

TAXATION OF WEALTH AND HIGH INCOME: FEATURES OF THE FISCAL POLICY OF THE REPUBLIC OF MOLDOVA



MIHAIL POISIC, PH.D. OF ECONOMICS, SENIOR RESEARCHER, |
NATIONAL INSTITUTE FOR ECONOMIC RESEARCH, REPUBLIC OF MOLDOVA*

INTRODUCTION. THE PROBLEM OF DIFFERENTIATION OF TAXATION, DEPENDING ON THE DEGREE OF POTENTIAL TAXPAYER WELL-BEING AIMED AT ACHIEVING THE OPTIMAL LEVEL OF TAX LOAD FOR ALL RECIPIENTS, HAS BEEN THE SUBJECT OF HEATED DISCUSSIONS FOR MORE THAN ONE CENTURY. IT DEMONSTRATES THE FACT THAT NO STATE HAS YET SUCCEEDED IN BUILDING A RATIONAL SYSTEM THAT MEETS THE PRINCIPLE: THE RICH NOT ONLY PAY MORE, BUT ALSO AT HIGHER RATES. DESPITE THE FACT THAT IN EUROPEAN COUNTRIES THE "LUXURY TAX" APPEARED IN THE XVII-XVIII CENTURIES AND HAS SURVIVED IN 130 COUNTRIES OF THE WORLD, ITS FORMS IN EACH STATE ARE STILL SPECIFIC, DIVERSE AND CONSTANTLY CHANGING. [1-4]

For example, in the US, the luxury tax introduced in the early 1990s for jewelry, furs, yachts and private aircraft existed for only three years and the tax on expensive cars was abolished in 2005. But at the same time there are: a real estate tax in the amount of 1-2% of the market value for the year; inheritance tax at progressive rates ranging from 18% on low-value properties to 55% on real estate valued at more than \$3 million. An increased rate is also levied on luxury goods. [1]

One of the most stringent systems of the luxury tax is the solidarity tax on wealth, adopted in France back in 1982. All assets of a citizen, including bank accounts, securities and property, are subject to

taxation. Even the real estate registered abroad is considered. In this case, the state of the taxpayer must exceed a certain threshold of 1.3 million euro for 2013. This is followed by a progressive scale from 0.25% to 0.5%. [2]

The problems of taxation of luxury goods, wealth and high incomes in the world practice have received much attention. That is why they are quite widely and thoroughly described by a number of scientific economists and politicians. In particular, they were deeply analyzed in the work of Robin Boadway, Emma Chamberlain and Carl Emmerson "Taxation of Wealth and Wealth Transfers". [5] And the need for such taxes is popularly described by Howard Reed "The time is now for wealth taxes in Britain" [6], and most recently on 09.19.2018 Sam Mitha CBE "Why we need an annual wealth tax". [7]

At the same time, despite some pressure from Western development supervisors over the past two decades, the introduction of a comprehensive system of taxation of wealth, which is an excess of comfort, pleasure, is in every possible way sabotaged in the Republic of Moldova. And if some taxes are introduced, they either do not work or are illusory.

The information base. Analytical materials of the Ministry of Finance of the Republic of Moldova to the annual projects of tax policies, from other regular sources of information, including different monographic studies, for the last 10-20 years.

* POISIC Mihail, m.poisic@gmail.com

The basic content. Certain types of taxes, which can be attributed to the taxation of luxury goods, were introduced in Moldova in the nineties of the last century. In particular, these are excises for jewelry made of silver, gold and other precious metals. At the same time, all these years in excise tax rates neither the percentage of the precious metal in the alloy nor which and how many precious stones were inserted by the jewelers into the product were taken into account, which occasionally caused criticism of opponents. Since January 1 of the previous year, as follows from the 2018 Tax Code, unexpectedly for many, jewelry was excluded from the list of excisable goods.

The problem of progressive taxation of luxury residential real estate, which can also be classified as wealth, has a long history that goes back to the 90s. Foreign experts highly recommended to introduce such a tax in Moldova. On the one hand, if there is political will, it is possible to calculate it fairly transparently, and on the other hand, recover from the taxpayer. In addition, it is an effective lever, which forces to minimize unproductive investment.

Based on foreign experience, a number of decisions were made on progressive housing tax rates for an area of more than 100 sq. m, 150, 200 and more than 300 sq. m. This scale had also different increasing coefficients with a maximum 15-fold level. But the real introduction of the tax was restrained. And only in 2006 it was first consolidated by the law of the parliament No. 448-XVI of 28.12.2006, OM 203-206/31.12.06 Art.1001 and entered into force on 01.01.2007. Subsequently, the rates of this tax were repeatedly adjusted, and the collected funds went to the local budgets with one nuance. Despite the fact that there is a lot of housing with an area of more than 100 square meters in the country, revenues to the local budgets, according to the Ministry of Finance, were insignificant.

Based on this statement, the Tax Code was supplemented by a new section – “Tax on wealth” by the Law of the Republic of Moldova No. 138 of June 17, 2016, whereby, in accordance with Article 287³ (1) “The object of taxation is immovable property intended for housing, including country cottages (except for land plots), as well as its shares, which meet the following conditions: a) the total estimated value is 1.5 million lei or more; b) the total area

is 120 square meters or more.” According to Article 287⁴, the tax rate is set at 0.8% of the taxable base. And it is necessary to transfer these funds not to the local budget, but to the state budget. At the same time, there was a paradoxical situation when two taxes are levied simultaneously for the same object of taxation, both to the state and local budgets.

No less paradoxical situation develops with the tax introduced from the last year on “Lux” class cars, in the edition, which was not discussed either with the business or with the expert community. With the submission of the Ministry of Finance, the government submitted a draft tax policy with other proposals to the parliament. Now the tax on luxury cars will be calculated as the amount of the excise tax determined according to its rate, established depending on the service life and the working volume of the engine cylinders, plus 2 percent of the customs value of the car. To this category it was decided to include those cars, the cost of which is 1.5 million lei or more.

However, if you delve into the essence of this innovation, it turns out that it is more a mystification of the progressive taxation of wealth. First of all, in Moldova the value-added tax for the import of cars is not charged for many years. The VAT is 20% on the absolute majority of other types of goods, besides socially significant, but for the import of cars - 0. It has long been replaced with excise duty. The rates of this indirect tax in monetary terms have been established depending on the volume of the engine, the type of fuel: gasoline or diesel fuel, as well as the lifetime of the imported car. At the same time, the excise rate, attributed to the cost of new cars, with some variation was about 12%. And already this provided a benefit to buyers of 8%. Whereas the usual level of VAT is 20%.

Nevertheless, lobbyists have repeatedly attempted to reduce this tax. At the same time, they directed their efforts to reduce excise rates on cars with increased engine capacity: in which the volume of the gasoline engine exceeds 3000 cc, and the diesel engine - 2500 cc. They are the basis of the prestigious class of cars. And three years ago, under the pretext of replacing excise rates in euro to lei, it was still reduced by a third from 3.72 euro per one cubic centimeter of engine to 55.6 lei. For other classes of cars, excises were recalculated according to the

existing at the time exchange rate of the euro. Despite the fact that in the past three years the annual consumer price index was in the corridor of 3.0-6.4%, this excise rate remained unchanged. And there is the same amount of 55.6 lei in the Tax Code for 2019. So it turns out that taking into account the inflation of 2% for luxury, this tax became a privilege, which is annually increased by 4.2-4.3%.

In order to more fully demonstrate the real tax burden after the introduction of the tax on luxury in 2018 for the luxury cars, as an example we will calculate excises not in monetary terms, but in percent for cars with engine capacity of more than 3000 cc, which are now offered by the Moldovan dealer of Mercedes manufacturer. This price list is valid from September 2017 and is publicly available on the Internet.

At the same time it turns out that for cars of different brands with engine capacity of 5980 cc, the cost of which is in the range of 223.0 thousand euros (Mercedes Maybach S 650) to 271.9 thousand euros (Mercedes AMG S 65), the ad valorem excise rate is the less, the more expensive the car is. In the example, this is 9.4 and 6.2 percent, respectively. In the case of the Mercedes Maybach S 450 4MATIC with an engine capacity of 2996 cc and a cost of 118.2 thousand euros respectively, the calculated excise is 4.0 percent. And this is twice less than the VAT rate for socially important goods.

There is a similar level of excise taxes for other manufacturers of especially prestigious "super-lux" models, such as: Porsche, Lamborghini, Bentley, Maserati, Rolls-Royce and so on. [10]

In general, low excise rates lead not only to a shortage of funds in the state budget, but also to the avalanche-like growth of the fleet of cars in the country and especially in Chisinau. Only in comparison with 2008 the number of such cars has increased by more than one and a half time. Especially there are a lot of cars with increased engine volume, which greatly worsened the ecological situation. Because of the congestion of the transport highways, it became especially difficult to move during peak hours, and the maximum permissible concentrations of harmful emissions on a number of streets already exceed the permissible norms by ten or more times. [10, 12]

A particularly paradoxical situation has evolved with the dynamics of "improving" the taxation of

personal income in the Republic of Moldova. As we know, during the Soviet time, wages up to 60 rubles per month were not subject to the income tax. Afterwards, a progressive scale of up to 100 rubles was in force, from which 8 rubles and 20 kopeks were withheld. Finally, 13% were withheld from the sums exceeding 100 rubles. During that period, the range of the level of remuneration of various categories of workers, as a rule, was not as different as nowadays. Even in government structures it differs tenfold. For example, the monthly salary of the Prime Minister of the Moldavian SSR, the first secretary of the Communist Party of the Republic and the doctor of science, the head of the department of a higher educational institution accounted for 600 rubles in the eighties.

Together with the independence of the Republic of Moldova, the range of wages has increased dramatically. The tax practice has also undergone some changes. And since the beginning of the two thousandth, the country has moved to a three-tier tax system. In particular, in 2007, an annual personal exemption was applied for persons who do not have the right to additional benefits - in the amount of 10.800 lei. The subsequent 16.200 lei were taxed at the rate of 7%, the next 4.800 lei - 10% and income tax in the amount of 20% was withheld from the amounts above.

However, in many civilized countries, the size and range of income tax rates is much tougher. Tax on personal income is one of the most important elements of the tax system of any state. Its share in the state budget directly depends on the level of economic development. In developed countries, it accounts for a significant portion of state revenues. The main problem of income taxation is to achieve the optimal balance between economic efficiency and social justice of the tax. In other words, those tax rates are needed that would ensure the most equitable redistribution of income - with minimal damage to taxpayers' interests from taxation. Tax benefits, such as the deduction of a portion of income allocated to housing, construction, education, and so on, have a socially and at the same time regulating component.

It is believed that the achievement of greater social justice in income taxation contributes to a progressive scale of taxation, that is, the more income, the greater part of it is withdrawn in the form of tax is. In some de-

tail the problem of tax differentiation is considered by a number of authors, in particular, P. Kokhno in his article: "The advanced economy requires a progressive scale of taxation of personal income." [13], Mironova N.A. "On the peculiarities of taxation of individuals in individual countries" and so on. [14, 15]

According to the latest publications, German law provides that with the annual income not exceeding 8.820 euros, this type of fiscal tax is not applied. If an employee's income for a year fluctuates in the range of 8.820 – 54.058 euros, the income tax rate is 14%. With an income between 54.058 – 256.304 euros, 42% are deducted from the gross salary. The largest income tax from the salary in Germany is 45%. It is applied if the annual amount of the salary of a citizen exceeds 256.304 euros. [16]

The main feature of the tax on income in France is that, in order to calculate it, it is not a specific individual who is taken, but the family of the taxpayer (spouses, children, and dependents). Single people are considered a family of one person.

The progressive rate scale covers 5 groups of taxpayers with a range from 0 to 45% depending on the amount of annual income. France already has a negative experience in introducing the so-called "wealth tax", the essence of which was that income over 1 million euros was taxed at a rate of 75%. As a result, this kind of innovations, as they are believed

to be, have not justified themselves, therefore, at the moment, the increased percentage of income tax for millionaires has been abolished. [17]

Income tax on individuals in Sweden begins to be charged from 45 thousand euros per year. Those, whose earnings are lower, pay at the zero rates. Those who surpassed the specified difference should give to the state 20%. And this is not the limit. The rate rises depending on the amount and can reach 57%. [18]

One of the most differentiated tax systems is in the United States. Kyle Pomerleau presents the rates valid there in 2017 in its publication in nine tables. [19]

However, despite this global practice, since 2008 the country has been transferred from a three-tier system of taxation of individuals to a two-tier one, which in 2018 included: personal annual exemption in the amount of 11.280 lei; with 33.000 lei - 7% was charged, and from the sums exceeding these incomes - 18%.

And since October 1 of the last year, the parliament adopts a law in a hurry, according to which personal exemption increases to a living wage of 2 thousand lei per month, which can only be approved, but then the single rate is set at 12%. In general, the level of taxes levied according to the old and the new system of taxation of individuals is presented in the diagram below.

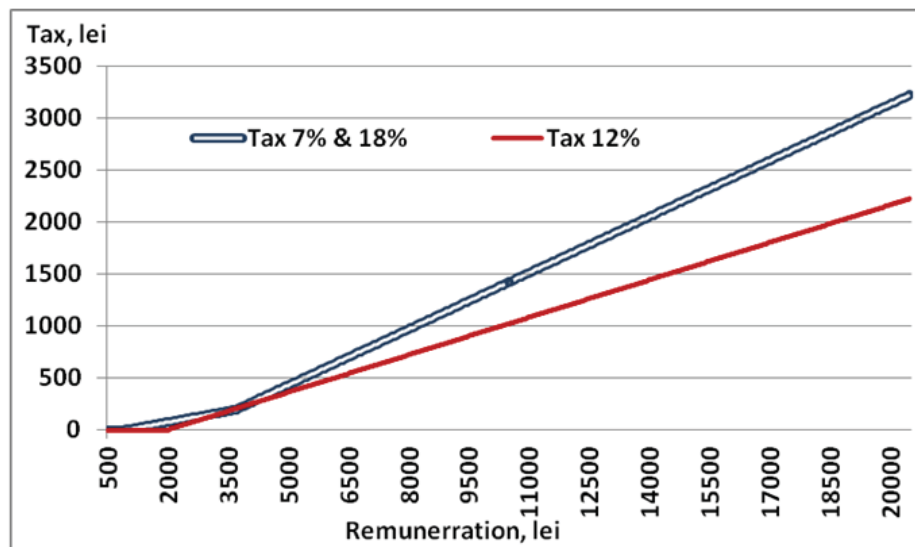


Fig. 1. Taxes on personal income depending on tax rates [20]

The approval of a new level of personal exemption of 2 thousand lei, as well as a tax rate of 12%, was carried out in violation of the current Law of the Republic of Moldova No. 181 of July 25, 2014 "On public finances and fiscal responsibility", which was developed in accordance with the recommendations of experts from the European Union and it replaced the same old one. Articles 47 "On the budget calendar" and 48 "On the budget forecast" set deadlines for the medium term for submission and the procedure for approving all indicators determining the country's financial life for the near future.

In particular, the government is obliged until June 1st to approve the budget forecast and submit to Parliament the relevant draft laws on fiscal policy for the medium term, as well as the main indicators, called the macro-budget limits. Then, until October 15th, there should be the draft budget laws themselves for the next year. The parliament is obliged to adopt budget laws for the next year until December 1st.

In general, a personal exemption of 2 thousand lei per month instead of the previous 940 lei, with such an income, gives a saving in a paid tax of 74.2 lei. Then, as income increases to 3.500 lei, this tax benefit is reduced to 0, and then the taxpayer begins to pay more. And this excess persists to 3850 lei, what is reflected in Fig. 1.

And only if this threshold is exceeded, savings are again achieved, which, with an average wage in the country of 6 thousand lei, is about 128.3 lei.

But essentially, mainly those who have an income of 20 thousand lei, benefit from 968.3 lei, and therefore, take advantage of this reform. At the same time, the governor of the National Bank of Moldova, Sergiu Cioclea, who resigned, received a severance pay exceeding 500 thousand lei, and won about 30 thousand lei. And it is not uncommon when high-ranking officials, as well as the leaders of various agencies and a number of regulatory state structures, have official salaries 10 or more times higher than the average wage level in the country.

So far, official statistics has released data only until 2016. But even according to these indicators in 2016, 29.5% of the population had incomes only at the level of 200-1000 lei. Another 39.9% had an income varying from 1000.1 lei to 2000 lei. In fact, more than 2/3 of the population had extremely small amount of monetary funds. At the same time,

we are witnessing the fact that a significant part of our citizens have a luxurious lifestyle. And application of a single rate of 12% in this situation is a disregard for the norms of Christian morality.

Conclusions. Great problems with the formation of an adequate system of taxation of luxury goods and wealth also occur in many other post-soviet states. [3] Nevertheless, today many issues can be solved.

It is well known that the introduction of any tax requires the development of an appropriate concept, including the object of taxation and the amount of the tax rate. The necessary calculations are made, justifications are formulated and risks are estimated.

According to international practice, the introduction of any tax requires the development of a concept in accordance with the principles of fairness and reliability; each new figure in tax legislation concerning the definition of the object of taxation, the amount of the tax rate, is substantiated and confirmed by appropriate calculations, risk assessments.

Luxury is a flashy manifestation of wealth, excess, excessive consumption. Therefore, the subjects of taxation, first of all, should be people with high (excess) income, who are able to pay higher taxes without threatening their economic independence. And these taxes should be established not spontaneously and largely behind the scenes, but with a broad discussion of the expert community, business and civil society. Otherwise, in the future there will be a double tax on housing, and the tax on luxury cars will essentially remain a social benefit. And the fact that only in the years 2014-2018 there were adopted 52 laws, which have made numerous changes to the current Tax Code, cannot be considered normal, as by their unpredictability they largely caused the instability of the economy.

And of course, if the Republic of Moldova wants to become a non-declarative, but a realistic civilized and socially-oriented state, then in the near future it is necessary to return to a multi-level system of taxation of individuals.

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ABSTRACT

Taxation of Wealth and High Income: Features of the Fiscal Policy of the Republic of Moldova.

In countries with developed democracy, the level of taxation of individuals tends to differentiate depending on the amount of income received. At the same time, first of all, special taxes are imposed on luxury goods, elite housing and other attributes of wealth that are inaccessible to the absolute majority of the population. And in parallel, differentiated income tax rates are introduced. During the years of independence, a community of citizens has also formed in Moldova, which in the poorest country of Europe, on the one hand, demonstrates their elitism with high levels of expenditure that emphasize their wealth, and on the other hand, they pay taxes at rates, like the absolute majority of citizens. Attempts to impose taxes on luxury, as in a number of other post-Soviet states, so far largely demonstrate their inefficiency. Moreover, in Moldova, their list and directly the tax rates themselves are reduced. And all this is happening against the background of high corruption in the country for four and a half years, remaining unpunished and unprecedented theft from the banking sector of amounts equivalent to one billion euros. At that time, it was equivalent to 42% of the entire money supply in the country in lei in cash and non-cash forms for individuals and legal entities. Even Western development curators of the Republic of Moldova were forced to admit that the country is a seized state.

And from October 1, 2018, the Republic of Moldova moved to a one-tier system of taxation on income. The article presents the results of studies that demonstrate the inadequacy of the fiscal policy in the field of wealth taxation, which are discordant with the accumulated world experience. The methodological basis of the research is a retrospective analysis of the consequences of the introduction of various forms of the luxury tax in Moldova and tax rates on personal income. The main results of the study are the evaluation of existing forms of wealth taxation, the identification of inefficient and erroneous approaches to solving this problem. This will allow modernizing the current taxation system in accordance with the practice of civilized countries and suggest mechanisms for redistributing the fiscal burden between the richest taxpayers and the rest of the people, both in Moldova and in other countries in the transition economy.

Keywords: *luxury, wealth, real estate, tax code, tax policy, luxury cars, jewelry.*

REZUMAT

Impozitarea averii și a veniturilor mari: caracteristicile politicii fiscale a Republicii Moldova.

În țările cu democrație dezvoltată, nivelul de impozitare a persoanelor fizice tinde să se diferențieze în funcție de suma veniturilor primite. În același timp, în primul rând, impozitele speciale se impun asupra bunurilor de lux, a locuințelor de elită și a altor atribute ale averii care sunt inaccesibile majorității absolute a populației. În paralel, se introduc ratele diferențiate ale impozitului pe venit. Pe parcursul anilor de independență, în Republica Moldova s-a format o comunitate de cetățeni, care, în cea mai săracă țară a Europei, pe de o parte, demonstrează elitismul lor cu niveluri ridicate de cheltuieli ce

pun în valoare bogăția lor și, pe de altă parte, plătesc impozite în rate, precum majoritatea absolută a cetățenilor. Încercările de a impune impozite pe lux, ca și în alte state post-sovietice, până acum demonstrează în mare măsură ineficiența lor. În plus, în Republica Moldova, lista lor și, în mod direct, cotele de impozitare în sine sunt reduse. Și toate acestea se întâmplă pe fundalul corupției înalte în țară, timp de patru ani și jumătate, precum și furtul nepedepsit și fără precedent din sectorul bancar, în valoare de un miliard de euro, ce constituia la acea dată, echivalentul a 42% din întreaga ofertă de bani în țară în lei, în numerar și în alte forme decât cele în numerar pentru persoane fizice și juridice. Chiar și curatorii de dezvoltare occidentală ai Republicii Moldova au fost forțați să admită că țara este un stat confiscat.

În din 1 octombrie 2018, Republica Moldova a trecut la un sistem de impozitare a veniturilor pe o singură linie. Articolul prezintă rezultatele studiilor, care demonstrează inadecvarea politicii fiscale în domeniul impozitării averii, care sunt discordante cu experiența mondială acumulată. Baza metodologică a cercetării este o analiză retrospectivă a consecințelor introducerii în Republica Moldova a diverselor forme de impozit de lux și a ratelor impozitului pe venitul personal. Principalele rezultate ale studiului reprezintă evaluarea formelor existente de impozitare a averii și identificarea unor abordări ineficiente și eronate pentru rezolvarea acestei probleme. Aceasta va permite modernizarea sistemului existent de impozitare în conformitate cu practicile țărilor civilizate și va sugera mecanisme de redistribuire a sarcinii fiscale între cei mai bogați contribuabili și restul populației, atât în Republica Moldova, cât și în alte țări din economia în tranziție.

Cuvinte-cheie: *lux, avere, imobiliare, cod fiscal, politică fiscală, mașini de lux, bijuterii.*