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THE IMPACT OF VAT AND EXCISE TAXES ON SOME ECONOMIC PROCESSES

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Abstract. *International experience shows that there is a stable relationship between the level of economic development of a country and the tax burden on the economy. Economically more developed countries can redistribute through the budget a large share of the national product produced in their economy. The maximum possible level of tax collection is determined by many factors depending on the level of socio-economic development of the country.*

Indirect taxes, especially VAT and excise taxes, are of great socio-economic importance and play an important role in the life of Moldova. Firstly, they are a significant source of state revenue, their share in the budget is significantly higher than the share of direct taxes. In the Republic of Moldova, the share of indirect taxes in budget revenues has varied by about 45% for many years, and the share of VAT alone exceeds 32%. Consequently, the amounts of accumulated indirect taxes redistributed through the budget have an impact on everything that is financed from the budget of Moldova.

Indirect taxes also have an impact on the level of consumer prices, significantly increasing them for certain groups of goods (for example, fuel and tobacco products), therefore they are a factor in regulating the level of inflation, a means of influencing the dynamics and level of prices in the country. Thirdly, the system of collecting VAT and excise taxes affects production, the service sector (especially trade), the level of consumption, foreign economic activity, contributing to their growth or, conversely, reduction, that is, it allows you to regulate the movement of spheres of commodity circulation in accordance with the development goals of the state. All this determines that the problems of improving the taxation of VAT and excise taxes are currently extremely relevant for Moldova.

Keywords: taxes, VAT, excises, tax evasion, tax burden

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One of the main problems in the field of indirect taxes from the point of view of taxpayers is the high level of rates and tax burden on indirect taxes, especially VAT and excises. The standard value added tax rate in the Republic of Moldova is 20%, while the world maximum registered in Hungary is 27%. These are the data of the consulting company KPMG.

The VAT rate in our country is comparable to the rates in Armenia, Albania, Austria, Belarus, Bulgaria and Great Britain, while in Croatia and Denmark it is 25%, in Iceland it is 23%, and in Italy the rate is 21%. The consulting company notes that on a global scale, the VAT rate averages 15.5%, in the EU - 22.24%, in Eastern Europe - 20.05% [3]. European countries have the highest value-added tax rates in the world, which is associated with their increase during the sovereign debt crisis in the hope of balancing budgets.

In neighboring Romania, VAT is 24%, the rate was increased from 19% a few years ago. In addition to the standard rate, Romania applies a reduced rate of 9% for books and 5% for the sale of new apartments of less than 100 square meters. In Greece, Poland, Portugal, Finland, VAT is

applied at a rate of 23%, in Latvia - 22%, in the Czech Republic, Estonia, Italy, Austria, Slovenia, Slovakia and the UK - 20%.

One of the important issues related to VAT is the issue of its scope. From an economic point of view, in order to meet the criteria of equality and neutrality, the ideal VAT as a consumption tax should be levied on all household consumption, including self-produced goods and services. But from the point of view of tax administration, the presentation of value added tax described above distorts its nature, since VAT is not a tax on individuals, but is a tax on consumer spending and its collection ends at the stage of retail sales of goods, regardless of the type of goods. Here a dilemma arises for the state - on the one hand, it is fair to tax as many taxpayers as possible (that is, everyone who sells goods and services), on the other hand, small entrepreneurs who bring very little income to the budget and at the same time are potential firms - ephemeral, divert a lot of budget funds for their administration.

Export of goods and services is exempt from VAT with the right of deduction, which is a measure to stimulate export operations. The difference between this regime and a simple exemption from VAT without the right of deduction is that in the case of the right of deduction, it provides for the reimbursement of VAT previously paid to suppliers on inventory items purchased for the production of goods and services sold for export. At the same time, a very important stimulating factor for exporters is the actual receipt of VAT refunds in a bank account.

The main problem associated with the reimbursement of VAT from the budget is delays in the transfer of funds from the budget or a complete denial of reimbursement to many taxpayers, which is a consequence of both problems with the diversion of financial resources from the budget, and the fact that cases of abuse by the subjects of this benefit, which makes the tax service distrustful of all taxpayers, suspecting them of tax evasion through the illegal use of tax benefits. Therefore, for exporters, the reimbursement procedure often stretches for months, instead of the 45 days provided for by the Tax Code.

But the negative consequence of the diversion of non-reimbursable funds from the turnover of enterprises is the deterioration of their financial condition and liquidity.

The VAT refund system is very important for bona fide exporters, but generates (like the whole system of tax incentives) the possibility of fraud and violations. In general, the problem of fraud in the VAT refund system is worldwide. Exporters are exercising their right to a refund, presenting false documents for allegedly purchased materials and components, and claiming a refund of VAT that was never paid.

Therefore, a dilemma arises: is it necessary to speed up the process of VAT refund and increase the risk of its refund on forged acts and documents, or should each case be more thoroughly investigated, as a result, extending the time for consideration of relevant claims for conscientious taxpayers as well.

Based on international experience, it is possible to significantly reduce the volume of violations and fraud in the field of VAT refunds by combining the system of calculating and paying VAT, as well as paying income tax on the wages of employees of exporting enterprises and contributions to off-budget funds (for example, to the budget of the state social insurance).

Instead of refunding VAT in cash, exporters are offered tax certificates that can be used to pay deductions to these funds and to the budget for income tax. The facts of fraud will not

completely disappear, but their number may decrease significantly. Income tax and contributions to off-budget funds make up a significant part of the payments paid by any company. In most cases, the amount of VAT recoverable does not exceed the amount of these payments. Thus, the integration of VAT refund and wage taxation systems will lead to a reduction in tax evasion.

The impact on the level of budget revenues from VAT is the problem of the effectiveness of the administration of value added tax. In our country, VAT evasion has become widespread through the use of one-day firms (phantom firms), as entrepreneurs believe that the VAT tax burden is excessive. For many years they have been proposing to reduce it, but the Ministry of Finance, given the importance of VAT for the budget and the rather tense state of public finances (especially in recent years, given the crisis in our economy), does not go to reduce the main VAT rate.

In the Republic of Moldova, the structure of the relationship between direct and indirect taxes in the tax system differs markedly from most developed countries, and the fiscal function of the tax system comes to the fore. This gives rise to such a phenomenon as tax evasion, especially indirect ones. Although it is believed that indirect taxes are passed on to consumers and, therefore, do not greatly affect producer taxpayers, due to the fact that these taxes are paid in most cases even before the sale of goods to final buyers, the burden of paying them directly affects most economic agents.

That is why they try to evade indirect taxes in every possible way. For VAT, they usually use schemes with phantom firms (one-day companies) and non-reflection in the accounting of turnover through non-penetration of checks to underestimate the turnover of the enterprise, for excises - smuggling and falsification of excisable products. All these methods are well known to tax inspectors, therefore, it is precisely to combat these phenomena that their attention is most often directed. Thus, it can be said that the main problem for VAT is tax evasion. Therefore, all attention should be directed to improving tax legislation and eliminating loopholes that allow taxpayers to minimize this tax. At the same time, we should not forget that often law-abiding taxpayers fall under the pressure of the tax authorities when the fight against tax evasion is tightened.

In order to combat tax evasion (on imports) and smuggling, care should first be taken in assessing the likely impact of higher tax rates on smuggling, especially on excisable goods. Problems often arise when an increase in a country's tax rates results in rates that are substantially higher than in neighboring countries, thereby increasing both the incentives to smuggle goods and the profitability of the activity.

The use of excises very often leads to evasion of their payment and falsification of excisable products due to the high tax burden on this tax. The most reliable protection against counterfeit alcohol is an excise stamp. According to the current legislation, this distinctive sign is part of the mandatory marking. He confirms that the excise tax has been paid to the state, and the products themselves have been certified and meet the established quality standards. The excise stamp must contain information about the manufacturing plant, the date of issue and the number of the stamp itself.

In the process of administering excises in the Republic of Moldova, the tax office faces the problem of falsification of alcoholic products and thus excise evasion. In the fight against this phenomenon, methods such as labeling alcohol products with excise stamps and establishing stationary tax posts at enterprises producing strong alcohol are used. But, despite the application

of these measures, the process of excise evasion continues to be an important problem in the tax system of the Republic of Moldova.

The obligations assumed by Moldova to bring the level of excises on tobacco products to the European level also lead to negative consequences in the form of smuggling. To a large extent, the increase in excise revenues over a number of years is the result of an annual increase in excise rates in Moldova, experts emphasize. Some of them perceive this fact unambiguously positively, others note the disproportionate ratio of budget revenues from direct and indirect taxes in Moldova.

A significant burden of indirect taxes leads to a high cost of our products, which, taking into account open markets and trade liberalization, leads to a significant decrease in the competitiveness of Moldovan products, not only in world markets, but even in the domestic one. Despite the fact that the labor force in Moldova is quite cheap, this leads to a constant diversion of working capital and, as a result, the low competitiveness of our products.

International experience in the application of excises testifies to the successful practice of its use in the fight against some negative socio-economic phenomena, such as, for example, the consumption of goods that are harmful to health (alcohol products, tobacco products) by the population. In Moldova, alcoholic products are excisable, as in many countries of the world.

However, the excise policy applied in recent years, aimed primarily at a constant increase in government revenues through indirect taxes, not only did not contribute to a reduction in the consumption of strong alcoholic beverages, but at some stages of the economic development of the alcohol industry led to a decline in legal production while simultaneously increasing sales of illegal alcohol.

As a result, in practice, an increase in excise rates led to the opposite effect: budget revenues decreased due to a decline in legal production, in addition, the qualitative structure of alcoholic beverages consumed by the population deteriorated sharply, which undoubtedly had a negative social result.

The current system of excise duty on strong alcohol is convenient for the state, as it guarantees that the tax will be collected. But it is very difficult for enterprises today, since they pay excise duty and VAT when buying raw materials (alcohol). The manufacturer will receive their return after manufacturing, certification, delivery of products to trade and sale. Paying these taxes in advance, the business credits the state. For example, buying 10 tons of alcohol (one car), you immediately need to transfer about one million lei of excise tax to the state budget. Not every company can withstand such a financial burden. When an entrepreneur takes out a loan to pay taxes, it means the beginning of the collapse of his business.

Entrepreneurs are asking the Ministry of Finance to review the system of administration of excise duty and VAT in their industry. In other countries, excise duty is paid after a certain period after the sale of products (as well as VAT). An increase in excise tax rates as one of the tools for maximizing budget revenues is used most often when additional financial resources are needed to reduce the budget deficit. But raising the excise rate is not the main way to improve excise taxation and increase the value of the regulatory function of this tax. On the contrary, occasionally such an increase has the opposite effect - a high excise tax undermines the production of legal producers, increases smuggling, stimulates the emergence of shadow production and falsification.

As a result, the country suffers economic and social losses: the country's budget does not receive the expected high incomes, the structure of goods consumed by people worsens. And the point here is not only the imperfection of our tax legislation. Thus, as a result of studying the practice of applying excise taxes on alcoholic beverages, it can be concluded that the main reserves for increasing the collection of this tax should be sought not in the field of improving tax legislation and increasing the excise rate, but in the suppression of illegal production and turnover of excise products.

One of the main topics in the field of excise taxes this year is the increase in excise taxes on tobacco products, bypassing the previously established excise calendar. Nevertheless, despite the arguments and proposals of relevant associations and local producers, the increase in rates was adopted by parliament. The situation is aggravated by the fact that these changes provide for the establishment of new excise rates for a separate group of tobacco products - cigars and cigarillos. Namely: 41% of their value, but not less than 959 lei (in 2022) and 41%, but not less than 1103 lei (in 2023). Thus, it is implied that the excise taxes of the cigar and cigarilla group are equalized with the excise taxes on cigarettes. The authors of the amendments have one argument: the increase in excise taxes is based on our country's obligations to harmonize legislation with the European one.

This provides for an Agreement on associate membership in the EU, on the basis of which Moldova pledged to increase tobacco excise taxes by 2025. However, industry experts clarify: European legislation assumes differentiated taxation of various groups of tobacco products. Thus, in accordance with Directive 2011/64 /UE, the minimum excise tax on cigarettes should be at least 90 euros per 1 thousand pieces, for cigars and cigarillos – 5% of the retail price or 12 euros per 1 thousand pieces, and for thin-cut tobacco for rolling cigarettes - 60 euros per 1 kg [4].

In Moldova, there is a tendency for a rather superficial interpretation of European legislation and a change in the already established rules of the game, lobbying someone's interests, and not for the first time. For example, the excise tax on thin-cut tobacco for rolling cigarettes in 2019 was brought in accordance with the European norm - 1.2 thousand lei (about 60 euros). Whereas excise rates on cigarettes will be equated to European ones only by 2025. According to market operators, after a sharp increase in the excise tax on thin-cut tobacco, this type of product was practically not imported. Accordingly, the budget has lost significant amounts of tax revenue – about 30 million per year.

Now a situation is being created when an erroneous interpretation of European norms removes local producers from the market — those whose share of cigarillo production has only recently begun to grow slightly.

And not at all due to the fact that they allegedly took away part of the volumes from international corporations. On the contrary, the appearance of cigarillos - a new and affordable category of tobacco products - has pulled over part of the illegal cigarette market, ensuring an increase in tax revenues by reducing the consumption of shadow products. This is also proved by market analytics, according to which the volume of the illegal market has significantly decreased over the year.

According to domestic processors, the tax model applied in Moldova since 2011 has been beneficial mainly to importers, as it has always contributed to a sharp rise in the price of low-budget tobacco products.

Such an example is given. As you know, the excise tax on tobacco products consists of two components — a fixed part for 1 thousand pieces and an ad valorem part, which provides for a certain percentage of the retail price. The constant growth of the fixed part leads to a significant increase in excise taxes, and hence the final price of local cigarettes, which, as a rule, were positioned in the low-price segment. If in 2013 the fixed part for 1 thousand cigarettes was 75 lei plus 24%, then in 2016 the excise tax was already 300 lei per 1 thousand pieces plus 12%. And since 2016, the annual increase in excise rates has concerned exclusively the increase of a specific component. Whereas the ad valorem part has grown by only 1% over the years. This factor, as well as the fact that a minimum excise tax was also introduced five years ago, led to a price war, which turned out to be not in favor of local producers. Thus, in just one year, the cost of premium cigarettes from three major importers decreased by 8 lei. As a result, local producers were taken out of the game, and the state missed significant budget revenues.

In 2020, the excise tax rate on cigarettes with a filter and without a filter was equalized (540 lei per 1 thousand pieces, plus 13% of the cost), which sharply increased prices for the entire filter-free range. This left no doubt that the local manufacturer would finally lose the market, which would come under the control of multinational corporations, as well as increase the share of the illegal segment. In such a situation, the only "lifeline" turned out to be cigarillos, the excise tax on which has remained relatively stable over the past 10 years.

The current excise tax on cigarettes in Moldova is 621 lei plus 13%. According to experts, such a tax burden is extremely beneficial to suppliers of expensive tobacco products. So, in 2021, the share of excise taxes in a pack of cigarettes worth 40 lei is 44%, while in a pack of cigarettes for 30 lei — 56%. In 2022, the share of excise taxes in a pack of expensive cigarettes will decrease even more. It turns out that the poor pays for the rich. If we compare the taxation of the same cars, then the more expensive the car, the higher the tax, and vice versa. According to the latest changes in tax legislation, the excise tax on cars is calculated on a progressive scale, i.e. the more powerful the car engine, the higher the excise tax rate per 1 cubic cm of capacity. Why should the tobacco market be taxed on a different principle?

Everyone understands that tobacco products belong to a special commodity category, but whatever the differentiation of the excise tax, the consumer will eventually pay for it. At the same time, the importer will benefit: his tax burden is limited to the payment of excise duty and VAT, and all profits of foreign corporations are withdrawn from the country. While the local producer leaves investments in Moldova, directing them to the development of the enterprise and the human factor. For the first time in many years, processors were able to revive local production and increase investment in their core asset. If the ground is knocked out from under their feet, they are unlikely to be able to rise again.

According to local tobacco manufacturers, in the absence of a protectionist state policy, it will be easier for manufacturers to close enterprises and establish contract production in any other country. It is much calmer and easier for them to import products to Moldova without worrying about the development of factories, production costs in the form of wages, purchase of raw

materials, modernization of production lines, logistics, and so on. Under the conditions of the game that are being imposed on the tobacco market today, it is easier to withdraw dividends from the country than to attract them as foreign investments in the industry. Why invest money in a market that lobbies for the interests of importers. But this is a flawed model that moves the national economy to collapse. The correct model of any state is based on political will that protects the interests of its producers.

A common disadvantage not only of indirect taxes, but also of the tax system of our country as a whole, is some unpredictability of tax legislation and, consequently, the complexity of doing business, for which it is necessary to know the conditions of activity in advance. Most often, changes to legislation are aimed at ensuring stable and sufficient budget revenues necessary to finance public expenditures; ensuring clear, fair and stimulating conditions for the development of the entrepreneurial and investment environment; creating a socially oriented state; fair distribution of income and social responsibility; improvement and simplification of national taxation mechanisms.

Conclusions

In conclusion, we can formulate some proposals for improving the system of collecting VAT and excise taxes:

1. to lower the tax burden on indirect taxes in order to reduce the scale of tax evasion, but in parallel with tightening control over the operations of tax subjects;
2. streamline and simplify the system of VAT and excise tax refunds, especially for exporters, which will contribute to the economic development of not only these enterprises, but also the country as a whole. Eliminate unjustified bureaucratic barriers related to the procedure of VAT and excise reimbursement. The procedure for VAT and excise tax refund should be carried out in a strictly defined period, which will have a positive impact on the economic activity of exporters and investors, as well as stimulate the inflow of financial resources to our country;
3. to streamline the various provisions of the Tax Code regarding VAT and eliminate the existing internal contradictions. It is necessary to strive to ensure that VAT is easy to calculate and pay. To do this, it is necessary to change the rules for processing tax invoices, unify the rights to tax deductions in various situations and exemption from taxation, clarify many formulations of the Tax Code that can be interpreted ambiguously and that create problems for both taxpayers and tax officials;
4. to make more extensive use of cross-country cooperation in combating indirect tax evasion (exchange of information on the volume of foreign economic transactions, joint fight against smuggling, etc.).

But in conclusion, it can be noted that the fight against indirect tax evasion will be more effective the more taxpayers will see the return on the funds they pay to the state in the form of taxes. That is, when the system of public spending will bring great benefits to the whole society, then taxpayers will be more willing to fulfill their tax obligations, in our opinion.

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