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ASSESSMENT OF THE IMPACT OF THE CURRENT SYSTEM OF PERSONAL INCOME TAX IN THE REPUBLIC OF MOLDOVA

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Income tax is the main type of direct taxes. Calculated as a percentage of the total income of individuals or legal entities, minus the documented expenses, in accordance with applicable law. In some countries, income tax is called only the tax on personal income, and for legal entities they use the terms corporate income tax or income tax. The main advantage of the income tax is that it, more than any other tax, is consistent with the taxpayer's ability to pay.

According to the Law of the Republic of Moldova no. 178 from July 26, 2018, the Parliament of the Republic of Moldova introduced a number of changes to the tax system. This reform is aimed at "stimulating the business environment, increasing the income of the population, reducing the shadow economy and payment of wages "under the table", tax evasion and unreported income" [2].

In accordance with the amendments to the Tax Code [1], Moldova retained the single income tax rate introduced on October 1, 2018 for individuals and legal entities, while it increased from 7% to 12% of the amount of preliminary withholding of payments made in favor of a resident (according to art. 90 of the Tax Code).

Thus, from 2020, persons engaged in entrepreneurial activities, with the exception of holders of entrepreneurial patents and persons engaged in independent activities, each representative office, permanent establishment, institution, organization, including any public authority and public institution, withholds the amount of tax as part of the tax, 12% of payments made in favor of an individual, with the exception of holders of entrepreneurial patents, individual entrepreneurs and peasant (farmer) households and other persons specified in the legislation. At the same time, the amount of 12% of payments made in favor of an individual is not withheld on income received by him in accordance with articles 20, 88, 89, 901 and 91 from the alienation of vehicles, alienation of securities, as well as from the amount of lease of agricultural land and/or alienation of capital assets of natural persons - citizens of Moldova in accordance with leasing agreements, leaseback agreements, pledges, mortgages and/or in cases of compulsory alienation of capital assets, and in case of liquidation of an economic entity - from liquidation payments in non-cash form.

According to research from 2019, carried out by Friedrich-Ebert-Stiftung Moldova in collaboration with Syndex [3]: "The tax reform has only deepened wage inequality. The impact of the reform on net wages was quite different depending on the level of wages. Thus, an employee with a minimum wage in the economy, after the reform, began to earn 2.6% more than the net salary (net), while for an employee with a gross salary of 4,000 MDL, the impact was negative, losing 5 MDL from the net salary. As a result of the reform, employees with an income of up to 6000 MDL gross earned less than 100 MDL of their net salary - their net income increased by less than 2%. In the context of this tax reform, in which one of the stated goals was to limit the outflow of labor from the country, it is highly doubtful that an increase in income of 37 MDL per month for an employee with a gross salary of 5000 MDL will have any effect in this regard. On the other hand, for employees with a gross salary of over 10,000 MDL, the net salary increased by more than 4% after the reform, and for those with a gross salary above 26,000 MDL - by more than 6%. In other words, the net income of workers with high wages increased not only in MDL, but also in percentage terms more than the income of workers with low wages, which has a very clear effect - the deepening of income inequality".

Top countries in terms of income tax rate: Today the highest income tax rate is in Aruba - 58.95%. Social taxes: the main pension contribution is 9.5% of the salary paid by the employer, 4% by the employee. Disability insurance costs from 0.25% to 2.5%, depending on the industry. Sickness insurance payments - 8.9% for the employer, 2.6% - for the employee. The total amount of social tax can be 27.5% of wages.

The high income tax rate is in Sweden - 56.6%. The working person must pay social tax of 7%. Sweden also has a tax on investment income of 30%. All proceeds from taxes received are distributed in Sweden's generous social system, including education, health care, public transport, as well as fantastic citizens' pensions. Average income is US $ 48,800 per year.

The personal income tax rate in Ireland (48%) is higher than the average rate in the whole of Northern Europe (40%). Irish people are additionally required to pay social tax of 4%.

The high income tax rate is in UK - 45%. In 2010, the UK raised its income tax by 10%, which was 50%, but since April 2013 it has been reduced and now the income tax is 45%. Social tax is 13.8%. Income tax is the main tax collected by the government. The tax is progressive, that is, it depends on the amount of income. The original amount of income is tax deductible for all individuals.

Also, high personal income tax rates are in: Denmark - 55.4%, Netherlands - 52%, Austria - 50%, Belgium - 50%, Japan - 50%, Finland - 49.2%.

Also, there are countries where the income tax rate is zero. They are: United Arab Emirates, Qatar, Oman, Kuwait, Cayman Islands, Bahrain, Bermuda, Bahamas, Burundi, Monaco, Somalia, Republic of Vanuatu.

Conclusion: According to the international practice, the introduction of any tax requires the development of a concept in accordance with the principles of fairness and reliability. Every new level in the tax legislation need to be discussed and confirmed by appropriate calculations with the analysis of all risk assessments.

In many countries, citizens find the tax system complex and ineffective and would like to simplify it. However, the perception of complexity changes when it is driven by fairer redistribution: simple solutions will not provide fairness.

References:

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