure of real revenues of the state social insurance budget for 2019

Source: www.minfin.md.

The state social insurance contributions, interests and other revenues constitute the own revenues of the state social insurance budget, which in 2019 were accumulated in the amount of 7566093.2 thousand lei, which represents an execution of the specified plan at the level of 99,8%.

Conclusions

The biggest challenge of today's European fiscal policy is to reconcile the general European interest with the sovereignty of states in matters of taxation. The general European interest, however, lies in the proper functioning of the single internal market. The opening of borders, within the single internal market, allows private agents to more easily arbitrage the various national taxes, so that individuals can place their funds or buy goods, and companies can invest and produce. This arbitrage is dangerous for all economic actors: it is not desirable that the location of activities depends on fiscal factors and not on economic factors. In addition, this arbitrage creates the risk of countries facing the arms of taxation: each country may have an interest in reducing its taxation, in one sector or another, to attract businesses, consumers or financial capital. There is a risk of pressure from capital gains taxation and a sharp reduction in indirect and direct taxes, which would hurt businesses.

The harmonization process involves some risks, no doubt, but it is also an opportunity to make the tax systems, which have become progressively opaque and complicated by the accumulation of measures on points and in the short term. It would also be desirable for harmonization not to require all countries to align with the majority of the Community, but rather to follow the example of best practice. The research allows the elaboration of recommendations regarding the need to reduce the fiscal burden on the labor factor, both in the case of the Republic of Moldova, and thus contributing to the improvement of the targeted taxation systems.

The comparative analysis of the structure of fiscal revenues in the European Union and the Republic of Moldova shows us a rather big difference.

In the EU countries the share of direct, indirect taxes and compulsory contributions is almost equal, in the Republic of Moldova in fiscal revenues indirect taxes predominate (55%),

followed by compulsory contributions of health care and social insurance (28.4%), and direct occupies only 16.6%. In our opinion, one of the directions for restructuring fiscal policy in the process of European integration must be measures to increase the share of direct taxes. During this research, analyzes were performed in the field of income taxation in the case of the Republic of Moldova, with the conclusion and recommendation that the single-income income taxation system, applied in Romania, would be an appropriate example for the Republic of Moldova in the context of improving the taxation system.

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