

REPORT

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Five years of implementation of the 2% mechanism in the Republic of Moldova

Sorina MACRINICI



LRCM

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REPORT

FIVE 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. The results of the implementation of the 2% mechanism for five years show an increasing trend both in terms of the number of contributions, and beneficiary organisations and in terms of the amounts received by the beneficiaries.

Number of contributions and taxpayers' profile. In 2021, 34,805 taxpayers designated 2%, which is about 25% more compared to 2020. Over five years, the number of 2% contributions increased by 64%. Of the total number of taxpayers who filed their income tax report, in 2021 about 20% chose to designate their 2% of the income tax themselves. This number has increased by about 8% compared to the first year of the mechanism. For five years, the number of taxpayers who were not obliged to file an income tax report, but did so specifically to designate their 2%, has steadily increased – from 44% in 2017 to 76% in 2021.

Most active taxpayers who designated their 2% for five years were between the ages of 31 and 50. Other age groups also increased, except for the 18–30-year-olds, which decreased significantly, from around 28% in 2017 to 16.5% in 2021. Between 2017 and 2021, men used the 2% mechanism more than women. However, over the five years in question, the proportion of women designating 2% of their income tax increased from 34% to 46% of the total number of taxpayers, and that of men decreased from 66% to 54%.

Beneficiary organisations. The number of organisations included in the 2% Beneficiaries' List in 2021 increased by 12% compared to the previous year and constituted 942 non-commercial organisations (818 associations, foundations, and private institutions and 124 denominations and component parts). For five years, the number of organisations registered on the 2% Beneficiary List has practically doubled. In 2021, of the 942 organisations that were registered on the 2% Beneficiary List, 665 organisations (approximately 71%) received 2% contributions. Over five years, the rate of organisations benefiting from the mechanism increased by 9%, from 62% to 71%.

The amounts of contributions. In 2021, the amount of 2% of income tax contributions increased compared to previous years. In total, 9,753,950 MDL worth of income tax were designated, which is 54% more than in 2020. The amount validated by the State Tax Service, i.e., the amount actually received by the beneficiaries, was **9,153,236.11 MDL (514,250 USD/424,281 EUR)**, i.e., 94% of the total amount designated. About 6% of the

designated amount (600,713.89 MDL) was not validated mainly due to income tax debts, as in previous years.

In five years of implementation of the 2% mechanism, the amounts directed and validated were gradually increasing, except for the pandemic year of 2020. Likewise, the ratio of the validated amount also increased – if in the first year it constituted only 68% of the total designated income tax, it was 94% over the five years in question. In total, in five years, about 89% of the amounts designated were validated and about 11% were not validated. In total, in five years, beneficiary organisations received **31,113,925.56 MDL (1,760,982 USD/ 1,525,621 EUR)** in income tax contributions.

After the validation of the 2021 contributions, 87% of them went to NGOs (7,983,720 MDL), and 13% to religious denominations (MDL 1,169,510). During the five years, most of the contributions went to NGOs – **27,710,575.09 MDL (89%)**, while religious denominations received **3,403,344.36 MDL (11%)** worth of income tax contributions.

On average, in 2021, each taxpayer designated about 280.24 MDL, of which about 262.98 MDL were validated. During the five years, the amounts of both validated and invalidated contributions were increasing, even in the pandemic year of 2020. On average, in 2021, each beneficiary organization was meant to receive about 14,667.60 MDL according to the total amount designated, and 13,764.30 MDL after the contributions were validated. These amounts are up compared to the pandemic year of 2020, but lower than that in 2018 and 2019.

The organization that received the largest amount of the 2% income tax contributions in 2021 is the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which received **1,057,644.87 MDL (11.6% of the total amount of validated contributions)**. This organization received the highest amount of income tax contributions for the fifth year consecutively.

A considerable part of the income tax contributions goes to organisations that are connected to state institutions – they are created by former or current employees of state institutions – and/or that have connections with public officials. The number of these organisations grows every year. In total, for five years, between 2017-2021, they received 33.5%, i.e., one-third of the total amount of the 2% income tax contributions.

Income tax contribution mechanism by location/residence. In 2021, as in previous years, the main beneficiary of the 2% mechanism was the Chisinau municipality. Most of the organisations that received income tax contributions are based in the Chisinau municipality, which represents about 63.5% (422 out of 665 beneficiaries) of the total number of

beneficiaries of this mechanism in 2021, while the other 35.5% are organisations based in other parts of the country. During the five years since the 2% mechanism was applied, the number of organisations receiving income tax contributions and are based in the Chisinau municipality went down from 86% to 63.5%. At the same time, the number of beneficiary organisations registered elsewhere in the country increased from 14% to 36.5% of the total number of beneficiary organisations.

Only 27% of the taxpayers who used the 2% mechanism in 2021 resided in the Chisinau municipality, while 73% were from the rest of the country. Between 2017-2021, taxpayers residing in the Chisinau municipality who used the mechanism constituted about 27-29% of the total number of taxpayers, and those residing elsewhere – about 70-73%.

Just as in previous years, in 2021, the 2% amount directed by taxpayers residing in the Chisinau municipality (52.3%) and those from other localities was almost equal (47.7%). Therefore, taxpayers from the Chisinau municipality had higher incomes in 2020 than taxpayers from the rest of the country. In total, for five years, between 2017-2021, taxpayers residing in Chisinau municipality (49.7%) and those residing elsewhere in the country (50.3%) designated almost equal amounts of income tax.

Also, just as in previous years, in 2021, the beneficiary organisations in the Chisinau municipality received the largest share of the contributions – **7,059,443.55 MDL**, i.e., approximately 77% of the total amount validated. Organisations from the rest of the country received **2,093,792.56 MDL** worth of income tax contributions, which represents about 22% of the total amount validated. In total, for five years, between 2017 and 2021, organisations based in the Chisinau municipality received about 80% of the contributions, and those based outside the Chisinau municipality – about 20%.

Online income tax report. Every year there is a slight increase in the number of income tax reports submitted online. In the first year, only 5% of the income tax designations were made online, while over five years they constituted around 31% of all designations. In 2021, 44% of the designations (4,301,870 MDL) were made online. This means that the income of taxpayers who filed electronic reports is higher than those who filed paper reports or quick returns.

The potential of the 2% mechanism. The statistics of the first five years of implementation of the 2% mechanism show that the mechanism is still in its early stages and has great potential. In 2021, only 2.9% of eligible taxpayers chose to exercise their right to designate their income tax contributions themselves and only 9.75% of the total possible amount of income tax contributions was actually designated.

Abbreviations

PSA	Public Services Agency
CET15/CET18 report	Natural persons income tax report
Religious denominations	Religious entities and their components parts
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 associations, foundations, and private entities
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. Number of income tax contributions

Number of taxpayers that designated their 2% of income tax

In 2021, the fifth year when individual taxpayers were able to designate 2% of their income tax, 34,805 taxpayers chose to use this mechanism¹. This represents an increase of about 25.5% over the number of taxpayers who used this mechanism in 2020. The number of 2% designations in 2021 solved the 'crisis' of the pandemic year of 2020 and almost reached the same levels as in 2019. Compared to the first year of implementation of the 2% mechanism, over five years, the number of taxpayers who directed 2% increased by 64%.

Table 1. Number of taxpayers that designated their 2% of income tax in 2017-2021

Year	Number of taxpayers that designated their 2% of income tax	+/- % compared to the previous year
2017	21,204	
2018	28,388	+33,8%
2019	35,937	+26,5%
2020	26,766	-25.5%
2021	34,805	+25.5%
+/- % total in five years (2017-2021)		+64%

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

Of the total number of taxpayers who filed their income tax report, in 2021, about 20% chose to designate their income tax. Compared to the first year of the mechanism, this number has increased by about 8%.

¹ This report was put together based on the report on the 2% mechanism in 2021 prepared by the State Tax Service of 24 December 2021, available at <https://sfs.md/uploads/files/Nota%202%25docx.pdf>, and based on the State Tax Service's reply no. 26-17/1-08/2570 of 17 January 2022 to the information request of the Legal Resources Centre from Moldova (LRCM), as well as based on previous reports of the LRCM regarding the 2% mechanism.

Table 2. Number of taxpayers who filed income tax reports and those who designated their 2% in 2017-2021

Year	Number of taxpayers who filed income tax reports	Number of taxpayers that designated their 2% of 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%
2021	170,599	34,805	20.4%

For five years, the number of taxpayers who do not have to file an income tax return but do so specifically to designate their income tax has gradually increased. Filing an income tax report is not mandatory, but according to art. 83 para. (2) lit. b) of the Tax Code, persons who want to use the 2% mechanism must file a tax report. In 2021, out of 34,805 taxpayers who used the 2% mechanism, 26,430 people (76%) were not required to file an income tax report. This number has steadily increased from 44% in 2017 to 76% in 2021.

Table 3. Share of taxpayers that designated their 2% of income tax, but were not obliged to file an income tax report in 2017-2021

Year	Number of taxpayers that designated their 2% of income tax	Number of taxpayers that were not obliged to file an income tax report but chose to do so to designate their 2% of the income tax	%
2017	21,204	9,282	43.8%
2018	28,388	13,513	47.6%
2019	35,937	24,448	68%
2020	26,766	14,499	54%
2021	34,805	26,430	76%

Number of valid and invalid designation

Of the total of 34,805 2% designations made in 2021, 32,971 (about 95%) were validated by the STS, and 1,834 (about 5.3%) were not validated². Starting with the third year of the 2% mechanism, the number of validated designations was quite high, between 93-95%. The most common reason behind non-validation was outstanding debts on the taxpayers' part.

Table 4. Number of valid and invalid designations made in 2017-2021

Year	Total number of designations	Validated designations	% of the total	Invalidated designations	% of the total
2017	21,204	16,182	76.3%	5,022	23.7%
2018	28,388	25,519	89.9%	2,869	10.1%
2019 ³	35,937	34,066	94.8%	1,880	5.2%
2020	26,766	24,960	93.2%	1,816	6.8%
2021	34,805	32,971	94.7%	1,834	5.3%

- 2 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 before 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.
- 3 For 2019, the figures are estimates, being calculated based on the total number of reports submitted, which was divided by 2, because people filed two income tax reports following the tax reform in the autumn of 2018.

2. How did the 2% mechanism work in 2021?

In 2021, taxpayers (natural persons) filed income tax report form CET18 to the STS for the income obtained in 2020. The deadline for filing these reports was 30 April 2021.

When did the taxpayers designate the 2% of their income tax

In 2021, taxpayers designated the 2% of their income tax mainly in the last two months before the deadline for filing income tax reports, and even more so in the last two weeks. This trend was also noticeable in previous years, the exception being the year 2020 when, due to the travel restrictions established by the authorities to stop the COVID-19 pandemic, most of the 2% designations were made in May. This data is important for beneficiary organisations and can help decide when to campaign more effectively for contributions.

Table 5. Number of 2% income tax designations made in 2020, presented by month

Year	January	February	March	April	May	Last 14 days	Total designations
2017	1	107	4,611	13,949	2,536 ⁴	6,908	21,204
% of the total	0.005%	0.5%	21.7%	65.8%	12%	32.6%	
2018	11	2,180	12,477	12,096	1,624 ⁵		28,388
% of the total	0.04%	7.7%	44%	42.6%	5.7%	-	
2019⁶	8	763	19,891	36,227	8,471 ⁷	24,103	65,360
% of the total	0.01%	1.2%	30.4%	55.4%	13%	37%	
2020	25	2,159	6,901	2,269	15,422 ⁸	12,947	26,776
% of the total	0.1%	8%	25.8%	8.5%	57.6%	48.4%	
2021	58	3,364	15,821	15,562		9,295	34,805
% of the total	0.2%	9.6%	45.5%	44.7%	-	26.7%	

⁴ In 2017, the deadline for filing income tax reports was 2 May 2017.

⁵ In 2018, the deadline for filing income tax reports was 2 May 2018.

⁶ For 2019, the figures are estimates, being calculated based on the total number of filed reports, which was divided by 2, because people filed two income tax returns following the tax reform of the autumn of 2018.

⁷ In 2020, the deadline for filing income tax reports was 2 May 2019.

⁸ In 2021, the deadline for filing income tax reports was 29 May 2020.

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

In general, taxpayers prefer to designate their income tax contributions on paper-based declarations or through the quick reports filed at the territorial offices of the STS. However, every year there is a slight increase in the number of online tax reports. In the first year, only 5% of the income tax designations were made online, while over five years they constituted around 31% of all designations.

At the same time, we consider it premature to introduce the obligation of the online tax report when designating the 2% of the income tax. The 2% mechanism is still in its early stages and needs more awareness-raising before such a reform is implemented. The decrease in the number of designations in 2020 – the pandemic year, demonstrated that such a major change could affect the 2% mechanism. The transition of the 2% mechanism to the online form could be achieved without affecting the 2% mechanism when the online form will be mandatory for all taxpayers when filing income tax reports.

Table 6. Number of designations made on paper or online in 2017-2021

	2017	2018	2019 ⁹	2020 ⁸	2021
Filing tax reports online or on paper	20,161	22,439	49,135	17,599	23,876
% of the total	95%	79%	75%	70.5%	68.6%
Online report	1,043	5,949	16,225	7,361	10,929
% of the total	5%	21%	25%	29.5%	31.4%
Total	21,204	28,388	65,360	24,960	34,805

⁹ For 2019, the figures are estimates, being calculated based on the total number of filed reports, which was divided by 2, because people filed two income tax returns following the tax reform of the autumn of 2018.

¹⁰ The data provided by the SFTS referred to the number of validated income tax designations, compared to the other years for which the data reflects the total of income tax designations.

3. Beneficiaries' profile

Beneficiaries' profile by age

As in previous years, those who designated their 2% for five years were between the ages of 31 and 50, accounting for 19,344 total designations (55.6%) and 18,281 validated designations (52.5%). The next active age group were between 51 and 70 years old with 9,386 total designations (27%) and 8,828 validated designations (25.4%). Taxpayers aged 18 to 30 were less active than in previous years – 5,749 total designations (16.5%) and 5,550 validated designations (16%). As in previous years, taxpayers over the age of 70 also used the 2% mechanism (326 total designations and 312 validated designations – about 1% of all designations).

Table 7. Taxpayers who designated 2% of their income tax in 2021, by age

Taxpayers' age	Number of designations in 2021				
	Total	Validated	% of the total number of designations	Invalidated	% of the total number of designations
18-30	5,749	5,550	16%	199	0.6%
31-50	19,344	18,281	52.5%	1,063	3%
51-70	9,386	8,828	25.4%	558	1.6%
> 70	326	312	0.9%	14	0.04%
Total	34,805	32,971	-	1,834	-

Between 2017-2021, taxpayers aged 31-50 years old used the 2% mechanism the most. This age group grew steadily over the course of five years, constituting about 55% of all taxpayers. Those aged 18-30 years old, on the other hand, only started increasing in 2018 and 2019. Compared to the total number of taxpayers, the proportion of taxpayers aged 18-30 decreased significantly, from around 28% in 2017 to 16.5% in 2021. Instead, both the number and the share of taxpayers aged between 51-70 have increased – from around 18% in 2017 to 27% in 2021. Even taxpayers over 70 years old used the mechanism more actively, reaching about 1% of all taxpayers.

Table 8. Number of designations in 2017-2021, by age

Taxpayers' age	2017	2018	2019	2020	2021
18-30	5,921	6,700	7,041	5,029	5,749
% of the total	27.9%	23.6%	19.6%	18.8%	16.5%
31-50	11,495	15,319	19,669	14,526	19,344
% of the total	54.2%	54%	54.7%	54.2%	55.6%
51-70	3,729	6,248	8,985	6,968	9,386
% of the total	17.6%	22%	25%	26%	27%
> 70	59	121	242	253	326
% of the total	0.3%	0.4%	0.7%	1%	0.9%
Total	21,204	28,388	35,967	26,776	34,805

Taxpayer's profile by gender

According to the gender distribution of contributors who designated the 2% of their income tax, in 2021, men (18,877 total designations, which constitutes 54% of the total number of designations, of which 17,820 were validated) were more active than women (51.2% of the total number of designations). As in previous years, women directed in a smaller number – 15,928 total designations (46%), of which 15,151 were validated (43.5% of the total number of designations).

Table 9. Taxpayers who designated their income tax in 2021 profile by gender

Taxpayers' gender	Number of designations in 2021				
	Total	Validated	% of the total number of designations	Invalidated	% of total designations
Women	15,928	15,151	43.5%	777	2.2%
Men	18,877	17,820	51.2%	1,057	3%
Total	34,805	32,971	-	1,834	-

Between 2017-2021, men used the 2% mechanism more than women. However, over the five years in question, the proportion of women designating 2% of their income tax increased from 34% to 46% of the total number of taxpayers, and that of men decreased from 66% to 54%.

Table 10. Number of income tax designations in 2017-2021, by gender

Taxpayers' gender	2017	2018	2019	2020	2021
Women	7,146	10,877	14,943	11,207	15,928
% of the total	33.7%	38.3%	41.6%	41.9%	45.8%
Men	14,058	17,511	20,994	15,569	18,877
% of the total	66.3%	61.7%	58.4%	58.1%	54.2%
Total	21,204	28,388	35,937	26,776	34,805

4. Beneficiary organisations' profile

Organisations registered of the 2% Beneficiaries' List

To receive income tax designations from taxpayers, non-commercial organisations (civil society associations, foundations and private institutions) and religious entities (religious denominations and their component parts) register on the 2% Beneficiaries' List at the Public Services Agency (hereinafter PSA) in September of the previous year for which income tax is filed and designated. The 2% Regulations provide that organisations included on the 2% Beneficiaries List in previous years are automatically enrolled by PSA on the 2% Beneficiaries' List of the next year, provided they have no outstanding debts to the national public budget for previous fiscal periods or have not requested to be excluded from the 2% mechanism¹¹.

For 2021 (organisations applied in September 2020), PSA registered 942 organisations on the 2% Beneficiaries' List, about 12% more than in the previous year. In the second and third years of implementation of the 2% mechanism, the number of registered organisations increased by about 23%, and in the following two years only by 15% and 12%, respectively. Over the five years in question, the number of organisations registered on the 2% Beneficiaries List has increased by 95%.

¹¹ GD no. 1286 of 30 November 2016 for the approval of the Regulations regarding the percentage designation mechanism, p. 6.

Table 11. Number of organisations that registered on the 2% Beneficiaries' List in 2017-2021

	Total number of organisations that registered on the 2% Beneficiaries'	+/- % compared to the previous year
2017	484	
2018	594	+23%
2019	731	+23%
2020	844	+15%
2021	942	+12%
+/- % total for 5 years (2017-2021)		+95%

Among the 942 organisations registered on the 2% Beneficiaries' List for 2021, 818 organisations (about 87%) were civil society associations, foundations, or private institutions (non-commercial organisations), and 124 (about 13%) – religious entities and their component parts (religious entities). The ratio of non-commercial to religious organisations remained almost unchanged, between 85-87% for non-commercial and between 13-15% for religious.

Table 12. Type of organisations registered on the 2% Beneficiaries' List in 2017-2021

	Civil society associations, foundations, and private institutions	Religious entities and their component parts	Total number of organisations registered on the 2% Beneficiaries' List
2017	413	71	484
% of the total number of organisations	85%	15%	
2018	511	83	594
% of the total number of organisations	86%	14%	
2019	634	97	731
% of the total number of organisations	87%	13%	
2020	732	112	844
% of the total number of organisations	87%	13%	
2021	818	124	942
% of the total number of organisations	87%	13%	

Organisations that received income tax contributions

In 2021, of the 942 organisations that were registered in the 2% Beneficiaries' List, 665 organisations (approximately 71%) received income tax contributions. Over five years, the rate of organisations benefiting from the 2% mechanism increased by 9%, from 62% to 71%.

Table 13. Number of beneficiary organisations that received income tax contributions between 2017-2021

	Number of organisations registered on the 2% Beneficiaries' List	Number of organisations that received income tax designations	% of the number of registered organisations
2017	484	302	62%
2018	594	393	66%
2019	731	504	69%
2020	844	534	63%
2021	942	665	71%

Of the 665 organisations that received 2% designations in 2021, 569 (86%) were civil society associations, foundations, or private institutions (non-commercial organisations), and 96 (about 14%) – religious entities and their component parts (religious entities). This ratio was quite similar in previous years as well, varying between 85-87% for non-commercial organisations and between 13-15% for religious entities.

Table 14. Types of organisations that received income tax contributions in 2017-2021

	Civil society associations, foundations, and private institutions	Religious entities and their component parts	Total number of organisations registered on the 2% Beneficiaries' List
2017	260	42	302
% of the total number of organisations	86%	14%	
2018	335	58	393
% of the total number of organisations	85%	15%	
2019	427	77	504
% of the total number of organisations	85%	15%	

	Civil society associations, foundations, and private institutions	Religious entities and their component parts	Total number of organisations registered on the 2% Beneficiaries' List
2020	463	71	534
% of the total number of organisations	87%	13%	
2021	569	96	665
% of the total number of organisations	86%	14%	

5. Contribution amounts

Contributions amounts, validated and invalidated

In 2021, the total amount designated and validated increased substantially compared to the previous year, when the 2% mechanism was affected by the COVID-19 pandemic. Thus, the total amount of income tax contributions, that taxpayers designated, before validation, was **9,753,950 MDL**, 54% more than in the previous year. The income tax amount validated by the STS, i.e., the amount actually received by the beneficiaries, constituted **9,153,236.11 MDL (514,250 USD/424,281 EUR¹²)**, i.e., 94% of the total amount contributed. The unvalidated contributions constituted 600,713.89 MDL, which is only 6% of the total contributed amount.

In five years of implementation of the 2% mechanism, the income tax contributions designated and validated were increasing, except for the pandemic year of 2020. Likewise, the ratio of the validated amount also increased – if in the first year, it constituted only 68% of the total amount contributed, over five years it was 94%. In total, in five years, about 89% of the designated income tax was validated and about 11% was not validated. In total, in five years, beneficiary organisations received **31,113,925.56 MDL (1,760,982 USD/1,525,621 EUR)** as income tax contributions.

¹² According to the exchange National Bank of Moldova exchange rate as of 30 April 201 (the last day for income tax designations), USD 1=MDL 17.7992 și EUR 1=MDL 21.5735, <https://www.bnm.md/ro/content/ratele-de-schimb>.

Table 15. Designated, validated, and invalidated income tax contributions in 2017-2021

	Total amount of income tax contributions	Validated amount of the contributions	% of the total amount	Invalidated amount of the contributions	% of the total amount
2017	4,140,868.43 MDL	2,821,243.60 MDL	68%	1,319,624.83 MDL	32%
2018	6,493,612.03 MDL	5,631,042.36 MDL	87%	862,569.67 MDL	13%
+/- % than the previous year	+57%	+ 99.6%	-	- 35%	-
2019	8,210,000 MDL	7,691,666.3 MDL	94%	518,333.7 MDL	6%
+/- % than the previous year	+26%	+37%	-	-40%	-
2020	6,321,773.4 MDL	5,816,737.19 MDL	92%	505,036.21 MDL	8%
+/- % than the previous year	-23%	-24%	-	-2.6%	-
2021	9,753,950 MDL	9,153,236.11 MDL	94%	600,713.89 MDL	6%
+/- % than the previous year	+54%	+57%	-	+19%	-
Total for 5 years	34,920,203.86 MDL	31,113,925.56 MDL	89%	3,806,278.30 MDL	11%

Income tax contribution amounts, by beneficiary type

NGOs or religious entities registered on the 2% Beneficiaries' List registered by PSA can benefit from the 2% income tax designation mechanism. After designations were validated, in 2021, NGOs received 7,983,720 MDL, 55% more than in 2020. Religious entities received 1,169,510 MDL worth of income tax, 71% more than in the previous year. In 2021, about 87% of the income tax contributions went to NGOs, and about 13% – to religious entities. Beneficiary organisations received in 2021 more income tax contributions than in the pre-pandemic year 2019.

In five years, most of the income tax contributions went to NGOs – **27,710,575.09 MDL** (89%), while religious entities received **3,403,344.36 MDL** (11%).

Table 16. Income tax contributions received by beneficiary organisations in 2017-2021

	Total amount received by beneficiaries	Income tax contributions received by NGOs	% of the total amount	Income tax contributions received by religious entities	% of the total amount
2017	2,821,243.60 MDL	2,543,114.45 MDL	90%	278,129.15 MDL	10%
2018	5,631,042.36 MDL	5,168,081.41 MDL	91,8%	462,960.95 MDL	8,2%
+/- % compared to the previous year	+99.6%	+103%	-	+66%	-
2019	7,691,666.30 MDL	6,882,518.50 MDL	89,5%	809,147.80 MDL	10,5%
+/- % compared to the previous year	+37%	+33%	-	+75%	-
2020	5,816,737.19 MDL	5,133,140.73 MDL	88.2%	683,596.46 MDL	11.8%
+/- % compared to the previous year	-24%	-25%	-	-16%	-
2021	9,153,236.11 MDL	7,983,720 MDL	87%	1,169,510 MDL	13%
+/- % compared to the previous year	+57%	+55%	-	+71%	-
Total for 5 years	31,113,925.56 MDL	27,710,575.09 MDL	89%	3,403,344.36 MDL	11%

Income tax contributions designated online

In 2021, 44% (4,301,870 MDL) of the income tax contributions were directed by taxpayers online. At the same time, only 31% of all designations were filed online (see “How did the 2% mechanism work in 2021 sections”). This means that the taxpayers who filed online income tax reports have a higher income than those who filed paper-based reports or quick reports at STS offices.

Table 17c, by mode of filing

Total amount of income tax designated in 2021	9,753,950 MDL
Income tax contributions designated on paper or by quick report	5,452,080 MDL
% of the total	56%
Income tax contributions designated online	4,301,870 MDL
% of the total	44%

Average amount of designated income tax

On average, in 2021, each taxpayer designated about 280.24 MDL, of which about 262.98 MDL were validated. In five years, both amounts were increasing, even in the pandemic year of 2020.

Table 18. Average amount of designated income tax in 2017-2021, per taxpayer

	2017	2018	2019	2020	2021
Average amount of income tax designated per taxpayer	195.29 MDL	228.74 MDL	228.45 MDL	236.19 MDL	280.24 MDL
Average amount of validated income tax designations per taxpayer	133.05 MDL	198.35 MDL	214.03 MDL	217.32 MDL	262.98 MDL

On average, in 2021, approximately 14,667.60 MDL was directed to each beneficiary organisation according to the total amount designated, and after the contributions were validated – approximately 13,764.30 MDL. These amounts are increasing compared to the pandemic year of 2020, but lower than in 2018 and 2019.

Table 19. Average amount of designated income tax in 2017-2021, per beneficiary

	2017	2018	2019	2020	2021
Average amount of income tax designated per beneficiary	13,711.48 MDL	16,523.00 MDL	16,289.68 MDL	11,838.53 MDL	14,667.60 MDL
Average amount of validated income tax designations per beneficiary	9,341.86 MDL	14,328.35 MDL	15,261.24 MDL	10,892.77 MDL	13,764.30 MDL

Highest and lowest amount of designated income tax contributions

The beneficiary that received the largest amount of contributions in 2021 is the Civil Society Association of Veterans and Pensioners of the Ministry of Internal Affairs of the Republic of Moldova, which received 1,057,644.87 MDL (11.6% of the total amount of 2%). This organization received the highest amount of income tax contributions for the fifth year in a row. The smallest amount of contributions, which equals 3.44 MDL was designated to the Civil Society Association 'Lărgenii de Pretutindenii'.

Income tax contributions received by organisations that have connections with state institutions and/or public persons

A considerable part of the income tax contributions goes to organisations that are connected to state institutions – created by former or current employees of state institutions – and/or that have connections 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 amount of income tax contributions five years in a row. This is followed by the Civil Society Association of Veterans and Pensioners of the Main State Fiscal Inspectorate 'UNI-M' and the 'Miron Şor' Foundation. These organisations are on the 2% Beneficiaries' List that in 2017-2021 received some of the largest amounts of income tax contributions.

Organisations that are connected to state institutions and/or public persons continue to be at the top of the list of organisations that received the largest amounts of income tax contributions ('top 20'), although due to the COVID-19 pandemic, the amounts received by these organisations have gone down compared to previous years.

Table 20. Organisations that are connected to state institutions and/or public persons that received income tax contributions in 2017-2021

	2017	2018	2019	2020	2021	Total for 5 years
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	1,057,644.87 MDL	6,687,885.16 MDL

Civil Society Association of Veterans and Pensioners of the Main State Tax Service 'UNI-M'	34,849.70 MDL	231,399.55 MDL	587,134.00 MDL	414,194.92 MDL	461,513.91 MDL	1,729,092.08 MDL
"Miron Şor' Foundation	282.03 MDL	472,716.15 MDL	441,611.00 MDL	164,258.97 MDL	84,319.04 MDL	1,163,187.19 MDL
Civil Society Association of Prosecutors of the Republic of Moldova		118,337.18 MDL	171,220.53 MDL	14,643.78 MDL	33,331.25 MDL	337,532.74 MDL
Civil Society Association of the Veterans' League of the Armed Forces of the Republic of Moldova				87,204.70 MDL	170,703.51 MDL	257,908.21 MDL
Association of Veterans' Organisations Union of the Carabinieri Troops of the Republic of Moldova				83,320.08 MDL	79,618.37 MDL	162,938.45 MDL
Veterans' Association of the 'Fulger' Special Forces Battalion			65,934.55 MDL	4,119.94 MDL		70,054.49 MDL
Civil Society Association of Veterans of the Operational Services of Internal Affairs Bodies					1,987.68 MDL	1,987.68 MDL
Total for 5 years	1,409,687.62 MDL	2,513,751.63 MDL	3,042,604.46 MDL	1,555,423.66 MDL	1,889,118.63 MDL	10,410,586.00 MDL

In total, for five years, between 2017-2021, they received 33.5%, i.e., one-third of the total amount of the 2% income tax contributions. These organisations are not visible in the non-commercial sector and their work is not known to the public. These organisations do not publish information about the activities funded with the income tax contributions they received, nor do they make public campaigns to have the public designate their income tax. Given the lack of information on the 2% information campaigns of these organisations, as well as how they use the 2% amounts received, it is not very clear how these organisations managed to convince so many taxpayers to designate 2% of their income tax in their favour.

Table 21. Income tax contribution amounts received by organisations that are connected to state institutions and/or public persons compared to the total amount of contributions

	Income tax contribution amounts received by beneficiary organisations	Income tax contribution amounts received by organisations that are connected to state institutions and/or public persons	% of the total received amount
2017	2,821,243.60 MDL	1,409,687.62 MDL	50%
2018	5,631,042.36 MDL	2,513,751.63 MDL	44.6%
+/- % compared to the previous year	+99%	+78%	
2019	7,691,666.30 MDL	3,042,604.46 MDL	39.5%
+/- % compared to the previous year	+37%	+21%	
2020	5,816,737.19 MDL	1,555,423.66 MDL	26.7%
+/- % compared to the previous year	-24%	-49%	
2021	9,153,236.11 MDL	1,887,130.95 MDL	20.6%
+/- % compared to the previous year	+57%	+21%	
Total for 5 years	31,113,925.56 MDL	10,410,586.00 MDL	33.5%

6. Income tax contribution mechanism by location/residence

Taxpayers' profile by residence

In 2021, as in previous years, most taxpayers who designated 2% of their income tax resided outside the Chisinau municipality. Out of 32,971¹³ taxpayers (natural persons) whose designations were validated in 2021, 8,969 taxpayers resided in the Chisinau municipality, which is about 27% of taxpayers who used the 2% mechanism, and the rest of the taxpayers (about 73%) resided elsewhere in the country.

¹³ This number represents only taxpayers whose designations were valid in 2021, compared to a total of 34,805 taxpayers who made both validated and invalidated designations.

Between 2017-2021, taxpayers residing in the Chisinau municipality who designated 2% of their income tax constituted about 27-29% of the total number of taxpayers, and those residing elsewhere in the country – about 70-73%.

Table 22. Number of taxpayers who made valid designations in 2017-2021, by residence

	Number of taxpayers that made valid designations	Number of taxpayers resided in the Chisinau municipality that made valid designations	% of the total number	Number of taxpayers residing elsewhere in the country that made valid designations	% of the total number
2017	16,182	4,766	29.5%	11,416	70.5%
2018	25,519	7,296	28.6%	18,223	71.4%
+/- % compared to the previous year	+57.7%	+53%	-	+59.6%	-
2019	34,066	9,827	28.8%	24,239	71.2%
+/- % compared to the previous year	+33.5%	+34.7%	-	+33%	-
2020	24,960	6,904	27.7%	18,056	72.3%
+/- % compared to the previous year	-26.7%	-29.7%	-	-25.5%	-
2021	32,971	8,969	27.2%	24,002	72.8%
+/- % compared to the previous year	+32%	+30%	-	+33%	-

Beneficiary organisations' profile by location

Most of the organisations that received income tax contributions in 2021 were based in the Chisinau municipality, which represents 63.5% of the total number of 2% Beneficiaries in 2020. Beneficiary organisations registered elsewhere in the country represent about 36.5%.

In five years since the 2% mechanism was implemented, the number of organisations receiving income tax contributions based in the Chisinau municipality decreased from 86% to 63.5%. At the same time, the number of beneficiary organisations registered elsewhere in the country increased from 14% to 36.5% of the total number of beneficiary organisations. The largest increase registered by organisations based elsewhere in the country was recorded in the pandemic year of 2020 (+140%), when practically all other indicators were decreasing, including the number of organisations based in the Chisinau

municipality (-18%), which means that organisations based elsewhere in the country have turned this crisis into an opportunity.

Table 23. The number of beneficiary organisations that received income tax contributions in 2017-2021, by location

	Total number of beneficiary organisations	Number of beneficiary organisations in the Chisinau municipality	% of the total number	Number of beneficiary organisations located elsewhere in the country	% of the total number
2017	302	260	86%	42	14%
2018	393	335	85.2%	58	14.8%
% compared to the previous year	+30%	+28.8%	-	+38%	-
2019	504	427	84.7%	77	15.3%
% compared to the previous year	+28%	+27.5%	-	+32.8%	-
2020	534	349	65.4%	185	34.6%
% compared to the previous year	+6%	-18%	-	+140%	-
2021	665	422	63.5%	243	36.5%
% compared to the previous year	+24.5%	+21%	-	+31.4%	-

Income tax contributions, by taxpayers' residence

In 2021, the income tax amount directed by taxpayers residing in the Chisinau municipality (52.3%) and those from other localities was almost equal (47.7%), which is similar to the previous years.

In total, in five years, between 2017-2021, taxpayers residing in the Chisinau municipality designated about 49.7% of income tax contributions, and those residing elsewhere in the country – 50.3%.

Table 24. Validated income tax designations in 2017-2021, by taxpayers' residence

	Total amount of validated designations	Total amount of designations made by taxpayers residing in the Chisinau municipality	% of the total validated amount	Total amount of designations made by taxpayers residing elsewhere in the country	% of total validated amount
2017	2,821,243.60 MDL	1,278,244.12 MDL	45,3%	1,542,999.48 MDL	54,7%
2018	5,631,042.36 MD	MDL 2,751,008.61	48,9%	2,880,033.75 MDL	51,1%

	Total amount of validated designations	Total amount of designations made by taxpayers residing in the Chisinau municipality	% of the total validated amount	Total amount of designations made by taxpayers residing elsewhere in the country	% of total validated amount
+/- % compared to the previous year	+99%	+115%	-	+86,7%	-
2019	7,691,666.30 MDL	3,712,877.11 MDL	48,3%	3,978,789.19 MDL	51,7%
+/- % compared to the previous year	+37%	+35%	-	+38,2%	-
2020	5,816,737.19 MDL	2,926,101.73 MDL	50.3%	2,890,635.46 MDL	49.7%
+/- % compared to the previous year	-24%	-21%	-	-27%	-
2021	9,153,236.11 MDL	4,786,200 MDL	52.3%	4,367,036.11 MDL	47.7%
+/- % compared to the previous year	+57.4%	+63.6%	-	+51%	-
Total 2017-2021	31,113,925.56 MDL	15,454,431.57 MDL	49.7%	15,659,493.99 MDL	50.3%

Income tax contributions by beneficiary's location

In 2021, as in previous years, the beneficiary organisations located in the Chisinau municipality received the largest share of the income tax contributions – **7,059,443.55 MDL**, i.e., approximately 77% of the total amount validated. Organisations from the rest of the country received **2,093,792.56 MDL** worth of designations, which is about 22% of the total amount validated.

In total, for five years, between 2017 and 2021, organisations based in the Chisinau municipality received about 80% of the contributions, and those based outside the Chisinau municipality – about 20%.

Table 25. Income tax contributions received by beneficiaries in 2017-2021, by location

	Total validated amount	Income tax contributions received by organisations located in the Chisinau municipality	% of the total	Income tax contributions received by organisations located elsewhere in the country	% of the total
2017	2,821,243.60 MDL	2,425,632.65 MDL	86%	395,610.95 MDL	14%
2018	5,631,042.36 MDL	4,660,086.47 MDL	83%	970,955.89 MDL	17%

	Total validated amount	Income tax contributions received by organisations located in the Chisinau municipality	% of the total	Income tax contributions received by organisations located elsewhere in the country	% of the total
+/- % compared to the previous year	+99%	+92%	-	+145%	-
2019	7,691,666.30 MDL	6,210,446.56 MDL	81%	1,481,219.74 MDL	19%
+/- % compared to the previous year	37%	+33%	-	+53%	-
2020	5,816,737.19 MDL	4,586,817.26 MDL	79%	1,229,919.93 MDL	21%
+/- % compared to the previous year	-24%	-26%	-	-17%	-
2021	9,153,236.11 MDL	7,059,443.55 MDL	77%	2,093,792.56 MDL	23%
+/- % compared to the previous year	+57.4%	+54%	-	+70%	-
Total 2017-2021	31,113,925.56 MDL	24,942,426.49 MDL	80%	6,171,499.07 MDL	20%

7. The potential of the 2% mechanism

Although the 2% income tax designation mechanism in the Republic of Moldova is increasingly more popular, the 2% mechanism still has a lot of room for growth and has not yet managed to achieve enviable performance in the Republic of Moldova, compared to other countries where this mechanism is applied. The number of people who have the right to designate their income tax is still very high compared to the number of people who actually used this mechanism.

In 2021, about 1.18 million natural persons in Moldova obtained taxable income¹⁴. Of these, 34,805 chose to designate their income tax in 2021, the fifth year of the mechanism, i.e., about **2.9%** of the total number of individuals who obtained income in 2020, paid income tax and were entitled to designate 2% of their income tax in 2021. The rate of taxpayers who designated their 2% compared to the total number

¹⁴ The press release of the State Tax Service of 28 May 2021, available at <https://sfs.md/ro/stiri/serviciul-fiscal-de-stat-a-prezentat-rezultatele-receptionarii-declaratiilor-cu-privire-la-the-income-tax-for-the-year-2020>.

of taxpayers who had the right to redirect increased over the five years in question years from 1.7% to 2.9%.

All income tax in 2020 amounts to 5 billion MDL¹⁵. Therefore, the potential of the mechanism in 2021 (i.e., 2% of this amount) was 100 million MDL. Of this amount, a total of 9,753,950 MDL was designated in 2021, i.e., about 9.75% of the potential amount. This rate increased from 6.6% in 2017 to **9.75%** in 2021.

Table 26. The potential of the 2% mechanism in the Republic of Moldova

	Potential of the 2% mechanism	Income tax contributions	% of the potential
2017			
Number of taxpayers	1,219,500	21,204	1,7%
Amount of contributions	62,526,200 MDL	4,140,868.43 MDL	6,6%
2018			
Number of taxpayers	1,207,500	28,388	2,3%
Amount of contributions	83,800,000 MDL	6,493,612.03 MDL	7,7%
2019			
Number of taxpayers	1,200,000	34,066	2,8%
Amount of contributions	90,600,000 MDL	8,210,000 MDL	9,06%
2020			
Number of taxpayers	1,220,000	26,776	2.2%
Amount of contributions	93,400,000 MDL	6,321,773.4 MDL	6.8%
2021			
Number of taxpayers	1,180,000	34,805	2.9%
Amount of contributions	100,000,000 MDL	9,753,950 MDL	9.75%

¹⁵ Data provided by the State Tax Service.

8. Other aspects regarding the implementation of the 2% mechanism

Ensuring proper use of the income tax contributions

Beneficiary organisations are obliged to submit reports to the State Tax Service regarding the use of the received income tax contributions (p. 30 of the Regulation on the 2% mechanism). The Financial Inspectorate will publish these reports on its web page, excluding personal data (p. 32 of the Regulation) and will verify how were the income tax contributions used since they are public money (p. 33 of the Regulation).

According to the information presented by the Financial Inspectorate, it did not verify how were the income tax contributions used in 2021, because it is undergoing institutional reorganization. In 2020 (the first year in which organisations were to file reports on the use of income tax contributions), the Financial Inspectorate indicated that it did not carry out the control because the Commission for Exceptional Situations established a moratorium on state controls until 1 June 2020 and because the reduced schedule of the institution's employees installed due the COVID-19 pandemic. The Financial Inspectorate has not yet published any report of the beneficiary organisations regarding the use of the income tax contributions received in 2017 and 2018.

The taxpayer notification mechanism

According to the changes introduced in January 2019 in the Regulation on the percentage designation mechanism, the STS was to develop a mechanism to electronically notify taxpayers who designated 2% of their income tax about the status of the designation through the taxpayer's personal electronic cabinet mailbox on the STS portal (p. 261 of the Regulation). According to the information provided by the STS, this mechanism had not yet been developed and implemented at the time of writing of this report.

Conclusions and recommendations

- The results of the implementation of the 2% mechanism for five years show an increasing trend both in terms of the number of designations, of the beneficiary organisations and in terms of the amounts received by the beneficiaries. However, further efforts are needed from the authorities, the non-commercial organisations, and the donor community to promote the 2% mechanism, including through taxpayer awareness-raising campaigns and training for non-commercial organisations.
- From a location/residence point of view, the main beneficiary of the 2% mechanism is still the Chisinau municipality. Although the income tax contributions and the number of beneficiary organisations are increasing in 2021 compared to previous years, more effort is needed to popularize the 2% mechanism both among non-commercial organisations and taxpayers outside the municipality of Chisinau.
- A considerable part of the income tax contributions goes to organisations that are connected to state institutions – they are created by former or current employees of state institutions – and/or that have connections with public officials. In total, for five years, between 2017-2021, they received 33.5%, i.e., one-third of the total amount of the 2% income tax contributions. The number of these organisations grows every year. These organisations have not made public how they used the received funds and information on their achievements. These organisations should show greater accountability and transparency and publish information on their achievements thanks to these donations. The State Tax Service must train employees to communicate to individual taxpayers about the possibility of directing 2% of their income tax to an organization from the 2% Beneficiaries' List, as well as ensure the free consent of the taxpayer and the confidentiality of the 2% mechanism.
- The authorities did not publish the beneficiary organisations' reports on the use of the 2% amounts received in 2017 and 2018, the first two years of implementation of the 2% mechanism. The Financial Inspectorate is to verify how were the public money derived from the 2% mechanism spent, to publish on its web page the reports of the beneficiary organisations regarding the use of the income tax contributions, as well as the results of the controls regarding the use of the 2% income tax contributions.

LEGAL RESOURCES CENTRE FROM MOLDOVA



A. Șciusev street, 33,
MD-2001 Chisinau,
Republica Moldova



+373 22 84 36 01



+373 22 84 36 02



contact@crjm.org



www.crjm.org



[crjm.org](https://www.facebook.com/crjm.org)



[crjmolдова](https://twitter.com/crjmolдова)