

REPORT

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Freeze frame: four years of implementation of the 2% mechanism in the Republic of Moldova

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Executive summary

In 2020, taxpayers in the Republic of Moldova were able to designate 2% of their income tax to a non-commercial organisation or eligible religious entity for the fourth year consecutively. However, in 2020, the 2% mechanism was affected by the COVID-19 pandemic, the state of emergency imposed by authorities to stop the virus from spreading, travel restrictions, and the reduced working hours of the State Tax Service. Moreover, the tax reform that capped the income tax rate at 12% 'cut' the amounts generated by taxpayers who previously were required to pay 18% of their income in taxes, – taxpayers who also happened to have higher income.

In 2020, the only aspect of the 2% mechanism that improved was the number of non-commercial organisations that applied to benefit from the mechanism. Thus, 844 non-commercial organisations (732 associations, foundations, and private institutions, and 112 religious denominations and their components) registered on the 2% Beneficiaries' List in 2020, which is 13% more organisations than in 2019. Comparable to previous years, the total number of beneficiary organisations registered on the 2% Beneficiaries' List represents just over 5% of the total number of registered organisations in the Republic of Moldova before December 2019. Of the total number of organisations registered on the 2% Beneficiaries' List, 534 (about 63%) received such taxpayers' contributions, with 87% (463) being non-governmental organisations (NGOs), and about 13% (71) being religious entities, which is comparable to previous years.

In 2020, 26,776 taxpayers designated 2% of their income tax, which is about 25.5% fewer contributors compared to 2019. The number of taxpayers who designated their 2% in 2020 represents approximately 16% of the total number of taxpayers who filed income tax reports on time, which is more than in 2019, when only about 11% did so. Of the total number of taxpayers who designated their 2% of the income tax, 54% were not obliged to file an income tax report but chose to do so to designate their 2% of the income tax.

The total amount of 2% of the income tax designated by taxpayers and validated by the State Tax Service decreased in 2020 compared to previous years. The total amount of the 2% designated by taxpayers equalled 6,321,773.4 MDL, which is 23% less than the previous year. After verifying the legality of the designations, the State Tax Service validated **5,816,737.19 MDL (329,977 USD or 299,818 EUR)** worth of designations. About 8% of the designated amount (505,036.21 MDL) was not validated, the main

reason being, as before, unpaid income tax debts by taxpayers for the current year or previous years.

In total, **in four years** of the 2% mechanism implementation, beneficiary organisations received **21,960,689.45 MDL (1,245,806 USD or 1,131,942 EUR)**.

After validating the designations, 88% of them went to NGOs (5,133,140.73 MDL), and 12% went to religious entities (683,596.46 MDL).

On average, in 2020, each taxpayer designated about 236.19 MDL of their income tax, of which about 217.32 MDL was validated. Each beneficiary organisation received about 11,838.53 MDL according to the total amount designated, and after validating the designated contributions, they received approximately 10,892.77 MDL.

In terms of location, in 2020, just like in previous years, most of the 2% income tax contributions were made to organisations located in the Chisinau municipality. The majority of organisations had their headquarters in Chisinau, representing approximately 65% (349 out of 534 beneficiaries) of the total number of 2% contributions in 2020. The remaining 35% are organisations located elsewhere in the country. In four years of the 2% mechanism implementation, 79% of organisations were based in Chisinau, compared to 21% of beneficiary organisations being registered elsewhere in the country.

Only 28% of all taxpayers who designated their 2% income tax contribution in 2020 resided in Chisinau, and 72% elsewhere in the country. In four years of the 2% mechanism implementation and of the taxpayers who designated their 2% income tax contribution, those who resided in Chisinau (29%) have always been fewer than those who resided elsewhere in the country (71%).

In 2020, taxpayers based in Chisinau (50.3%) and those elsewhere designated almost equal amounts (49.7%). Therefore, taxpayers from Chisinau had higher incomes in 2019 than taxpayers from the rest of the country. Overall, in four years, between 2017 and 2020, the taxpayers based in Chisinau (49%) and taxpayers based outside Chisinau (51%) designated almost equal amounts.

In 2020, as in previous years, the largest share of the funds – 4,586,817.26 MDL went to beneficiary organisations based in Chisinau, approximately 79% of the total validated amount, which is 2% less than in the previous year. Organisations from the rest of

the country received proportional designations in the amount of 1,229,919.93 MDL, representing approximately 21% of the total validated amount. Overall, in four years, between 2017 and 2020, approximately 81% of the designated contributions went to organisations based in Chisinau, while approximately 19% of the funds went to those based outside Chisinau.

The largest amount received by an organisation in 2020 was **787,681.27 MDL**, representing 13.5% of the total validated amount. The Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova received the largest share of the contributions for the fourth consecutive year.

A considerable part of the contributions went to organisations connected with state institutions – created by former or current employees of state institutions and/or are affiliated with public officials. The number of these organisations is increasing every year. Overall, over four years, between 2017 and 2020, these organisations received approximately **39%** of all designated contributions.

Unlike in the previous years, the majority of taxpayers submitted their income tax report and designated their 2% of the income tax **in May**, which can probably be explained by the state of emergency being lifted on 15 May 2020. The majority of the income tax reports were submitted on paper or digitally (71%).

The statistics of the first four years of the 2% mechanism implementation show that the mechanism is still in its early stages and its potential is quite significant. In 2020, only 2.2% of eligible taxpayers exercised their right to designate their income tax contributions, and only 6.8% of the total possible percentage to be designated was actually designated.

Abbreviations

PSA	Public Services Agency
CET15/CET18 report	Natural persons income tax report
Religious entities	Religious entities and their components
2% mechanism	Mechanism of designating 2% from one's income tax contributions
2% Beneficiaries' List	List of Beneficiaries eligible for 2% of income tax contributions published by the Public Services Agency
NGO	Civil society association, foundations, and private institutions
CSO	Civil Society Organisation
2% Regulations	Regulation on the percentage designation, approved by the Government Decision no. 1286 of 30 November 2016
STS	State Tax Service

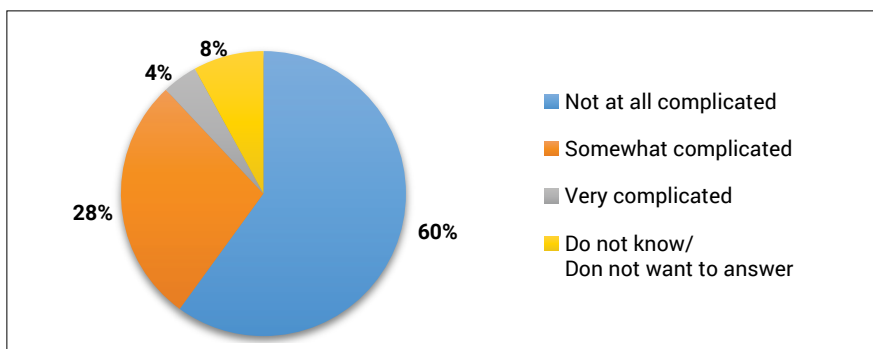
1. Registering for 2% Beneficiaries' List

The registration process

In order to benefit from the designated contributions in 2020, the fourth year of implementation of the 2% mechanism, non-commercial organisations and religious entities registered on the 2% Beneficiaries' List between 2 and 30 September 2019. The registration of potential beneficiaries was further ensured by PSA, which from April 2018 took over the registration of eligible organisations for the 2% mechanism¹. Given that part of the PSA staff responsible for processing 2% applications are former employees of the Ministry of Justice (Department of Non-Commercial Organisations), the process of registering with the mechanism did not suffer, the institutional memory and continuity of the process were well ensured.

This conclusion was confirmed by the respondents of the 2% mechanism evaluation survey addressed to organisations and civil society representatives, carried out in 2020. According to the respondents, the registration procedure was little or not at all complicated: 88% of the respondents (compared to 88% in 2019)².

Figure 1. The perception of CSO representatives with regards to the process of registering for the 2% Beneficiaries' List



¹ Changes to Law no. 837/1996 on civil society associations from April 2018.

² LRCM, report «Snapshot: „Three years of implementation of the 2% mechanism in the Republic of Moldova’», September 2020, <https://old.crim.org/wp-content/uploads/2021/02/Trei-ani-de-implementare-a-mecanismului-2-la-suta.pdf-web.pdf>.

As in the first years of implementation, eligible organisations had the opportunity apply for registration on the 2% Beneficiaries’ List both directly and by e-mail³. According to the practice established in previous years, applying by e-mail is available only to those organisations that have an electronic signature. Thus, registration on the List of 2% Beneficiaries’ List must meet the requirements set out in art. 75 para. (1) of this code, namely: in the case of petitioning (submitting a request) in electronic format – to have an electronic signature.

There are several ways to get an electronic signature in the Republic of Moldova, all presented in the table below.

Type of signature	Electronic signature	Electronic signature (mobile/telecom)	Electronic ID (electronic signature embedded)
Service provider	Information Technology and Cyber Security Service	Cell service provider (Orange or Moldcell) via Special Telecom Centre	Public Services Agency
Cost of service	350/390 MDL	Free of charge	Starting with 750 MDL
Tariff	0 MDL per signature	3 MDL per signature	0 MDL per signature
Time needed to apply for signature	At least one day	One hour	At least one day
Accessing the service	Online at https://semnatura.md/Home/GetSignature	To get the mobile electronic signature, you must come in person to one of the offices of the cell service operators and present your identity card.	To get the electronic signature, you must come in person to one of the PSA offices

Publication of the List of beneficiaries of the 2% mechanism. Potential number of beneficiaries

At the beginning of January 2020, PSA published the list of beneficiaries of the 2% mechanism⁴. According to the list, a total of 844 non-commercial organisations managed

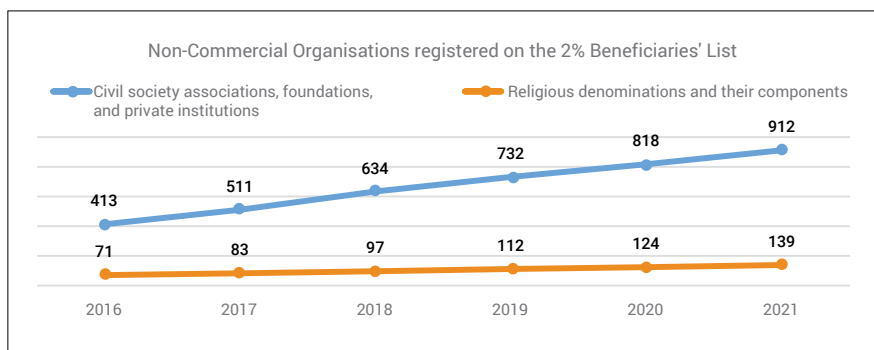
³ According to the PSA official page, applications submitted online can be sent to the e-mail address: dilud@asp.gov.md.

⁴ See: 2% Beneficiaries’ List for 2020, <https://2procente.info/wp-content/uploads/Lista-beneficiari-2-proc-2020.pdf>.

to register on the Beneficiaries' List (compared to 731 in the second year of implementation of the mechanism – 113 more organisations or an increase of 13%). The 2% Regulation provides that organisations included in the 2% Beneficiaries' List in previous years are automatically added by PSA on the 2% Beneficiaries' List, provided that they have no debts to the national public budget for previous fiscal terms or have not requested to be excluded from the list⁵. Thus, this can explain the growing number of organisations registered for the 2% mechanism or it can have to do with the awareness raising campaigns targeting possible 2% mechanism beneficiaries, carried out by several CSOs.

The growing number of organisations that want to benefit from the 2% mechanism is constant for five or six consecutive years (fig. 2).

Figure 2. Comparative statistics (CSOs registered for the 2% mechanism between 2016 and 2021)

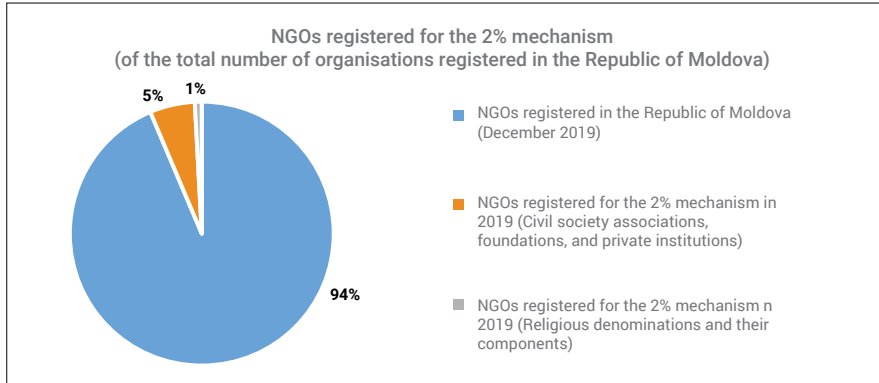


Of the total number of organisations registered in the fourth year of the mechanism, 732 were private associations, foundations, and institutions, and 112 – religious denominations and their components. The total number of organisations registered with the mechanism represents just over 5% (5% also in 2018) of the total number of non-commercial organisations registered in the Republic of Moldova before December 2019. According to the State Register of Non-Commercial Organisations at that time, a total number of 12,404 CSOs were registered in the Republic of Moldova, of which approximately 477 in 2019⁶.

⁵ Government Decision no. 1286 of 30 November 2016, on the approval of the Regulation on the percentage designation mechanism, pt. 6, <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=367801>.

⁶ USAID, report „Civil Society Organization Sustainability Index 2019”, <https://management.md/wp-content/uploads/2020/09/CSO-Sustainability-Index-2019.pdf>.

Figure 3. The proportion of organisations registered in the third year to benefit from the 2% mechanism from the total number of organisations registered in the Republic of Moldova in December 2019



2. How did the 2% mechanism work in 2020?

One form, a single income tax

In 2020, natural persons paying taxes filed only one tax report on their income tax to the STS: CET18 Form or Tax report form of natural person regarding income tax received in 2019. The major change operated in 2020 which affected the entire the 2% mechanism was capping the amount of income tax at 12% (compared to 7% and 18% in previous years). These changes, although they did not affect the method of designating the contributions, they 'cut/reduced' the amounts designated by taxpayers who previously were obliged to pay 18% of their income tax, these being also the taxpayers with higher incomes.

previously	since 2020
7% – from the annual taxable income that does not exceed 25,200 MDL	12% – regardless of the amount of income
18% – from the annual taxable income that does not exceed 25,200 MDL	

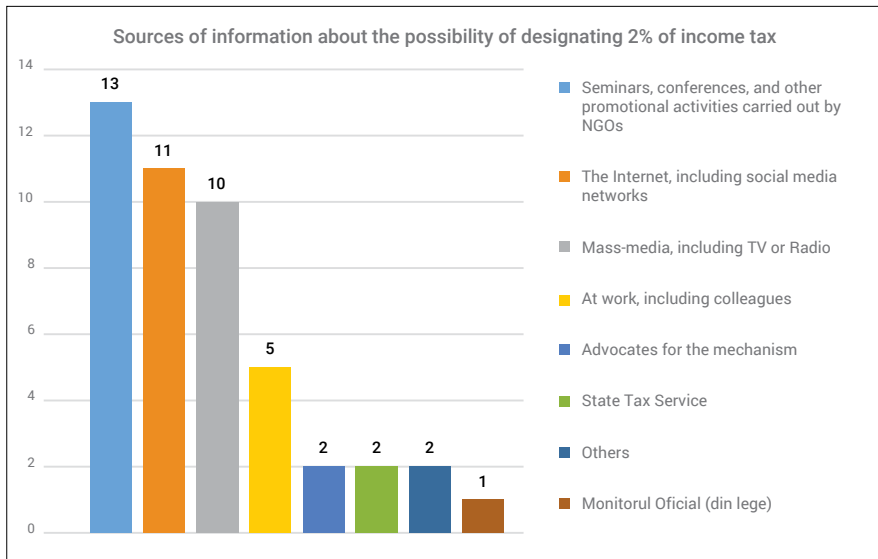
How did taxpayers find out about the 2% mechanism?

Being interviewed about how they learnt about the 2% mechanism, most of the respondents to the Legal Resources Centre of Moldova's survey (LRCM) meant to evaluate the implementation of the 2% mechanism said that they learnt about the mechanism from seminars, conferences, and other promotional activities carried out by NGOs (13 respondents), the Internet, including social media networks (11 respondents), media sources, including TV or radio (10 respondents). At the same time, five respondents learnt about the mechanism from their workplace, two from the State Tax Service and two others identified themselves as advocates for the 2% mechanism. Compared to previous years, civil society organisations are more eager to promote the mechanism, them being the best source identified by the respondents. It is also fortunate that at least two respondents were informed about the mechanism by representatives of the State Tax Service. These findings are similar to the findings from the first years of implementation of the mechanism,

except for the first category of information (previously, most respondents learnt about the mechanism from the media, including TV or radio)⁷.

Figure 4. Sources of information about the possibility of designating 2% of income tax (2020).

Source: LRCM survey



When did taxpayers choose to designate the 2% of their income tax?

In 2020, the fourth year of implementation of the 2% mechanism, 24,960 taxpayers (compared to 34,066 or 27% fewer than in 2019) decided to exercise their right to designate 2% of their income tax to support the activity of non-commercial organisations. The global COVID-19 pandemic can be blamed for more than a quarter decrease of the number of taxpayers. We noted that on 17 March 2020, the Parliament of the Republic of Moldova had established a state of emergency throughout the country

⁷ LRCM, report „One Year of the Implementation of the 2% Mechanism”, Chişinău, 2018, p. 20, http://crjm.org/wp-content/uploads/2018/07/Raport_Un-an-de-la-implementarea-mecanismului-2_web.pdf. LRCM, report „Two Years of the Implementation of the 2% Mechanism”, Chişinău, 2019, p. 16, https://crjm.org/wp-content/uploads/2019/09/Doi-ani-de-implementare-a-mecanismului-2_web_final-1.pdf. LRCM, report, Snapshot: Three Years of Implementation of the 2% Mechanism in the Republic of Moldova, September 2020, p. 10 http://old.crjm.org/wp-content/uploads/2021/07/EN_Trei-ani-de-implementare-a-mecanismului-2_print.pdf.

for 60 days, that expired on 15 May 2020⁸. Based on this decision, the authorities established a special (limited) schedule for governmental agencies, and implicitly limited the possibility to physically serve the State Tax Service customers. At the same time, with the tightening of travel restrictions, taxpayers were much more reluctant to go to the STS offices. More details on the number of designations made in 2020, broken down by month, are presented in the table below:

Table 1. Number of 2% income tax designations made in 2020, presented by month

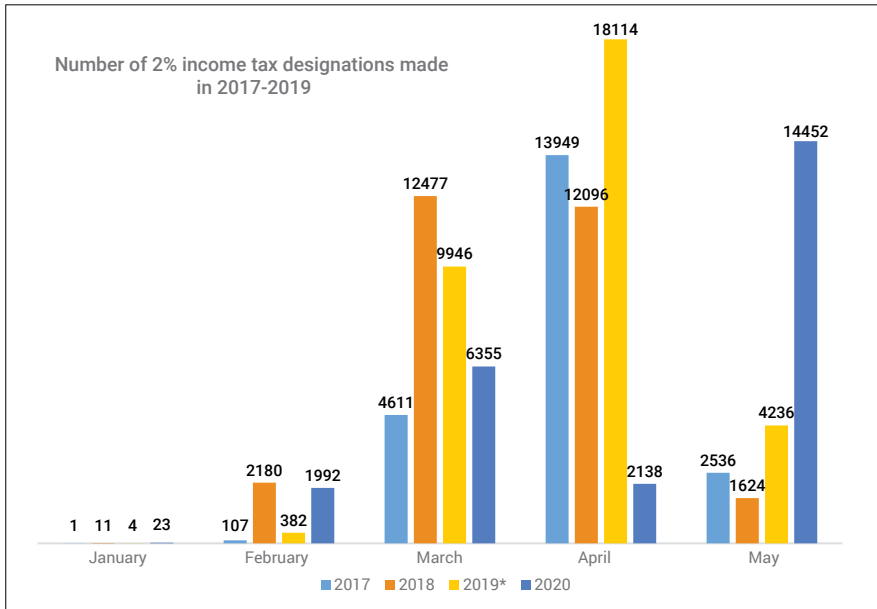
Year 2020	Number of 2% income tax designations		
	Total	Validated	Invalid
January	25	23	2
February	2,159	1,992	167
March	6,901	6,355	546
April	2,269	2,138	131
May	15,422	14,452	970
Last 14 days	12,947	12,133	814
Total	26,776	24,960	1,816

The authorities extended the deadline for filing income tax reports by 29 May 2020. The state of emergency expired on 15 May 2020. It seems that taxpayers were motivated to file reports within the deadline as most validated contributions (over 50% of the total) were submitted in May 2020, close to the deadline. More details are presented in the table below:

⁸ The Parliament of the Republic of Moldova, Decision no. 55 of 17 March 2020 regarding the declaration of the state of emergency.

Figure 5. Comparative data regarding the number of 2% designated contributions made in 2017-2020.

Source: State Tax Service⁹



For the first time since the mechanism is applicable in the Republic of Moldova, we are witnessing a negative dynamic of the development of the 2% designation mechanism. As indicated above, the main reason that can explain the decrease in the number of taxpayers is directly influenced by the COVID-19 pandemic and the establishment of the state of emergency. The data above, however, remain relevant, in particular, for the beneficiary organisations that decide on the period when to carry out their awareness-raising and promotion campaigns. Awareness-raising campaigns promoting online filing of the income tax reports can play an important role in convincing taxpayers to use this opportunity and minimize taxpayers' reluctance to go the STS to file their tax reports in-person. Next, we present the most popular methods of designating 2% contributions.

⁹ We provided estimates for 2019 calculated based on the total number of tax reports submitted, which was divided by 2, considering the fact that people submitted two income tax reports following the application of the tax reform in the fall of 2018.

How did taxpayers choose to designate their 2% income tax contributions?

According to the 2% Regulation, the income tax report can be submitted in one of the following three ways:

- (a) in person,
- (b) by post,
- (c) online, using their electronic signature.

According to the information provided by the STS, in 2020, most income tax reports were submitted on paper or via quick tax report form (17,599 contributions or 71% of the total number). 7,361 contributions (or 29% of the total number) were submitted online (via the electronic tax report form).¹⁰

Figure 6. Designating 2% income tax contributions in 2020, by method. Source: State Tax Service

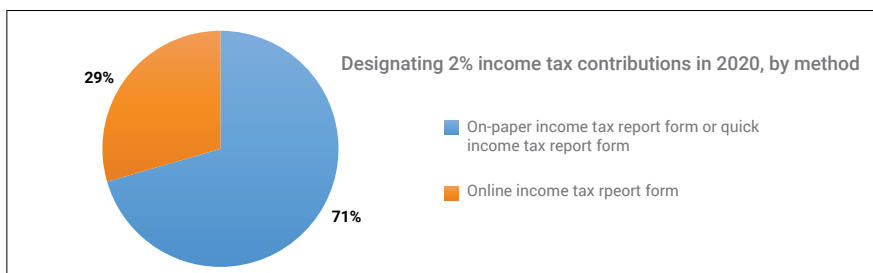
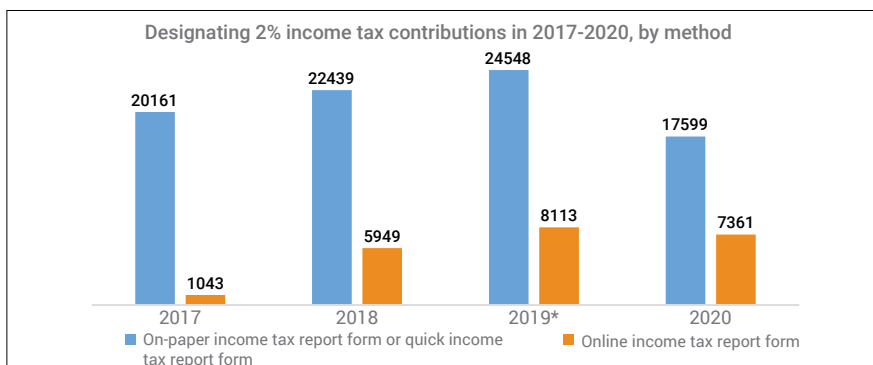


Figure 7. Designating 2% income tax contributions in 2017-2020, by method.¹¹ Source: State Tax Service



¹⁰ Tax Service, Answer no. 26-15/1-13/24593 of 5 March 2021 regarding LRCM's request for information.

¹¹ * We provided estimates for 2019 calculated based on the total number of tax reports submitted, which was divided by 2, considering the fact that people submitted two income tax reports following the application of the tax reform in the autumn of 2018.

Table 2. Comparative data regarding the 2% income tax contributions in 2017-2020

	2017	2018	% compared to previous year	2019	% compared to previous year	2020	% compared to previous year
Paper-based tax report form/ quick tax report form	20,161	22,439	+11.3%	24,548	+9.4%	17,599	-28.3%
Online tax report form	1,043	5,949	+470.4%	8,113	+36.4%	7,361	-9.3%

Taxpayer experiences in the fourth year of implementation

When asked to report on how the 2% mechanism went in 2020, and similar to the feedback from previous years, the respondents that filled out the LRCM questionnaire reported various practices and experiences, both positive and negative. Unlike in the previous years, however, taxpayers reported difficulty caused by the COVID-19 pandemic, which became an additional barrier in exercising their right to designate the 2% of their income tax. At the same time, while some respondents characterized the mechanism as simple, without difficulties, others pointed out certain irregularities that must be studied further.

All respondents gave their answers in confidentiality. They mention in particular the reluctance of STS employees to advise taxpayers on the 2% mechanism, or generally misleading them about the beneficiaries of the mechanism. One of the respondents pointed out that one State Tax Service premises is not suitable for people with reduced mobility, especially for wheelchair users. However, given the confidentiality of the answers, we cannot establish for sure which premises it is. To illustrate, see a few examples below.

Positive experiences

"[...] The procedure itself is not complicated. Employees of the STS present the list of potential beneficiaries but... They don't really give taxpayers time to study the list..."

"[...] No one at the State Tax Service even proposed or recommended that it would be possible to designate my 2%. It was me who requested it."

"[...] did not give the requested information to whom it is possible to give my 2%."

The respondents of the LRCM survey addressed to beneficiary organisations and taxpayers regarding the evaluation of the 2% designation mechanism

Negative experiences

"[...] I encountered no difficulties. It really was surprisingly fast and without having to cue at the STS."

"[...] I came, and it was done."

"[...] If you go to one of the State Tax Service premises, the only difficulty is the stairs. It is not convenient for people with reduced mobility, especially for wheelchair users. Otherwise, the procedure is easy and usually does not take much time."

The respondents of the LRCM survey addressed to beneficiary organisations and taxpayers regarding the evaluation of the 2% designation mechanism

Based on the questionnaires undertaken in 2020, luckily there were no reported cases of the State Tax Service representatives nudging taxpayers to designate their contributions to a specific organisation. The reluctance of STS representatives to give taxpayers time to study the list is somewhat understandable due to their high workload during this period of receiving tax reports. At the same time, we believe that greater efforts (including training STS operators and officials) are needed to inform taxpayers about the 2% mechanism in general, so that more contributions are encouraged.

Ability to designate percentage for justice professionals...deferred to 2022

In 2016, the 2% Regulation contained a restrictive provision that stated that taxpayers can only contribute from their income tax, according to art. 88-90 of the Tax Code (salaries, interest, and provision of services), although this was not provided for by the Tax Code. In this way, the persons who, according to the law, had the right to designate their contributions, including individual entrepreneurs/self-employed professionals, lawyers, notaries, authorized administrators, and mediators, were excluded from the mechanism. Although this restriction was cancelled in 2017, still in 2019, the taxpayers who continue to be self-employed professionals/individual entrepreneurs cannot designate their income tax contributions. In practice this was not possible because in the income tax form submitted by these persons (DAJ17) does not include a respective box regarding the designation of 2% income tax, nor does the standardized form for natural persons CET18.

On 10 January 2020, as a result of several CSO advocacy measures, the income tax form for persons engaged in professional activity in the justice sector (DAJ17)¹² was amended. However, according to the amendments, legal professionals will only be able to designate 2% of their income tax obtained no earlier than in 2020 (i.e., they will be able to designate it from 1 January 2021). Therefore, STS postponed exercising a right provided by law for four years. The data on the designation of professionals who submitted the DAJ17 form will be valid only starting with 2022.

¹² See the order of the Minister of Finance no. 9 of 15 January 2018, supplemented the order of the Minister of Finance no. 5 of 10 January 2020, in force since 17 January 2020 regarding the approval of the standardized form of the Income tax report for persons carrying out professional activity in the justice sector.

3. Number of taxpayers who designated their 2% of the income tax

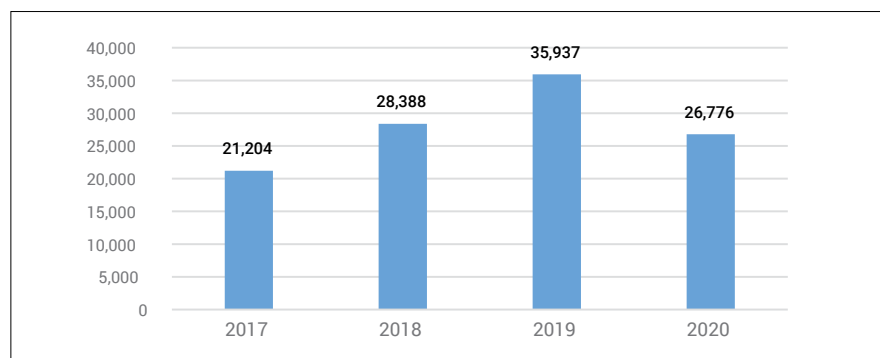
Number of taxpayers who designated 2% of their income tax

In 2020, the fourth year in which individual taxpayers had the right to designate 2% of their income tax, 26,776 individuals chose to do so. It is about 25.5% fewer individuals compared to the number of taxpayers who did so in 2019. This decrease could be explained by the fact that the period for filing income tax reports coincided with the state of emergency established in connection with the Covid-19 pandemic, which also restricted people's travel or it could be explained that the STS work-hours were reduced. Considering that in the Republic of Moldova most contributions are made in person at STS offices, we believe that the decrease in the number of contributions was rather influenced by the state of emergency and travel restrictions.

Table 3. The number of taxpayers who directed 2% in the period 2017-2020

	2017	2018	+/- %	2019	+/- %	2020	+/- %
Total number of taxpayers who designated 2%	21,204	28,388	+33,8%	35,937	+26,5%	26,766	-25.5%

Figure 8. The number of taxpayers who directed 2% in 2017-2020



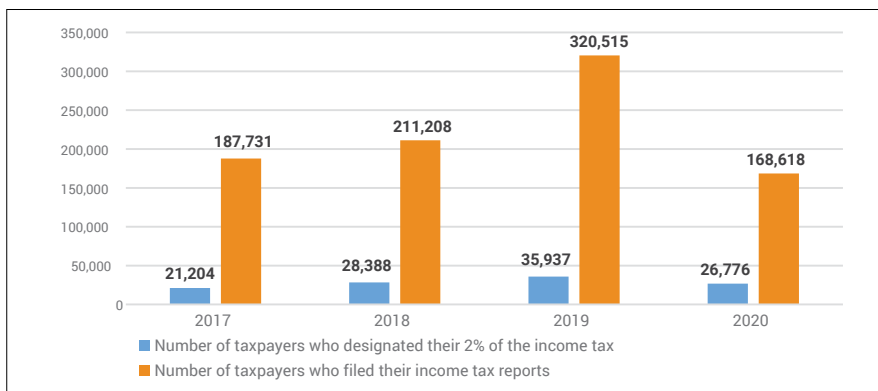
Comparison with the total number of taxpayers who filed their income tax report

Although the number of taxpayers who designated 2% decreased in 2020 compared to previous years, the ratio between the total number of taxpayers who filed their income tax report and those who also chose to designate 2% of their income tax was about 16%, compared to around 11% in 2017 and 2019, and 13% in 2018.

Table 4. The number of taxpayers who filed their income tax reports and those who designated 2% of the income tax in 2017-2020

Year	Number of individuals who filed their income tax reports	Number of taxpayers who designated 2% of their income tax	%
2017	187,731	21,204	11,2%
2018	211,208	28,388	13,4%
2019	320,515	35,937	11,2%
2020	168,618	26,766	15,9%

Figure 9. The number of taxpayers who filed their income tax reports and those who also designated 2% of the income tax in 2017-2020

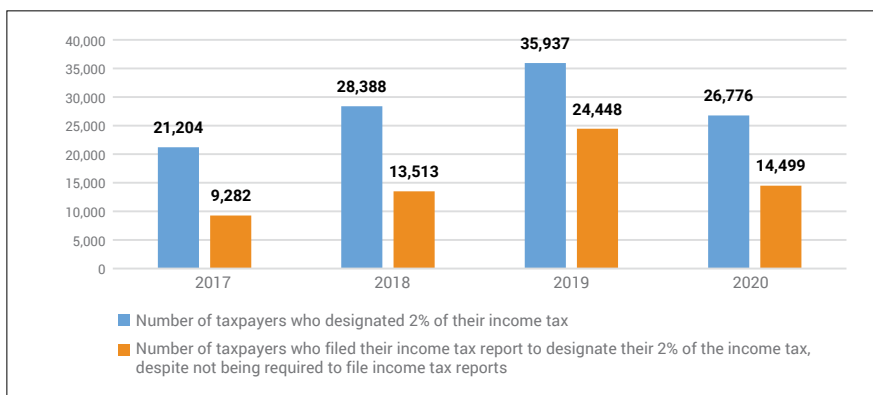


Filing the income tax report is not mandatory, except for cases outlined in art. 83 para. (2) of the Tax Code. However, if an individual chooses to designate 2% of their income tax, they must file a tax report according to art. 83 para. (2) lit. b) of the Tax Code. In 2020, 14,499 people made an extra effort to file their income tax report to designate 2% of their income tax, which constitutes 54% of the total number of taxpayers who designated their 2%.

Table 5. Rate of taxpayers who designated 2% of their income tax, despite not being required to file income tax reports, in 2017-2020

Year	Number of taxpayers who designated 2% of their income tax	Number of taxpayers who were not required to file an income tax report, but chose to do so to be able to designate 2% of their income tax	%
2017	21,204	9,282	43,8%
2018	28,388	13,513	47,6%
2019	35,937	24,448	68%
2020	26,776	14,499	54%

Figure 10. Number of taxpayers who designated 2% of their income tax, despite not being required to file income tax reports, in 2017-2020



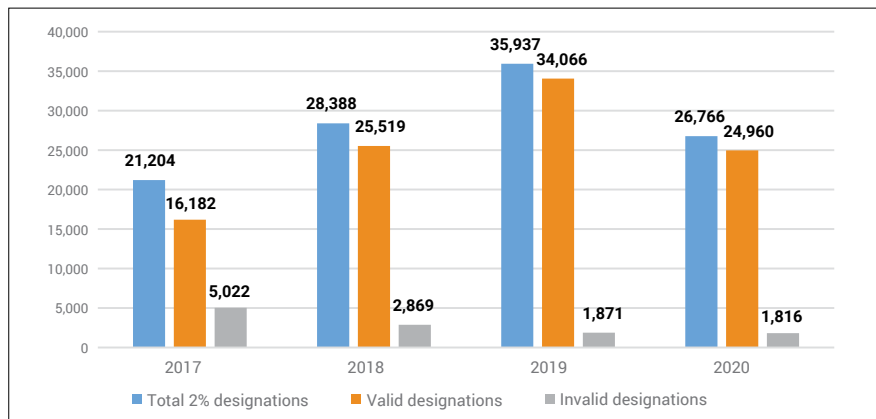
Number of 2% contributions validated and invalidated¹³

Of the total of 26,766 2% contributions made in 2020, 24,960 (about 93%) were validated by STS, and 1,816 (about 7%) were deemed invalid (invalidated). The rate of contributions that were not validated decreased slightly compared to 2019, but not significantly.

Table 6. Number of validated and invalidated contributions in 2017-2020

Year	Number of contributions	Number of validated contributions	% of the total number	Number of invalidated contributions	% of the total number
2017	21,204	16,182	76,3%	5,022	23,7%
2018	28,388	25,519	89,9%	2,869	10,1%
2019	35,937	34,066	94,8%	1,880	5,2%
2020	26,766	24,960	93.2%	1,816	6.8%

Figure 11. Total number of contributions, validated and invalidated in 2017-2020



13 According to pt. 20 of the 2% Regulation, STS does not validate 2% designations in the following cases:
 1) the tax report of the natural person regarding the income tax for the fiscal period was submitted after the deadline established by the tax legislation;
 2) the beneficiary of the designated contribution is not included in the updated Beneficiaries' List, published by PSA;
 3) the taxpayer has income tax debts for periods prior to the fiscal period in which the contribution was made;
 4) the taxpayer has not paid the tax on the declared income from which the percentage designation was made;
 5) the taxpayer indicated several beneficiaries on the income tax report for the said fiscal period.

According to the information published by STS, the following reasons were behind invalidating 2% contributions in 2019:¹⁴

- the beneficiary of the contributions was not included in the updated List of 2% Beneficiaries (65 contributions);
- the individual taxpayer owes income tax at the point of filing of the income tax report, established by the tax legislation (1,751 contributions).

¹⁴ A designated contribution can be invalidated for more than one reason at the same time.

4. Taxpayers' profile

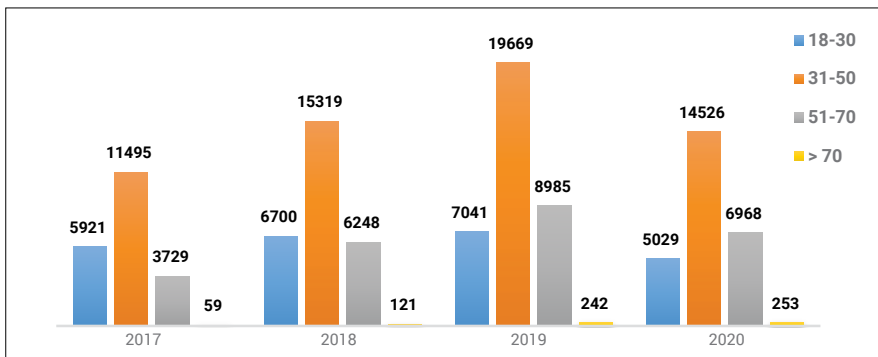
Profile of taxpayers by age

As in previous years, the most active taxpayers who designated their contributions in 2020 are between the ages of 31 and 50, accounting for 14,526 total contributions (54%) and 13,519 validated designations (50%). The next active age group that made contributions is people who are between 51 and 70 years old (also came second in 2019) with 6,968 total contributions (26%) and 6,453 validated contributions (24%). People aged 18-30 were less active than in previous years – 5,029 total contributions (19%) and 4,746 validated contributions (18%). Taxpayers past the age of 70 also used this opportunity (253 total contributions and 242 validated contributions – 1% of all designations).

Table 7. Number of taxpayers who designated 2% of their income tax in 2020, by age

Taxpayers' age	Total number of contributions		
	Total	Validated	Invalidated
18-30	5,029	4,746	283
31-50	14,526	13,519	1,007
51-70	6,968	6,453	515
> 70	253	242	11
Total	26,776	24,960	1,816

Figure 12. Comparative data on the number of taxpayers who designated 2% of their income tax in 2017-2020, by age



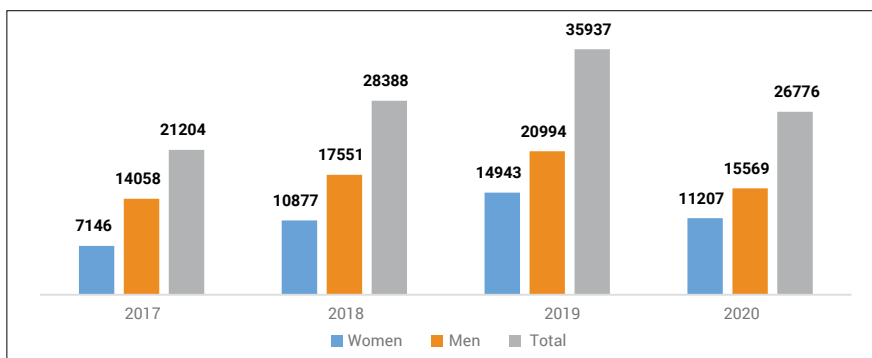
Profile of taxpayers by gender

According to the gender of those taxpayers who chose to designate 2% of their income, men were the most active in doing so – 15,569 contributions in total (58%), of which 14,443 were validated (94%). Fewer women made contributions – 11,207 total contributions (42%), of which 10,517 were validated (93% of the total number of contributions). The statistics by gender remain unchanged compared to previous years.

Table 8. Number of taxpayers who designated 2% of their income in 2020, by gender

Taxpayers' gender	Total number of contributions		
	Total	Validated	Invalidated
Women	11,207	10,517	690
Men	15,569	14,443	1,126
Total	35,937	34,066	1,816

Figure 13. Comparative data on the number of taxpayers who designated 2% of their income tax in 2017-2020, by gender



5. Beneficiaries' profile

Of the 844 organisations registered in 2020 on the 2% Beneficiaries' List, only 534 (63%) received contributions (compared to 70% the previous year).

Figure 14. Number of organisations benefiting from the 2% mechanism in 2020

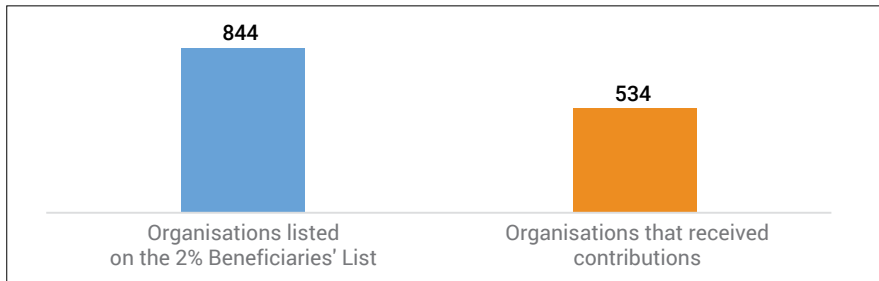
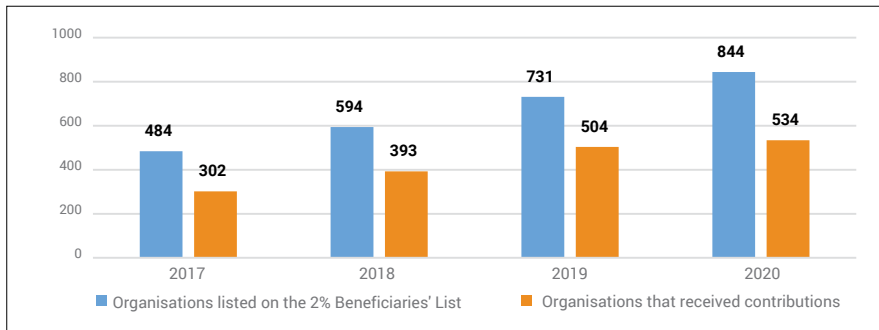
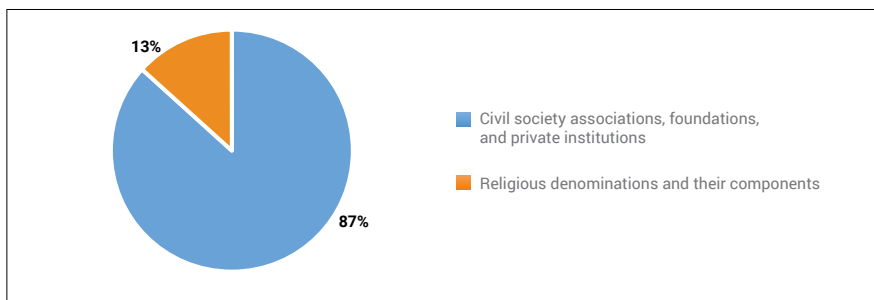


Figure 15. Comparative data on the number of beneficiary organisations in 2017-2020



Of the 534 organisations that received contributions in 2020, 463 are NGOs, which represent about 87% of all beneficiaries, and 71 organisations represent religious entities, i.e., about 13% of the total number of beneficiaries. The figures are similar to those on the first three years of implementation of the mechanism (86% vs. 14% in the first year and 85% vs. 15% in the second year, 85% vs. 15% in the third year).

Figure 16. Categories of beneficiary organisations of the 2% mechanism, in 2020



6. Contributions amounts

Total contributions amounts, validated, and invalidated

In 2020, the fourth year of implementation of the 2% mechanism, the total amount of the contributions designated by taxpayers was for the first time lower than the year before. According to the data provided by STS, the total amount of taxpayers' contributions, until validation, was **6,321,773.4 MDL**, 23% less than the year before. This is most likely due to the COVID-19 pandemic crisis and travel restrictions, given that most of the designations are made in person at the STS offices.

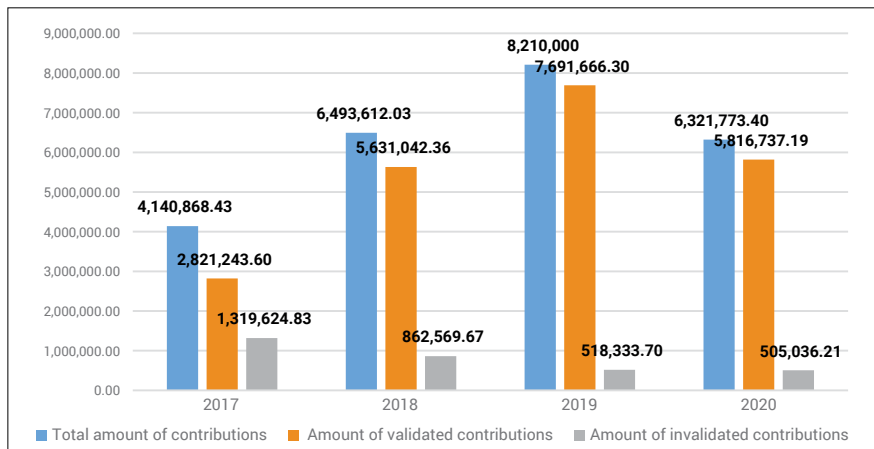
The amount of the contributions validated by STS, i.e., the amount actually received by the beneficiaries, was **5,816,737.19 MDL (USD 329,977/299,818 EUR¹⁵)**. In 2020, the validated contributions amounted to 92% of the total amount of designated contributions, similar to the previous year.

The amount of the invalidated contributions in 2020 equalled to **505,036.21 MDL**, that is, only 8% of the total amount of all contributions.

Table 9. Total amount of contributions, validated and invalidated, in 2017-2020

	Total amount of contributions	Amount of validated contributions	% of the total amount	Amount of invalidated contributions	% of the total amount
2017	4,140,868.43	2,821,243.60	68%	1,319,624.83	32%
2018	6,493,612.03	5,631,042.36	87%	862,569.67	13%
+/- % in 2018 compared to 2017	+57%	+ 99%	-	- 35%	-
2019	8,210,000	7,691,666.3	94%	518,333.7	6%
+/- % in 2019 compared to 2018	+26%	+37%	-	-40%	-
2020	6,321,773.4	5,816,737.19	92%	505,036.21	8%
+/- % in 2020 compared to 2019	-23%	-24%	-	-2.6%	-

15 According to the exchange rate of the National Bank on 29 May 2020 (the last day to make designations in 2020), USD 1 = MDL 17.6277 and EUR 1 = MDL 19.4009, <https://www.bnm.md/ro/content/ratele-de-schimb>.

Figure 17. Amounts of contributions, validated and invalidated in 2017-2020

In total, for four years since the implementation of the 2% mechanism, beneficiary organisations received **21,960,689.45 MDL** (1,245,806 USD/1,131,942 EUR¹⁶).

The amounts of the contributions, according to beneficiaries' type

Beneficiaries of 2% mechanism are either NGOs or religious entities registered in the 2% Beneficiaries' List by PSA. In 2020, both categories of beneficiaries received fewer contributions than in the previous year. After the contributions were validated, in 2020, NGOs received **5,133,140.73 MDL**, 25% less than in 2019. Religious entities received **683,596.46 MDL**, 16% less than the previous year. In total, about 88% of the contributions received by the beneficiaries went to NGOs, and about 12% – to religious entities.

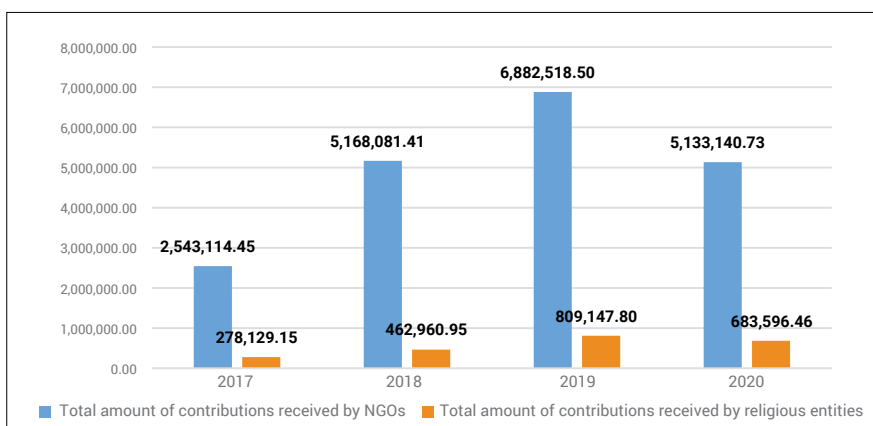
Table 10. The amounts of contributions beneficiaries received in 2017-2020, by category of beneficiaries

	Total amount of contributions received by beneficiaries	Total amount of contributions received by NGOs	% of the total amount	Total amount of contributions received by religious entities	% of the total amount
2017	2,821,243.60	2,543,114.45	90%	278,129.15	10%
2018	5,631,042.36	5,168,081.41	91,8%	462,960.95	8,2%

¹⁶ Idem.

+/- % compared to previous year	+99%	+103%	-	+66%	-
2019	7,691,666.30	6,882,518.50	89,5%	809,147.80	10,5%
+/- % compared to previous year	+37%	+33%	-	+75%	-
2020	5,816,737.19	5,133,140.73	88.2%	683,596.46	11.8%
+/- % compared to previous year	-24%	-25%	-	-16%	-

Figure 18. Amounts of contributions received by beneficiaries in 2017-2020, by beneficiaries' type



Average amount of contributions

On average, in 2020, each taxpayer designated about **236.19 MDL**, of which about **217.32 MDL** were validated.

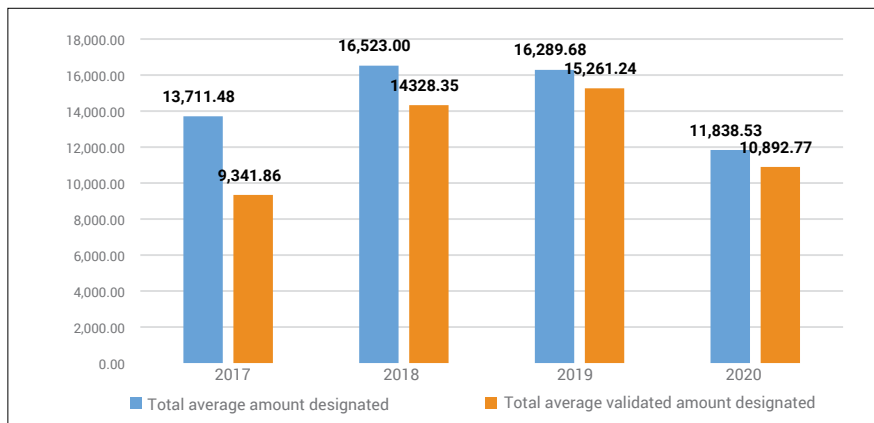
Table 11. The average amount of contributions per taxpayer in 2017-2020

	2017	2018	2019	2020
Average amount of a contribution made by a taxpayer	195.29 MDL	228.74 MDL	228.45 MDL	236.19 MDL
Average amount of a validated contribution made by a taxpayer	133.05 MDL	198.35 MDL	214.03 MDL	217.32 MDL

On average, in 2020, each beneficiary organisation received about **11,838.53 MDL** according to the total amount of contributions made, and after these contributions were validated – they received about **10,892.77 MDL** each. These amounts are lower

compared to previous years, which can be explained by travel restrictions that the authorities imposed in connection with the COVID-19 pandemic.

Figure 19. The average amount of contributions per beneficiary organisation in 2017-2020



Largest and smallest amounts of contributions

The largest 2% amount received by an organisation in 2020 was **787,681.27 MDL**. The beneficiary of this amount was the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which received the largest contribution for the fourth consecutive year. The smallest amount of the 2% income tax designation – of **2.54 MDL** – was designated to the Civil Society Association Academia 'Viitorul'.

The amounts of contributions received by organisations that are connected to state institutions and/or public persons

A considerable part of the income tax contributions went to beneficiary organisations that are connected to state institutions – created by former or current employees of state institutions – and/or that are connected with public figures.

At the top of this list is the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which received the largest contribution for the fourth consecutive year. It is followed by the Civil Society Association of Veterans and Pensioners of the Main State Fiscal Inspectorate

'UNI-M'. These are the organisations from the 2% Beneficiaries' List that received some of the largest income tax contributions.

The organisations that are connected to state institutions/and or public persons continue to come at the top of the organisations that received the most contributions ('top 20'), although due to the COVID-19 pandemic the amounts received by these organisations went down compared to previous years.

Table 12. *The amounts of income tax contributions received by organisations that are connected to state institutions and/or public persons in 2017-2020*

Nr.	Name of beneficiary organisations	2017	2018	2019	2020
1.	Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	1,374,555.89 MDL	1,691,298.75 MDL	1,776,704.38 MDL	787,681.27 MDL
2.	'Miron Șor' Foundation	282.03 MDL	472,716.15 MDL	441,611.00 MDL	164,258.97 MDL
3.	Civil Society Association of Veterans and Pensioners of the Main State Fiscal Service 'UNI-M'	34,849.70 MDL	231,399.55 MDL	587,134.00 MDL	414,194.92 MDL
4.	Civil Society Association of Prosecutors of the Republic of Moldova	-	118,337.18 MDL	171,220.53 MDL	14,643.78 MDL
5.	Veterans' Association of the 'Fulger' Special Forces Battalion	-	-	65,934.55 MDL	4,199.94 MDL
6.	Civil Society Association of the Veterans' League of the Armed Forces of the Republic of Moldova 'Ștefan the Great and Saint'	-	-	-	87,204.70 MDL
7.	Association of Veterans' Organisations Union of the Carabinieri Troops from the Republic of Moldova	-	-	-	83,320.08 MDL
Total		MDL 1,409,687.62	MDL 2,513,751.63	MDL 3,042,604.46	MDL 1,555,423.66

2020 was the first year when the organisations connected to state institutions and/or public persons received fewer funds from the 2% mechanism, and this is mainly due to fewer contributions, which is explained by the COVID-19 pandemic. Thus, these organisations received 49% fewer contributions compared to 2019, although in previous years their contributions grew by 21% (2019) and 78% (2020).

However, we note that the contributed amounts received by organisations that are connected to state institutions and/or public persons decreased more (-49%) than the general average (-24%), which means that the taxpayers of these organisations were less 'faithful' to the 2% cause, in the context of the COVID-19 pandemic, than the rest of the taxpayers.

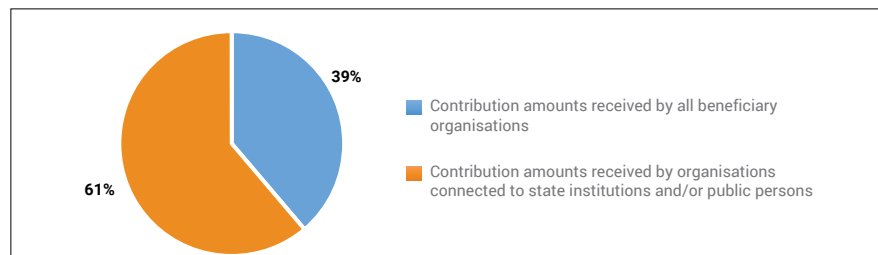
At the same time, the share of the contributions received by organisations connected to state institutions and/or public persons from the total amount of income tax contributions received by all beneficiary organisations remains considerable, even though it is decreasing – in 2017 it constituted about 50%, in 2018 – about 45%, in 2019 – about 40%, and in 2020 – about 27%.

Table 13. The amounts of contributions received by organisations that are connected to state institutions and/or public persons, compared to the total amount of income tax contributions, in 2017-2020

	2017	2018	+/- %	2019	+/- %	2020	+/- %
Contribution amounts received by all beneficiary organisations	2,821,243.6 MDL	5,631,042.36 MDL	+99%	7,691,666.30 MDL	+37%	5,816,737 MDL	-24%
Contribution amounts received by organisations connected to state institutions and/or public persons	1,409,687.62 MDL	2,513,751.63 MDL	+78,3%	3,042,604.46 MDL	+21%	1,555,423.66 MDL	-49%
% of the total amount received by all organisations	50%	44.6%		39.5%		26.7%	

In total, for four years, between 2017-2020, organisations connected to state institutions and/or public persons received 38.8% of the total amounts of the income tax designations.

Figure 20. The amounts of income tax contributions received by organisations connected to state institutions and/or public persons in 2017-2020, compared to the amounts received by the rest of the organisations



7. Top beneficiaries of the 2% income tax contributions in 2020

List of Beneficiaries eligible for 2% of income tax designations has been topped by the same organisation for four consecutive years. In 2020, as in previous years, the main beneficiary of the designated 2% income tax contributions was the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova. The organisation received **787,681.27 MDL** (about twice less than in 2019 when it received **1,776,704.38 MDL**). The decrease is mainly attributed to the COVID-19 pandemic rather than to the organisation in general. The amount received in 2020 represents about 13.5% of the total amount received by all beneficiary organisations, its rate gradually decreasing from around 49% in 2017, when the 2% income tax mechanism was first introduced.

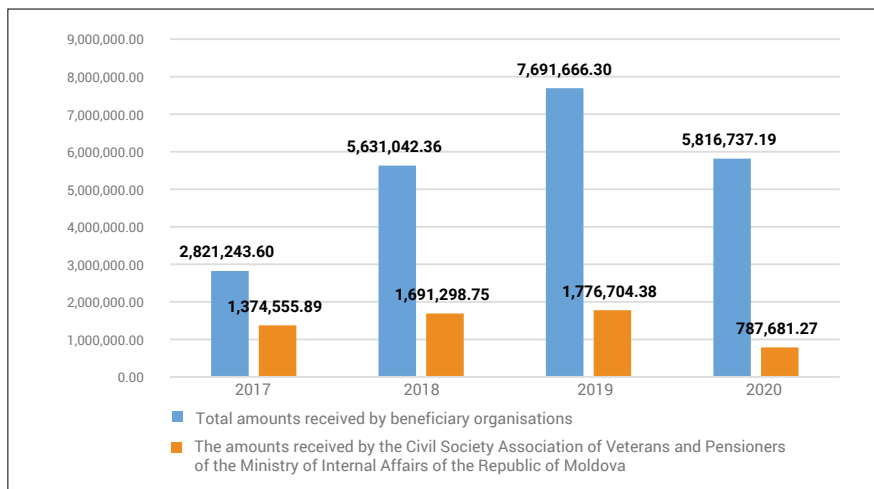
The association mainly ensures the social protection of veterans and pensioners. The association has several primary organisations throughout the country and according to public information, it would have more than 12,000 members¹⁷. Unfortunately, the association does not have a web page and no reports have been made public where it clearly describes what activities the respective organisation carries out. In previous years, several organisations, including LRCM requested an interview with the MAI Veterans Association, but the requests remained unanswered.

Table 14. The 2% income tax contribution amounts received in 2017-2020 by the Civil society association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova

Year	Total amount of the 2% income tax contributions received by beneficiary organisations	Total amount of the 2% income tax contributions received by Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	% of the total amount of the income tax contributions received by the remaining organisations
2017	2,821,243.6 MDL	1,374,555.89 MDL	48,7%
2018	5,631,042.36 MDL	1,691,298.75 MDL	30%
2019	7,691,666.3 MDL	1,776,704.38 MDL	23%
2020	5,816,737.19 MDL	787,681.27 MDL	13.5%

¹⁷ See the Ministry of Internal Affairs' official web page: <https://mai.gov.md/node/57>.

Figure 21. The 2% income tax contribution amounts received in 2017-2020 by the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova



The second organisation that received the most 2% income tax contributions in 2020 (as in 2019) is Civil Society Association of Veterans and Pensioners of the Main State Fiscal Service 'UNI-M'. According to publicly available information, the association's main activity is the social protection of STS workers and pensioners. In 2020, the organisation received **414,194.92 MDL** (42% less than in 2019, when it received 587,134.00 MDL and almost double the amount received in 2017, when the organisation received 231,399.55 MDL). This NGO also does not have a web page or social media presence. In previous years, several organisations, including LRCM requested an interview, but the requests remained unanswered.

The third organisation that received the most 2% income tax contributions in 2020 is 'Bitonic' Foundation, a commercial company affiliated with Lifecare Essentials, founded in 2014 in Austria¹⁸. In 2020, the organisation received 205,655.34 MDL. Compared to the top two organisations, the 'Bitonic' Foundation has a web page and is present on social networks. According to the description on social networks, the 'Bitonic' Foundation wants to invest in the children of Moldova, through a pragmatic and long-term oriented approach, including the opening of a Health and Nutrition Educational Centre for Children and Adolescents, which will provide training, health seminars, a gym space, computers, informational resources, and other educational materials.

¹⁸ According to the following webpage: <https://ff.md/collections/bitonic>.

More details on the list of beneficiaries of the 2% mechanism, including their main fields of activity, are available in the table below:

Table 15. Top beneficiaries of the 2% income tax contribution mechanism in 2017 – 2020

Rank	Year	Title	Main field of activity ¹⁹	Amount (MDL)	
1	2020	Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova	Social protection	787,681.27	
	2019			1,776,704.38	
	2018			1,691,298.75	
	2017			1,374,555.89	
2	2020	Civil Society Association of Veterans and Pensioners of the Main State Fiscal Service 'UNI-M'	Social protection	414,194.92	
	2019			587,134.00	
	2018			'Miron Şor' Foundation	472,716.15
	2017			'Orange Moldova' Foundation	125,279.68
3	2020	'Bitonic' Foundation	Education/Health	205,655.34	
	2019			'Miron Şor' Foundation	441,611.00
	2018			Civil Society Association of Veterans and Pensioners of the Main State Fiscal Service 'UNI-M'	231,399.55
	2017			Civil Society Association 'Pro Moldova Social'	64,566.70
4	2020	The National Sports Federation of Applied Sports of Firefighters and Rescuers/First responders	Sport	185,660.68	
	2019			Civil Society Association of Prosecutors of the Republic of Moldova	171,220.53
	2018			Civil Society Association of Prosecutors of the Republic of Moldova	118,337.18
	2017			Civil Society Association 'M. Eminescu'	41,543.45
5	2020	'Miron Şor' Foundation	Philanthropy /Charity	164,258.97	
	2019			Civil Society Association 'Anina Football Club' Sports Club	147,285.58

19 We determined the activities from the publicly available information, and these do not necessarily reflect all types of activities undertaken by the respective organisations provided in their respective Statutes.

	2018	Foundation for the Development of Education and Science in the Republic of Moldova	Education	110,016.32
	2017	Civil Society Association 'Salvați viața' ('Save lives')	Crowdfunding	38,896.35
6	2020	Civil Society Association 'Moldova AID'	Social protection	138,817.16
	2019	'Orange Moldova' Foundation	Philanthropy	124,101.53
	2018	Public Association 'Chernobyl'	Social protection	107,657.71
	2017	Society of Șoldănești District'	Social protection	34,849.70
7	2020	'Orange Moldova' Foundation	Philanthropy	129,968.73
	2019	Civil Society Association for Football 'Nistru-DIP'	Sport	105,164.65
	2018	Civil Society Association 'Forum'	Civic engagement	103,248.67
	2017	Religious community the Parish 'Sfântul Dumitru' (Saint Dumitru) of the Orthodox Church of Moldova, based in Chisinau city	Religion	33,613.04
8	2020	Civil Society Association „Forum”	Civic engagement	122,246.30
	2019	Charity Foundation 'Sfântul Gheorghe' ('Saint George')	Charity	100,921.48
	2018	Foundation 'Orange Moldova'	Philanthropy	87,462.53
	2017	Foundation for Ecological Development 'EcoDava' of the Republic of Moldova	Ecology	32,580.51
9	2020	Civil Society Association of the Veterans' League of the Armed Forces of the Republic of Moldova 'Ștefan the Great and Saint'	Social protection	87,204.70
	2019	Civil Society Association 'Forum'	Civic engagement	99,405.68
	2018	'IT Moldova' Foundation	Education	80,656.63
	2017	Civil Society Association 'Femeia și copilul – protecție și sprijin' ('Woman and child – protection and support')	Social protection	30,900.15

10	2020	'Charity.MD' Foundation	Charity	84,923.98
	2019	Foundation for the Development of Education and Science of the Republic of Moldova	Education	91,531.06
	2018	Medical and Social Philanthropic Foundation 'Angelus Moldova'	Palliative care	75,354.32
	2017	Civil Society Association 'Soarta' ("Destiny")	Charity	27,686.89

Analysing the overall results for the first four years of implementation of the income tax contribution mechanism, we noticed how prevalent are organisations involved in social assistance. This is also characteristic of other states in the region where the income tax contribution mechanism has been operating for several years²⁰. At the same time, we see that the organisations that received the largest share of the contribution amounts, have a direct connection with state authorities, being created by former or current employees of these institutions (Ministry of Internal Affairs, STS, General Prosecutor's Office, Ministry of Defence etc.) or commercial companies (S.A. Orange, Simpals LLC, Dufremol LLC, Bitonic LLC), which have a potentially large number of employees. We assume that this is due to the fact that the employers would have managed to convince their employees to designate 2% of their income tax to their affiliated NGOs. This can seriously affect the sustainability of the income tax contributions mechanism; having so many affiliated organisations that rather carry out activities in the corporate interest of their members, union, or political platform, can discourage taxpayers from supporting the civil society organisations also affecting their credibility.

To improve the situation, one needs to ensure that the income tax contribution takes place freely and is not forced by their employers, especially within several categories of employees. In addition, it is necessary that tax inspectors within the STS are trained and maintain impartiality towards this mechanism, without favouring certain organisations.

20 Boris Strečanský, Marianna Török (ed.), "Assessment of the Impact of the Percentage Tax Designations: Past, Present, Future", 2016, <http://taxdesignation.org/regional-synthesis-report/>.

8. Income tax contribution mechanism by location/residence

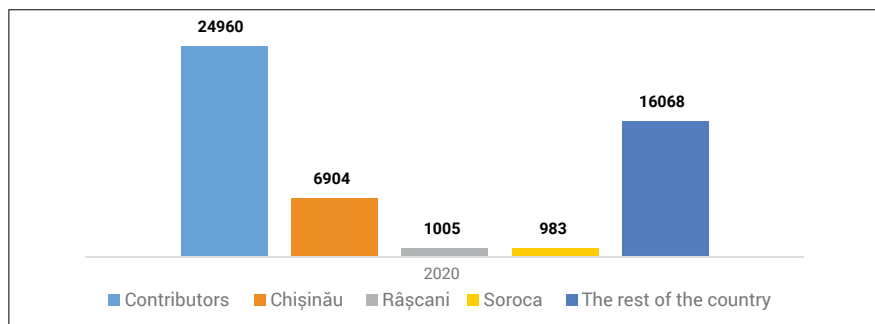
Profile of taxpayers by residence

In 2020, as in previous years, most taxpayers who designated 2% of their income tax resided outside the Chisinau municipality (around 72%).

Of the 24,960 individual taxpayers whose tax contributions were validated in 2020:

- 6,904 taxpayers resided in the Chisinau municipality, which represents about 28%;
- 1,005 taxpayers resided in Rîșcani district, which represents about 4%;
- 983 taxpayers resided in the Soroca municipality, which represents about 4%.

Figure 22. Number of taxpayers whose tax contributions were validated in 2020, by residence



Taxpayers residing in the Chisinau municipality who designated 2% of their income tax were always fewer compared to those residing in other localities in all four years in which the 2% mechanism operated. In total, about 29% of taxpayers who used this mechanism came from the Chisinau municipality, and 71% – from the rest of the country.

Figure 23. The number of taxpayers whose tax contributions were validated in 2017-2020, by residence

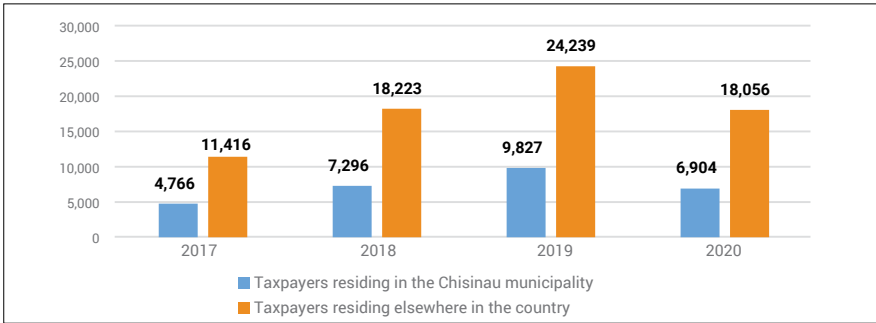
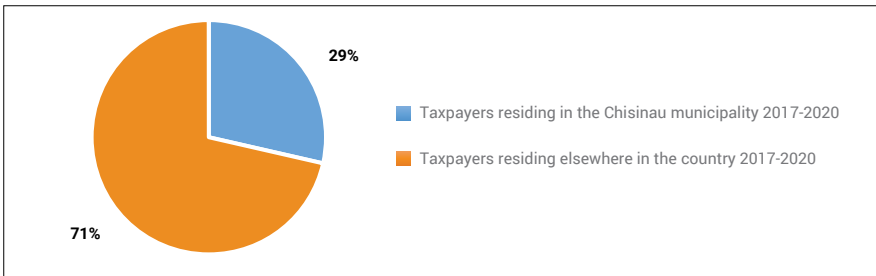


Figure 24. Rate of taxpayers who directed 2% of their income tax in 2017-2020, by residence



Profile of beneficiary organisations by residence

Most of the organisations to which 2% of taxpayers’ income tax was directed in 2020 are based in the Chisinau municipality, which represents about 65% (349 out of 534 beneficiaries) of the total number of beneficiary organisation in 2020. Only 35% of beneficiary organisations are registered elsewhere in the country.

In the four years since the 2% mechanism has been applied, 79% of eligible beneficiary organisations are based in the Chisinau municipality compared to 21% of eligible beneficiary organisations registered elsewhere in the country.

Figure 25. The number of beneficiary organisations in the Chisinau municipality and the rest of the country in 2020

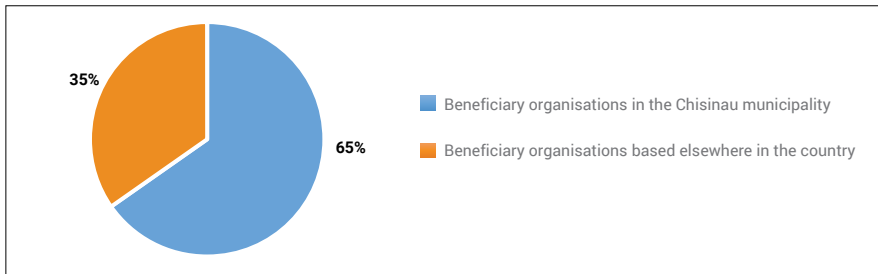


Figure 26. The number of beneficiary organisations in 2017-2020, by residence

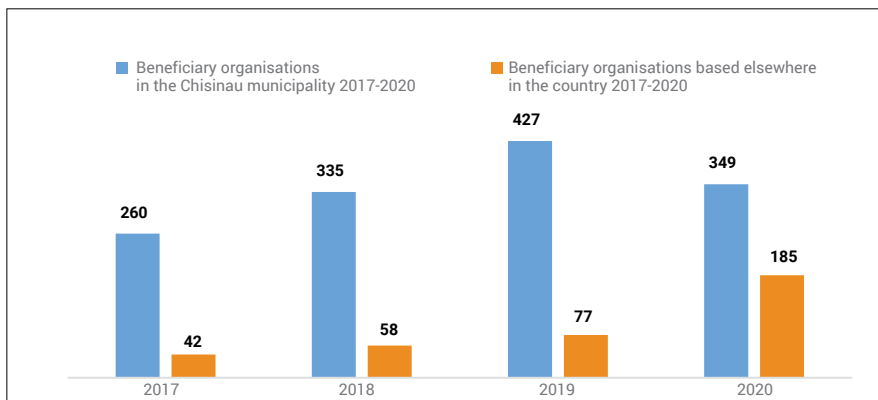
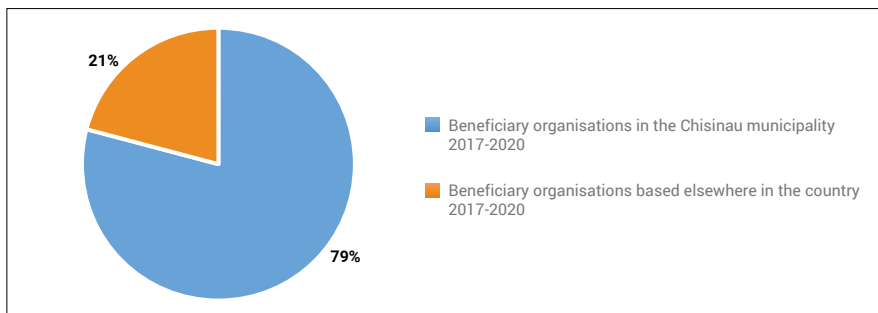


Figure 27. Beneficiary organisations in the Chisinau municipality and elsewhere in the country in 2017-2020



The amounts of 2% income tax contributions by taxpayers' residence

In 2020, the taxpayers residing in the Chisinau municipality (50.3%) and those from residing elsewhere (49.7%) donated almost equally.

In total, for four years, between 2017 and 2020, taxpayers residing in the Chisinau municipality donated about 49% of their income tax contributions, and those residing elsewhere donated about 51%.

Table 16. The validated amount of income tax contributions in 2017-2020, by taxpayers' residence

	Total amount of validated contributions (MDL)	Total amount designated by taxpayers residing in the Chisinau municipality (MDL)	% of the total validated amount	Total amount designated by taxpayers residing elsewhere in the country (MDL)	% of the total validated amount
2017	2,821,243.60	1,278,244.12	45,3%	1,542,999.48	54,7%
2018	5,631,042.36	2,751,008.61	48,9%	2,880,033.75	51,1%
+/- % in 2018 compared to 2017	+99%	+115%	-	+86,7%	-
2019	7,691,666.30	3,712,877.11	48,3%	3,978,789.19	51,7%
+/- % in 2019 compared to 2018	+37%	+35%	-	+38,2%	-
2020	5,816,737.19	2,926,101.73	50.3%	2,890,635.46	49.7%
+/- % in 2020 compared to 2019	-24%	-21%	-	-27%	-
Total 2017-2020	21,960,689.45	10,668,231.57	48.6%	11,292,457.88	51.4%

Figure 28. The amounts of validated income tax contributions in 2017-2020, by taxpayers' residence

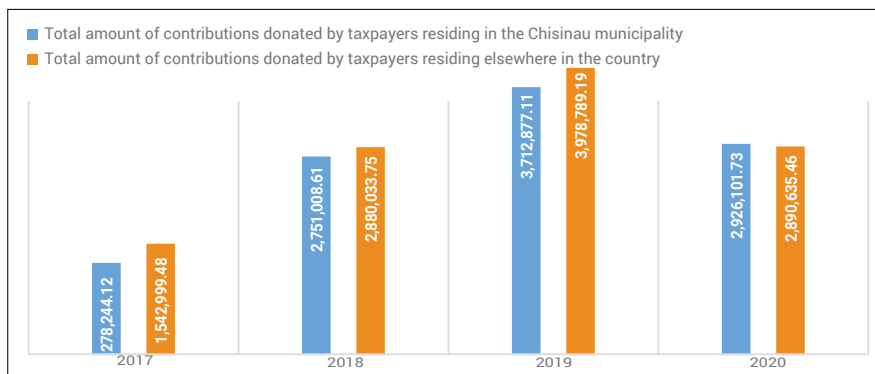
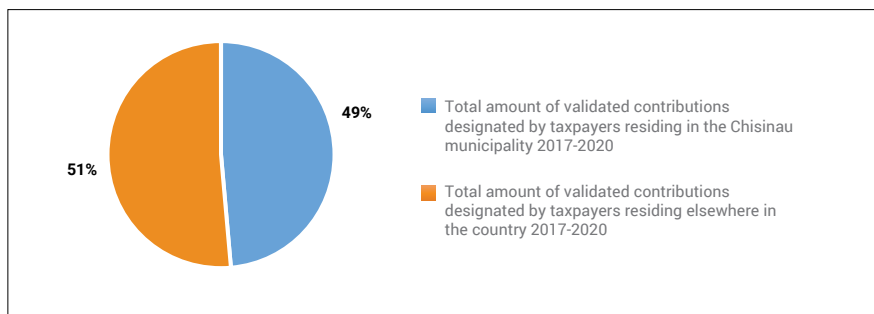


Figure 29. Amounts of validated income tax contributions in 2017-2020, by taxpayers' residence

The amounts of 2% income tax contributions by the beneficiary organisations' location

In 2020, as in previous years, the beneficiary organisations from the Chisinau municipality received the largest part of the contributions – 4,586,817.26 MDL, i.e., approximately 79% of the total validated amount, 2% less than the previous year. Organisations from the elsewhere in the country received MDL 1,229,919.93 worth of designations, which represents about 21% of the total validated amount.

In total, in four years, between 2017-2020, the organisations based in the Chisinau municipality received about 81% of the total amount of taxpayer's designated contributions, and those based elsewhere – about 19%.

Table 17. The amounts of 2% income tax contributions received by beneficiary organisations in 2017-2020, by organisations' location

	Total amount of validated contributions (MDL)	Total amount received by beneficiary organisations located in the Chisinau municipality (MDL)	% of the total validated amount	Total amount received by beneficiary organisations located elsewhere in the country (MDL)	% of the total validated amount
2017	2,821,243.60	2,425,632.65	86%	395,610.95	14%
2018	5,631,042.36	4,660,086.47	83%	970,955.89	17%
+/- % in 2018 compared to 2017	+99%	+92%	-	+145%	-
2019	7,691,666.30	6,210,446.56	81%	1,481,219.74	19%
+/- % in 2019 compared to 2018	37%	+33%	-	+53%	-

2020	5,816,737.19	4,586,817.26	79%	1,229,919.93	21%
+/- % in 2020 compared to 2019	-24%	-26%	-	-17%	-
Total 2017-2020	21,960,689.45	17,882,982.94	81.4%	4,077,706.51	18.6%

Figure 30. The amounts of 2% income tax contributions received by beneficiary organisations in 2017-2020, by organisations' location

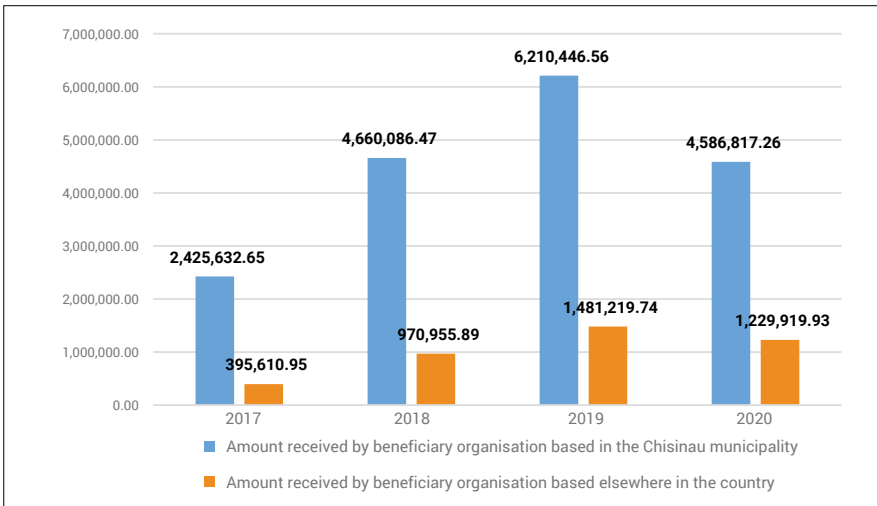
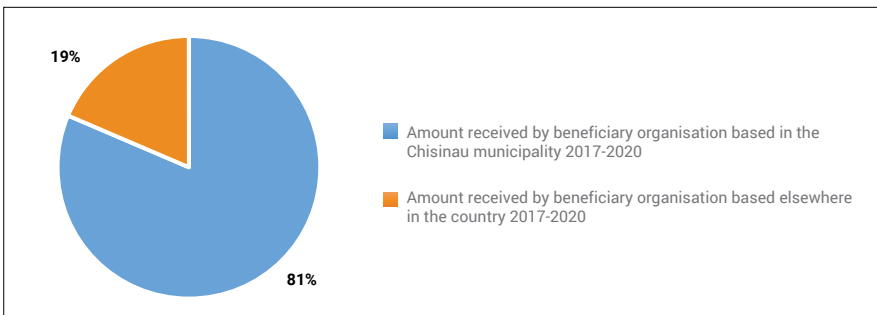


Figure 31. Amounts received by beneficiary organisations in 2017-2020, by organisations' location



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DREPTURILE OMULUI!**

**Alocă 2% din impozitul tău pe venit
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Amnesty International Moldova's raising awareness campaign of the 2% income tax designation mechanism <http://amnesty.md/ro>



Asociația Presei Independente (API):

- promovăm presa independentă și valorile democratice;
- oferim asistență comunității jurnalistice și consumatorilor de produse media;
- desfășurăm campanii de interes public.

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Independent Press Association (IPA) raising awareness campaign of the 2% income tax designation mechanism <http://www.api.md/>

From the experience of other states where the 2% income tax designation mechanism has been implemented for several years, the efforts of organisations in the first years of implementation of the mechanism should be mainly focused on promoting the organisation's activity among taxpayers and conducting a broad raising awareness campaign regarding the 2% mechanism. Although this is not characteristic of the biggest beneficiaries of the mechanism in the Republic of Moldova (a good part of them do not even have a web page or account on social media networks), there were also non-commercial organisations that promoted both the mechanism and their own organisation.

10. Ensuring proper use of funds

According to pt. 30 of the Regulation regarding the income tax designation mechanism, beneficiary organisations are obliged to submit reports to the State Fiscal Service regarding the use of the received 2% income tax contributions. The Financial Inspection will publish these reports on its web page, excluding personal data (pt. 32 of the Regulation) and ensure proper usage of the funds that represent public money (pt. 33 of the Regulation).

The reports of beneficiary organisations that received taxpayers' contributions designated in 2017 were first checked in 2020 (beneficiary organisations received the contributions by 30 September 2017, used them between 1 October 2017 and 31 December 2019 (at least 2 years and 3 months) and submitted reports on the use of the funds between 1 January 25 and March 2020).

According to the information presented by the Financial Inspection, it did not check the use of the funds because the Commission for Exceptional Situations instituted a moratorium on state controls until 1 June 2020 and because of the reduced work schedule of the institution's employees in connection with the COVID-19. The Financial Inspection did not publish the reports of beneficiary organisations on the use of the 2% income tax contributions.

11. The potential of the mechanism

Although the use of the 2% income tax designation mechanism in the Republic of Moldova is growing, the mechanism still has a lot of potential and has not yet managed to achieve enviable performance in the Republic of Moldova, compared to the countries where this mechanism is applied. The number of people who have the right to designate 2% of their income tax is still very high compared to the one who choose to do so.

Thus, in 2016, approximately 1,219,500 individuals in Moldova obtained taxable income and paid income tax²¹. Of these, in 2017, the first year when the mechanism was applied, only 21,204 designated 2% of their income tax to a non-commercial organisation, which

21 National Bureau of Statistics, www.statistica.md.

represents about **1.7%** of the total number of individuals who earned income, paid income tax, and had the right to designate 2% of their income tax in 2017. The income tax obtained by natural persons in 2016 represents 3,126,310,000 MDL²². Therefore, in 2017, there was the potential to designate as much as 62,526,200 MDL. In 2017, the taxpayers designated 4,140,868.43 MDL, which represents about **6.6%** of the overall potential of the mechanism.

In 2017, approximately 1,207,500 natural persons in Moldova obtained taxable income. Of these, 28,388 chose to designate themselves 2% of their income tax in 2018, the second year of the mechanism being applied, i.e., about **2.3%** of the total number of individuals who paid income tax and had the right to designate 2% of their income tax in 2018. The income tax obtained by natural persons in 2017 was 4,190,000,000 MDL²³. It follows that the potential of the percentage designation amount in 2018 was 83,800,000 MDL. From this amount, 6,493,612.03 MDL was designated in 2018, i.e., about **7.7%** of the overall potential of the mechanism.

In 2018, about 1,200,000 natural persons in Moldova obtained taxable income. Of these, 34,066 chose to designate themselves 2% of their income tax in 2019, the third year of the mechanism being applied, i.e., about **2.8%** of the total number of individuals who paid income tax and had the right to designate 2% of their income tax in 2019. The income tax obtained in 2018 amounted to 4,530,000,000 MDL²⁴. Therefore, there was the potential to designate as much as 90,600,000 MDL in 2019. Of this amount, 8,210,000 MDL was designated in 2019, i.e., about **9%** of the overall potential of the mechanism.

In 2019, about 1,220,000 natural persons in Moldova obtained taxable income. Of these, 26,776 chose to designate themselves 2% of their income tax in 2020, the fourth year of mechanism being applied, i.e., about **2.2%** of the total number of individuals who paid income tax and had the right to designate 2% of their income tax in 2020. The income tax obtained in 2019 amounted to 4,670,000,000 MDL²⁵. Therefore, there was the potential to designate in 2020 as much as 93,400,000 MDL. Of this amount, 6,321,773.4 MDL was designated in 2020, i.e., about **6.8%** of the overall potential of the mechanism.

22 Report „Natural persons income tax reports in 2016”, State Tax Service, 30 May 2016, page 5, <http://www.fisc.md/Upload/LinkedPDF/impozitul%20pe%20venit%20PF%202016.pdf>.

23 Report „Natural persons income tax reports in 2018”, State Tax Service, 24 May 2017, page 6, <https://www.sfs.md/Upload/Anexe/Conferin%C8%9Ba%2030.05.2019.pdf>

24 Idem.

25 Data provided by State Tax Service.

Table 18. *The potential of the 2% income tax designation mechanism in the Republic of Moldova.*

Source: State Tax Service

	Potential to designate 2% of the income tax	Actually designated	%
2017			
Number of contributors	1,219,500	21,204	1,7%
Contributed amount	62,526,200 MDL	4,140,868.43 MDL	6,6%
2018			
Number of contributors	1,207,500	28,388	2,3%
Contributed amount	83,800,000 MDL	6,493,612.03 MDL	7,7%
2019			
Number of contributors	1,200,000	34,066	2,8%
Contributed amount	90,600,000 MDL	8,210,000 MDL	9,06%
2020			
Number of contributors	1,220,000	26,776	2.2%
Contributed amount	93,400,000 MDL	6,321,773.4 MDL	6.8%

Conclusions

- **The COVID-19 pandemic, the state of emergency established by the authorities**, travel restrictions and the limited work schedule of the State Fiscal Service offices affected the 2% income tax designation mechanism in its fourth year of implementation. Both the number of designations and the overall contributed amount were lower than in the previous year. The tax reform by which the income tax was capped at 12% (compared to 7% and 18% in previous years) 'cut' the amounts designated by taxpayers who previously had the obligation to pay 18% of their wages as income tax, these individuals being also higher income taxpayers.
- **Taxpayers.** In 2020, some categories of taxpayers were still excluded from designating 2% of their income tax as contributions for CSOs, such as taxpayers practicing professional activities (lawyers, notaries, bailiffs, mediators), although the limitations in the law were remedied. Excluding from this mechanism of people who have the right to do so according to the law is not justified and undermines the mechanism's ability to constitute an indirect source of financing of the non-commercial sector.
- Most **2% designations** were made in May 2020, which can probably be explained by the fact that the state of emergency expired on 15 May 2020 and also by the fact of the deadline for filing income tax reports was extended to 29 May 2020. Although, overall, the majority of contributions were made in person, the number of people who chose to do so electronically did not decrease as much as those made in person at the State Fiscal Service offices or those sent by post.
- A considerable part of the contributions goes to **beneficiary organisations** that have connections with state institutions – they are created by former or current employees of state institutions – and/or that have connections with public and political persons. In total, in 2017-2020, these organisations received around 39% of all contributions. This type of beneficiary organisations increases every year. These organizations have not made public how they used the funds, nor the results obtained.

- **By location**, the main beneficiary of the 2% mechanism is still the Chisinau municipality. Although the amounts and the number of beneficiary organisations increased in 2020 compared to previous years, more effort is needed to popularize the 2% mechanism both among non-commercial organisations and taxpayers outside the Chisinau municipality.
- The authorities did not publish the beneficiary organizations' reports on the use of the funds received in 2017, the first year when the 2% income tax designation mechanism was implemented.

Recommendations

- **Authorities and beneficiary organisations** should implement awareness raising campaigns and promote the 2% income tax designation mechanism both at the national level, but especially at the local level;
- The capacities of non-commercial organisations to carry out awareness raising campaigns and promotion of the 2% income tax designation mechanism, especially outside the Chisinau municipality must be increased;
- The role of the authorities to inform and promote the income tax designation mechanism should be strengthened, including placing more detailed information about the 2% mechanism on the website of the **State Fiscal Service** and the **Public Services Agency**;
- **The Public Services Agency** to examine the possibility of registering beneficiary organisations online directly on the website of the PSA, and to allow for the submission of documents in electronic format outside the working hours of the PSA within the deadline (30 September at 23:59);
- **The State Fiscal Service** to train employees to inform taxpayers about the possibility of designating 2% of their income tax to an organization on the

Beneficiaries' List, as well as ensuring taxpayers' freedom to choose and their confidentiality;

- Beneficiary organizations that have connections with state institutions and/or public persons to be subject to rigorous control regarding eligibility to benefit from the 2% mechanism, as well as through the lens of the correctness of the use of the received funds both at the stage of registration on the Beneficiaries' List – by **the Public Services Agency**, and after registration – **by the Public Services Agency and the Financial Inspection**. These organizations should show greater accountability and transparency and make public the results achieved using these funds. It is important that the authorities promote the 2% income tax designation mechanism itself rather than the organisations to which they are affiliated.
- **The Financial Inspection** to publish on its web page the reports of the beneficiary organisations regarding the use of the received funds from the 2% mechanism, as well as the verified results achieved with these funds.

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