

## International Tax Moldova Highlights 2017



### Investment basics:

**Currency** – Moldovan Leu (MDL)

**Foreign exchange control** – Resident and nonresident legal entities are obliged to receive and/or make payments and transfers involving foreign currency operations through their bank accounts. There are certain limitations on when such entities may use cash or payment instruments to perform foreign currency operations.

**Accounting principles/financial statements** – IFRS is mandatory for entities of public interest (i.e. financial institutions, investment funds, insurance companies, private pension funds and societies whose securities are traded on the stock exchange). Other companies may apply IFRS or National Accounting Standards (NAS).

**Principal business entities** – These are the limited liability company, joint stock company, partnership, sole proprietorship, branch and representative office of a foreign corporation.

### Corporate taxation:

**Residence** – A corporation is resident if it is established or managed in Moldova.

**Basis** – Residents are taxed on their worldwide income; nonresidents are taxed only on income derived from certain Moldovan sources.

**Taxable income** – The accounting income for the year is the basis for calculating the taxpayer's annual taxable income. The accounting income is adjusted for tax purposes for items specifically provided by the Tax Code.

**Taxation of dividends** – Dividends received by a Moldovan resident company from another Moldovan company are not taxed at the level of the recipient.

**Capital gains** – Capital gains of companies are taxed as ordinary income, but only 50% of the gain is considered for tax purposes.

**Losses** – Corporate tax losses may be carried forward for five years following the year the losses were incurred. The carryback of losses is not permitted.

**Rate** – 12%. However, business entities not registered as VAT payers, except farmers and individual entrepreneurs, may calculate income tax by applying a 3% rate to their operating income.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Resident taxpayers are entitled to a tax credit for the tax paid on foreign income; the credit is limited to the amount of Moldovan tax that would have been imposed on the foreign profits.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Tax incentives are available for farmers, business entities engaged in software development, business entities that increase the number of employees and those operating in free-economic zones.

### Withholding tax:

**Dividends** – Dividends paid by Moldovan resident companies to both residents and nonresidents are subject to a 6% tax, unless the rate is reduced under an applicable tax treaty.

**Interest** – Interest paid to a nonresident is subject to a 12% withholding tax, unless the rate is reduced under a tax treaty.

**Royalties** – Royalties paid to resident individuals and nonresidents are subject to a 12% withholding tax, unless the rate is reduced under a tax treaty.

**Technical service fees** – Service fees paid to nonresidents are subject to a 12% withholding tax, unless the rate is reduced under a tax treaty.

**Branch remittance tax** – No

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – The employer is responsible for calculating, withholding and paying the personal income tax (progressive scale of 7% and 18%), the employee's pension fund contribution (6%) and the employee's health insurance contribution (4.5%).

The social fund contribution (23%) and health insurance contribution (4.5%) represent costs of the employer (see "Social security," below).

**Real property tax** – Residents and nonresidents that own immovable property in Moldova must pay real property tax at rates set annually by the local public administration authority. The rate may not be less than 50% of the maximum rate stipulated by the law.

**Social security** – Contributions borne by the employer are calculated as a percentage of the employee's gross salary for social security (23%) and health insurance (4.5%).

**Stamp duty** – Stamp duty may be applied for claims submitted to the court of justice, registration of mortgages, notary acts, etc.

**Transfer tax** – Transfer taxes are charged upon notary authentication of transactions related to the transfer of property. The tax ranges from 0.1% to 1.3%, applied to the value of the authenticated transaction.

#### Anti-avoidance rules:

**Transfer pricing** – There is no specific transfer pricing legislation in Moldova, although the tax code provides that the arm's-length principle should be applied to transactions with related parties. In addition, the losses incurred as a result of transactions between related parties are not deductible for corporate tax purposes.

**Thin capitalization** – The deduction of interest on borrowings received from individuals and legal entities, other than financial institutions, micro-financing organizations and leasing companies is allowed only within the limit of the average weighted rate set by the National Bank of Moldova for loans granted by the banking sector to legal entities.

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### Compliance for corporations:

**Tax year** – Calendar year. For a new company, the tax year is the period from the date of registration until the end of the calendar year. A company-member of an international group may apply a tax period different from the calendar one, which corresponds to its financial reporting period, provided the tax authority has been notified of this beforehand.

**Consolidated returns** – Consolidated returns are not permitted; each company must file its own return.

**Filing requirements** – Moldova operates a self-assessment regime. The tax return must be submitted by the 25th day of the third month following the end of the tax year.

**Penalties** – Penalties apply for late filing, failure to file and/or tax avoidance/evasion.

**Rulings** – The taxpayer may request "comfort letters" from the tax authorities. Comfort letters are submitted to taxpayers free of charge. Advance individual tax rulings may also be requested from the tax authorities. The deadline for issuance is 90 days from the date of submission of the request to the tax authorities. The fee for issuing an advance individual tax ruling is MDL 60,000 for large taxpayers and MDL 30,000 for other categories of taxpayers.

#### Personal taxation:

**Basis** – Resident individuals, both Moldovan citizens and foreigners, are taxed on their income related to the activities performed in Moldova. Moldovan citizens also are taxed on the financial income and investment income obtained from sources outside Moldova. Nonresidents are taxed only on their Moldovan-source income.

**Residence** – An individual is resident if he/she is domiciled in Moldova or present in Moldova for more than 183 days during the tax year.

**Filing status** – Each individual must file a return; joint returns are not permitted. Individuals working for only one employer, and those who do not derive income other than salary income, are not obliged to file a return.

**Taxable income** – Taxable income represents the gross income obtained from all sources during the tax period, reduced by the deductions and allowances permitted by law. Gross income comprises, but is not limited to, salary/wages, benefits, rents, capital gains, royalties and annuities.

**Capital gains** – Capital gains of individuals are treated as ordinary income, but only 50% of the gain is

considered for tax purposes. The capital gain on the disposal of a private residence where the taxpayer has lived and which has been owned by the taxpayer for at least three years before the disposal is tax exempt.

**Deductions and allowances** – Personal allowances are available to the taxpayer and his/her spouse, children and dependents. Deductions are granted for medical insurance and individual social security contributions.

**Rates** – Tax rates of 7% and 18% are imposed.

**Other** – Resident individuals carrying out trade activities without being organized under a legal form are liable to pay an annual tax of 1% applied to the amount of income derived from such activities but not less than MDL 3,000.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty may be applied for the registration of civil status documents of domicile, of mortgages, for notary acts, etc.

**Capital acquisitions tax** – No

**Real property tax** – Residents and nonresidents that own immovable property in Moldova must pay real property tax at rates set annually by the local public administration authority. The rate may not be less than 50% of the maximum rate stipulated by the law.

**Inheritance/estate tax** – Moldovan residents are not taxed on the inheritances they receive.

**Net wealth/net worth tax** – A wealth tax is applied to individuals who own real estate in Moldova (except for land), the estimated value of which is equal to or greater than MDL 1.5 million and the area of which is equal to or greater than 120 square meters. The wealth tax rate is set at 0.8% of the value of the real estate and the tax must be paid by 25 December of the current tax period.

**Social security** – Employees must contribute to the social security fund an amount equal to 6% of their gross salary. Employees also must make health insurance contributions at 4.5% of gross salary. The contributions are deductible for income tax purposes.

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – The deadline for filing and payment of the personal income tax is 30 April of the

subsequent fiscal year. For salary income, the employer withholds tax on behalf of the employee and files monthly tax reports.

**Penalties** – Penalties apply for late filing, failure to file and/or tax avoidance/evasion.

#### Value added tax:

**Taxable transactions** – VAT is levied on the supply of goods, the provision of services and the import of goods and services into Moldova.

**Rates** – The standard rate is 20%. A reduced rate of 8% is applied to certain food products; drugs; biofuels used for heating and hot water production; and specific phytotechnical, horticultural and zootechnical products. International transportation and exports are taxed at a 0% rate. Certain items (financial services, post services, cars, land and dwellings, etc.) are VAT exempt.

**Registration** – Registration for VAT purposes is mandatory when a business entity carries out taxable supplies and imports VAT-taxable services during a consecutive 12-month period in an amount that exceeds MDL 600,000. A business entity may apply for voluntary registration if it plans to carry out VAT-taxable supplies.

**Filing and payment** – VAT payers must prepare and submit VAT returns on a monthly basis. The filing and payment of VAT must be carried out no later than the 25th day of the following month. Notwithstanding the above, VAT related to imported services must be paid on the date of the service payment, and VAT on imported goods must be paid before the goods clear customs.

**Source of tax law:** Tax Code of the Republic of Moldova

**Tax treaties:** Moldova has 48 double tax treaties in force.

**Tax authorities:** The Principal State Fiscal Inspectorate, territorial state fiscal inspectorates

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