



Tax Administration Modernization Project (P127734)

EUROPE AND CENTRAL ASIA | Moldova | Governance Global Practice |
IBRD/IDA | Investment Project Financing | FY 2016 | Seq No: 5 | ARCHIVED on 28-Feb-2019 | ISR34975 |

Implementing Agencies: Republic of Moldova, Main State Tax Inspectorate

Key Dates

Key Project Dates

Bank Approval Date: 06-Jun-2016	Effectiveness Date: 25-Jan-2017
Planned Mid Term Review Date: 30-Sep-2019	Actual Mid-Term Review Date: --
Original Closing Date: 31-Dec-2021	Revised Closing Date: 31-Dec-2021

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

To improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

Name

Tax policy reform:(Cost \$1.50 M)
Institutional development:(Cost \$1.20 M)
Operational development:(Cost \$1.30 M)
IT Infrastructure and system modernization:(Cost \$15.00 M)
Project management and change management:(Cost \$1.00 M)

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Moderately Unsatisfactory	● Moderately Unsatisfactory
Overall Implementation Progress (IP)	● Moderately Unsatisfactory	● Moderately Unsatisfactory
Overall Risk Rating	● Substantial	● Substantial

Implementation Status and Key Decisions

The project became effective on January 25, 2017. The project is meant to support the implementation of an automated risk-based approach to maximize revenue collection, promote open interaction with taxpayers, and develop a fair, taxpayer-friendly approach to addressing taxpayer grievances. This will allow the State Tax Service (STS) to focus on non-compliant taxpayers, including businesses that avoid paying taxes while reducing compliance costs for taxpayers. The project will also finance the acquisition of a modern revenue management IT system. The long-term vision supported by the project is the creation of client-oriented tax administration. The modernized tax administration will improve the business environment and the country's competitiveness. Implementation of the project was delayed due to insufficient project staffing and delays in decisions about how to go forward with the IT system. The STS established a designated Project Implementation Division and conducted a



Feasibility Study on possible solutions for the integrated ITMS, which was positively evaluated by an independent international consultant. The project is under restructuring which is expected to be complete by the end of Q1 of 2019 calendar year.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● High	● Substantial	● Substantial
Macroeconomic	● High	● Substantial	● High
Sector Strategies and Policies	● Substantial	● Substantial	● Substantial
Technical Design of Project or Program	● Substantial	● Substantial	● Substantial
Institutional Capacity for Implementation and Sustainability	● Substantial	● High	● High
Fiduciary	● Substantial	● Substantial	● Substantial
Environment and Social	● Low	● Low	● Low
Stakeholders	● Moderate	● High	● High
Other	--	--	--
Overall	● Substantial	● Substantial	● Substantial

Results

PDO Indicators by Objectives / Outcomes

To improve revenue collection				
► Overall efficiency of VAT collection (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	52.30	--	49.60	54.70
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	<p>The target value for 2018 (52.7%) . The result level reflected in this ISR is for 9 months of 2018. The results for 12 months 2018 will be provided as soon as the information about final consumption will be published by the National Bureau of Statistics (not earlier than March 2019). There were some legal changes which may impact the end year results: According to the changes introduced in tax legislation, the VAT rate for the following taxable objects was decreased from 20% to 10%: - for accommodation services, regardless of the category of hotel comfort, hotel, apartment, motel, tourist villa, bungalow, tourist pension, agritourism boarding house, camping, holiday village or holiday camp for economic agents consists of accommodation and catering; - in respect of foodstuffs, excluding goods subjects to exercise duty, delivered by economic operators whose business activity consists of accommodation and/or catering.</p>			



Proposed to be excluded during the project's restructuring. The support will be provided by the IMF's ongoing program. TAMP will have no direct impact to achieve this indicator. This is a new development in comparison to the time of the project preparation.

▲Efficiency of VAT collection by STS (Percentage, Custom Supplement)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	11.06	--	43.00	12.54

To improve tax compliance

▶Share of active taxpayers filing income declarations in total registered taxpayer (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	19.35	--	0.00	24.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021

Comments:

The value of the indicator cannot be determined since the deadline for submission of the income statement has not expired.
According to the Fiscal Code's provisions, taxpayers (legal entities, individuals who carry out entrepreneurial activity, self-employed persons) have the obligation to submit the income tax return until 25 March of 2019 year for tax period 2018. Thus, the results for 2018 could be provide not sooner than April 2019.

To make the description clearer and to increase annual target levels based on achieved results in 2017 during the project restructuring: *Share of active taxpayers (legal entities) filing income declarations in total active taxpayer (legal entities) (Percentage)*.

The STS aims to increase the number of submissions by economic agents that are active and are about to file tax returns. The indicator will be measured: Ratio of active taxpayers-economic agents (legal entities) filing income taxes to all active taxpayers (legal entities).
The STS cannot obtain reliable information related to individual entrepreneurs who are required to file income declarations before the system that could generate such a data is in place. Due to that fact, the STS has understood since the time of project preparation that this indicator aims to measure legal entities only. Therefore, the STS requested to clarify the indicator's description, as well as to increase annual target levels to reflect recent development.

▶Increase in additional tax assessed per audit (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	8.70	34.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021

Comments:

The target level for 2018 year (+15%) was not achieved (actual was +8.7%) due to legal changes.
The Law no. 180 of 26.07.2018 On Voluntary Declaration and Tax Incentive significantly limited audits on the correctness of the calculation, declaration and payment of taxes, duties and other payments related to NPB. Those audits are not allowed anymore for tax periods until 1 January 2018.

To adjust annual target levels, except the end target level. during the project's restructuring.
Proposed adjustment is needed considering the delay with the implementation of the ITMS and recent legal changes. Also, to clarify that the annual targets are measured as % increase against the baseline (not year on year increases).

To improve taxpayer services



►Time required to comply with taxes (Hours, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	186.00	--	181.00	165.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	The target level for 2018 year was achieved. To adjust the annual target levels during the project's restructuring to reflect the extension of the project's closing date.			

Overall Comments

The Project's Development Objectives (PDO) will remain relevant after the restructuring. Accordingly, the PDO will not be revised. However, some changes of TAMP indicators to reflect proposed restructuring and recent developments are necessary and have been agreed. Proposed changes to the originally planned results framework are reflected in this ISR for each relevant indicator. In addition, Disbursement Linked Indicators (DLIs) have been identified.

The choice of DLIs considers the practical aspects of measuring, monitoring and verifying achievement of the TAMP's results. There are two DLIs which will reflect the MoF's achievements in tax policy reform and three DLIs to measure the progress achieved by the STS in strengthening tax administration and institutional development. The DLIs related to the tax policy reforms are: (i) increased excise rates by minimum 15 percent for tobacco products for the year 2021; and (ii) supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle. These are expected to contribute to the part of the PDO related to improving tax collection. DLIs which will reflect the result of the STS's activities aimed at improving taxpayer services, compliance and strengthening the STS's institutional and staff capacity are: (i) improving the usability of the STS's website; (ii) strengthening the capacity of STS staff to deliver taxpayer services; and (iii) introducing an Electronic Taxpayer Survey Tool.

All proposed DLIs are scalable and verifiable. The MoF will provide appropriate draft laws, final laws approved by the Parliament and links on the official publications of those documents to the Bank for verification. The STS will share adopted Orders and develop specific reports, which will then be reviewed and verified by the Bank team. If need be, the Bank at its discretion may engage an external reviewer to support in the verification process.

Intermediate Results Indicators by Components

Tax policy reform



►Decrease in tax arrears (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	8.50	--	6.14	7.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	The target level for 2018 was achieved. During the project's restructuring to adjust the annual target levels to reflect the project's extension.			

Operational development				
►Share of large taxpayer audits which includes related parties, when related parties exist (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	10.30	35.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	A target level for 2018 was achieved (6 out of 58 audits of taxpayers that have related parties, were done). To exclude during the project's restructuring. The achievement of this indicator will be fully assisted by the IMF's Revenue Management Project, implemented for the period 2016-2019. This is a new development in comparison to the time of the project preparation.			
►Share of income tax returns filed electronically (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	39.60	--	0.00	60.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	The value of the indicator cannot be determined since the deadline for the submission of the income statement has not yet expired. According to the Fiscal Code's provision, taxpayers (legal entities, individuals who carry out entrepreneurial activity, self-employed persons) have the obligation to submit the income tax return until 25 March of this year for tax period 2018. Thus, the results for 2018 could be provide not sooner than April 2019. Given the fact that the percentage of income tax returns filed electronically in 2018 for 2017 was 45.96, the STS expects that the target value for 2018 will be achieved. To exclude during the project's restructuring. The Subsystem for Submission of Tax Declarations already exists and is functional, so the implementation of the ITMS will not add value to the indicator.			

Institutional development				
►Taxpayer satisfaction (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Satisfaction not measured	--	not measured	Satisfaction in crease - 20% (compared to baseline)



				Final survey conducted with data disaggregated by gender. Results and suggested actions of the STS to address weaknesses are published on the STS website.
Date	31-Dec-2015	--	31-Dec-2018	30-Oct-2021
Comments:	<p>The survey on the assessment of the taxpayers' satisfaction with the services provided by the State Tax Service will be finalized by the end of December 2018, so satisfaction assessment baseline will be determined in 2019.</p> <p>During the project's restructuring annual target values will be adjusted to reflect the project's extension.</p>			
►The Training Center capacity in permanent training program (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	The list of training programs is not identified	--	The identified training programs are developed.	100% of appropriate STI staff have been trained in use of business functions and new tools, data disaggregated by gender
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	<p>Achievement of this indicator will be fully assisted by SIDA whose program includes support in improving methodologies for estimating and assessing the training needs; and the development of an automated information system in order to develop and improve the career development of e-learning platform. US Treasury Advisor provides support in development of specific courses on arrears management, taxpayer services and tax control.</p> <p>The identified training programs are developed by STS, including 2 training programs which were developed with US Treasury support.</p> <p>During the project's restructuring to change to: <i>The distance learning system for the most important workflows developed.</i></p> <p>The ongoing SIDA Institutional Cooperation Project (2018-2021) will fully support the achievement of the initially planned indicator. However, TAMP supported the purchasing of 45 video-conferencing equipment items to be used for distance learning of the STS employees across the whole country.</p>			
►Number of hits to the STS web-site (Number (Thousand), Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	3,570,004.00	--	6,851,424.00	5,700,000.00
Date	31-Dec-2015	--	31-Dec-2018	31-Dec-2021
Comments:	<p>The target level for 2018 was achieved.</p> <p>To adjust the annual target levels during the project's restructuring, including the increased end-target value.</p>			

Data on Financial Performance



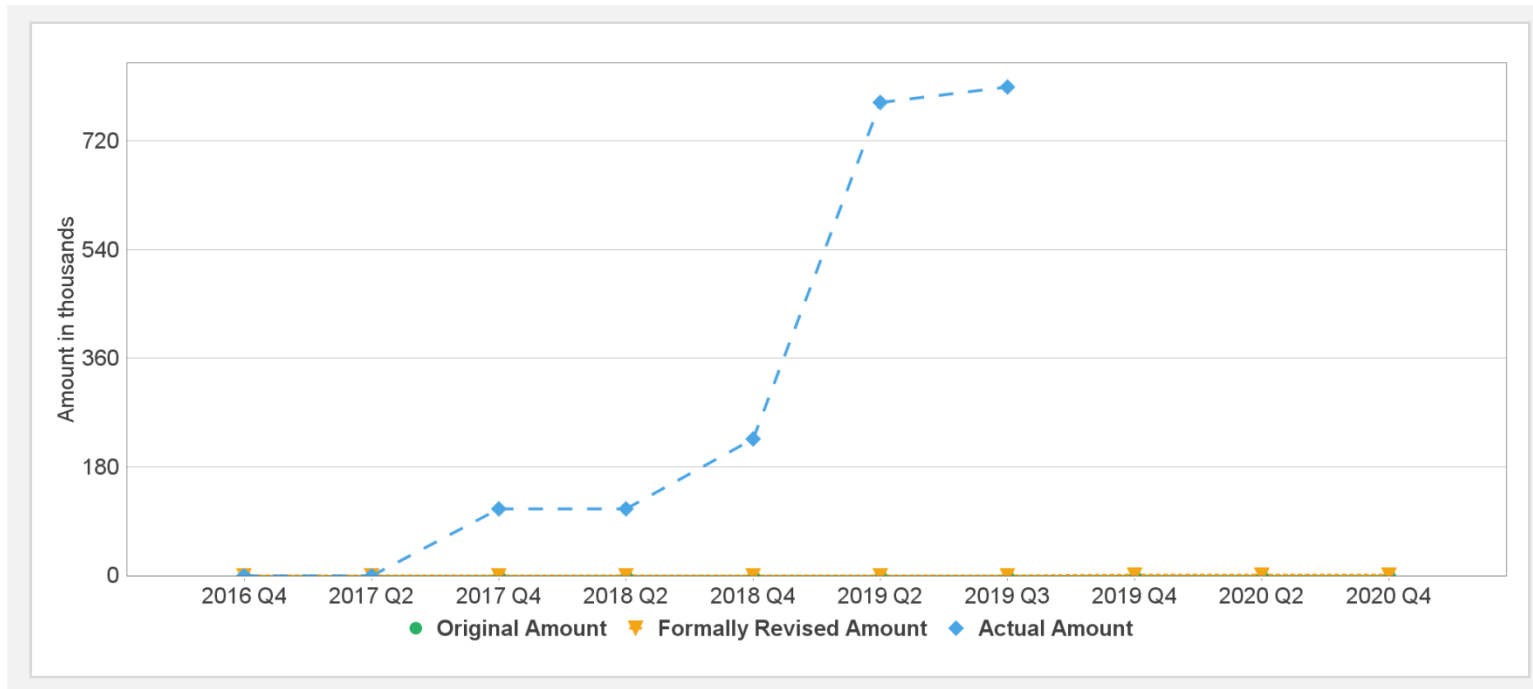
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P127734	IBRD-86250	Effective	USD	12.58	12.58	0.00	0.00	12.58	0%
P127734	IDA-58290	Effective	USD	7.42	7.42	0.00	0.81	6.57	11%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P127734	IBRD-86250	Effective	06-Jun-2016	28-Jun-2016	25-Jan-2017	31-Dec-2021	31-Dec-2021
P127734	IDA-58290	Effective	06-Jun-2016	28-Jun-2016	25-Jan-2017	31-Dec-2021	31-Dec-2021

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)



There are no related projects.
