TECHNICAL ASSISTANCE REPORT

REPUBLIC OF MOLDOVA

Tax Audit Program Diagnostic

FEBRUARY 2025

Prepared By

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Authoring Department:

Fiscal Affairs Department

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Abbreviations and Acronyms

AEOI	Automatic Exchange of Information
AGD	Audit General Department
BEPS	Base Erosion and Profit Shifting
CD	Capacity Development
CGD	Compliance General Department
CMS	Case Management System
CIT	Corporate Income Tax
CRM	Compliance Risk Management
EOI	Exchange of Information
FAD	Fiscal Affairs Department
GAAR	General Anti-Avoidance Rule
HQ	Headquarters
HWI	High Wealth Individual
IMF	International Monetary Fund
IT	Information Technology
KPI	Key Performance Indicator
LTO	Large Taxpayer Office
MDL	Moldovan lei
MOF	Ministry of Finance
OECD	Organization for Economic Co-operation and Development
OTA	US Treasury, Office of Technical Assistance
PIT	Personal Income Tax
RDF	Risk Differentiation Framework
ROI	Return on Investment
SB	Structural Benchmark
STS	State Tax Service
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value-Added Tax
VDP	Voluntary disclosure program
WHT	Withholding Tax

Preface

At the request of the authorities, this capacity development (CD) activity performed an evaluation of the Moldova State Tax Service's (STS) tax audit program.

From an operational perspective, maximizing the collection of government revenues requires that compliance activities be undertaken to identify and address serious non-compliance in the most cost-effective manner. A key tool in managing compliance is tax audit. An evaluation of the audit program is an IMF's Extended Credit Facility/Extended Fund Facility (ECF/EFF) program conditionality, with a deadline of January 2025.

The mission to evaluate the STS's audit program against good practice was conducted from October 21 to November 1, 2024, by Ms. Susan Betts, Mr. John Box and Ms. Telita Snyckers, all members of the FAD panel of external experts. During the mission, valuable meetings were held with Ms. Victoria Belous, Minister of Finance, Ms. Cristina Ixari, State Secretary, Ms. Olga Golban, Director of STS, Mr. Petru Griciuc, Deputy Director, Mr. Sergiu Arhiri, Interim Deputy Director, Mr. Alexandru Olteanu, Deputy Chief, Tax Audit General Department, Mr. Marcel Procopan, Deputy Chief Tax Audit General Department, Ms. Tatiana Botaniuc-Grosu, Head of Department, Organization and Monitoring of Policy Implementation Department, Ms. Lilia Guidea, Head of Department, Tax Audit General Department, Ms. Lucia Potercanu, Head of Department, Compliance General Department, along with senior representatives from Legal, Human Resources and IT.

The mission team expresses sincere appreciation for the excellent cooperation received throughout the visit. In particular, Ms.Tatiana Botaniuc-Grosu and Ms. Irina Lupasco were instrumental in organizing the mission's meetings. Appreciation is also expressed to the IMF resident representative, Ms. Svetlana Cerovic and her office for hosting the meeting with external accounting firms. The mission also appreciates the assistance of the interpreters who were extremely helpful in assisting the mission team in carrying out its objective.

The report consists of an Executive Summary and the following five sections: (i) Introduction; (ii) Evaluation Methodology; (iii) Observations from the Evaluation; (iv) Development Partner Coordination, and (v) Next Steps.

Executive Summary

The STS is in the process of modernizing its tax administration, with a view to strengthening voluntary compliance and addressing serious compliance risks. The evaluation measured the STS's audit program against good practice in six key categories: (i) Legislative Framework; (ii) Organization and Governance; (iii) People; (iv) Tools; (v) Systems; and (vi) Performance Measurement.

A number of good practices were identified. The STS's educational efforts to assist taxpayers to voluntarily comply is commendable. It is also positive that the STS has signed on to global efforts to address Base Erosion and Profit Shifting (BEPS). There is good segregation of duties throughout the audit process to ensure that the considerable powers available to the STS are used appropriately. Some good integrity measures, such as annual asset declarations, are in place. Good progress has also been made in respect of the development of a compliance program, although it currently only drives a very small percentage of audit activity.

Several key areas were identified for improvement. Constraints in the legal framework, along with a persistent view that taxpayers are mainly compliant need to be addressed to achieve optimal results. A differentiated approach to compliance is necessary: education and facilitated compliance for those who want to comply and enforcement (audit, investigations, penalties) for those who choose not to comply. The STS has done very well at the educational end of the spectrum. However, the opposite end of the spectrum needs to be addressed as well through modern Compliance Risk Management (CRM) approaches and strong audit skills. Further information on the identified areas for strengthening is provided below.

The legislative framework is overly prescriptive. Examples include provisions for publishing the names of taxpayers to be audited in the coming year, the time limit on the number of audit days allowed and audit procedures being codified in the law. The administration needs flexibility to respond to emerging risks. It is recommended that these provisions be removed.

The current mix of compliance activities needs to be reconsidered. The current emphasis is on cash register compliance and the use of cash in envelopes by employers to pay staff off the books. Identifying a systemic solution to these issues, rather than relying on audit, would yield better results. There should be a greater emphasis on identifying complex tax risks, such as tax avoidance and profit shifting, given that legislation has been recently introduced.

A concerted effort to strengthen risk-based approaches in both CRM and audit is warranted. Given the inter-relationship between CRM and audit, strengthening both processes concurrently is warranted. A pilot project is recommended to test the concepts, where the Compliance General Department (CGD) will identify high risks in the large taxpayer segment, and pilot auditors will undertake a risk-based audit approach. The results will be evaluated, with a view to rolling out the approach to all risk management and audit staff.

Serious considerations should be given to re-establishment of the large taxpayer office (LTO). Leading administrations provide a central focus on large taxpayers, given their important contribution to the tax base. Given the introduction of General Anti-Avoidance Rules (GAAR) and transfer pricing legislation, along with the ongoing risks related to high wealth individuals, the centralized focus in the LTO can allow for specialization in addressing these most complex risks.

Significant vacancies in staff on strength in audit is negatively impacting results and the bonus regime is likely driving unwanted behavior in staff. There are 102 vacancies in audit and priority efforts should be undertaken to develop a recruitment strategy to address this gap. The performance bonuses paid to staff monthly is a labor-intensive process, and likely drives poor behavior in auditors. Typically, bonuses are a small part of the compensation package, however average bonuses in the STS can be 100 per cent of base salary. Staff likely consider the bonuses to be part of their base salary, rather than an annual reward for strong performance throughout the year.

There are potential constraints in delivering on the recommendations. The lack of a modern information technology (IT) system will necessitate ongoing manual processes that are inefficient, and it also prevents maximizing efforts around CRM and performance measurement. There should be dedicated Headquarters (HQ) staff to implement the STS's forward strategy for the audit program and to implement reforms. Currently staff perform both HQ activities and operational work. When operational pressures occur, the HQ work is de-emphasized, which delays progress in reaching good practice and the STS's goal of combatting tax evasion and reducing the tax gap. Shifting the organization to risk-based approaches will require systemic change management principles to be employed to ensure that staff buy in to the new ways of working.

Capacity development (CD) support would be useful to assist in progressing the reform agenda. The IMF's Fiscal Affairs Department (FAD) can assist with developing the action plan and potentially with strengthening the risk-based approach in risk assessment and audit. The table below contains the main mission recommendations for immediate action.

Key Recommendations

Compliance and the Role of Audit		
1.1	Adopt a comprehensive single STS-wide compliance program to include a greater focus on risk-based audit case selection.	May 2025
1.2	Analyze how else to influence undeclared wages on a systemic basis rather than relying solely on audits.	October 2025
Legal Framework		
2.1	Replace the practice of publishing details of taxpayers to be audited in the coming year, with transparency about the broader risk management process.	April 2026
2.2	Process VAT refunds, insolvency cases, and cash register checks based purely on an assessment of risk.	December 2026
Organization and Governance		
3.1	Reestablish the LTO in the context of the recent tax avoidance law reforms, with an audit focus on significant tax planning. As an interim measure, use a consolidated approach to managing risks using a working group approach.	September 2025
3.2	Re-evaluate the current definition of the large taxpayer segment.	March 2026
3.3	Consider further segmentation beyond large taxpayers.	March 2026
People		
4.1	Develop a plan to recruit audit staff to minimize the current vacancies.	February 2025
4.2	Evaluate options to address integrity concerns with current bonus regime.	February 2025
Tools Supporting Audit Program		
5.1	Increase the number of risk-based planned audits.	December 2025
5.2	Review the overall audit program mix of planned audits, unplanned audits, and control work types for the best mix and prioritization to achieve the requirements of the risk-based audit program.	February 2025
5.3	Modify the focus of the audit methodology for complex sophisticated taxpayers (e.g., large multi-nationals, HNWI) to an increased understanding of their global businesses with an increased focus on the taxpayer’s material tax planning methods and tax avoidance techniques.	June 2025
5.4	Conduct a pilot of complex sophisticated large taxpayers which should be undertaken with auditors trained in identifying tax avoidance and tax evasion arrangements.	June 2025

Systems and Data		
6.1	Secure and implement an automated risk management system.	June 2027
Performance Measurement		
7.1	Strengthen the audit program KPIs to include both qualitative and quantitative indicators.	February 2025
7.2	Develop a management dashboard to allow senior management to monitor progress toward the audit program's goals on a regular basis.	November 2025
Audit Process		
8.1	Introduce a more accurate case level timekeeping system of hours per case for use by auditors.	December 2025

I. Introduction

1. **The STS seeks to strengthen domestic revenue mobilization through modernizing the tax administration.** A Tax Administration Diagnostic Assessment Tool (TADAT) assessment[1] in 2022 provided guidance on areas where administrative strengthening was required. Subsequent capacity development (CD) has been provided by the IMF on Compliance Risk Management (CRM). This mission team focused on an evaluation of the audit program.[2] Compliance risk management (CRM) and audit, which are key tools used to enforce tax compliance, must both be operating optimally in order to maximize the collection of tax revenue for government.

A. Audit Program Statistics

2. **In preparation for the evaluation, a comparative analysis of the results of the audit program over the past three years was conducted.** Cases completed and additional tax assessed were compared over the 2021-2023 period. This analysis identifies a downward trend in both metrics. Table 1 identifies the number of cases completed in each of the 2021 to 2023 years and illustrates that Value-Added Tax (VAT) cases decreased in 2022 but increased in 2023. Withholding Tax (WHT) and Corporate Income Tax (CIT) saw downward trends in both 2022 and 2023. Personal Income Tax (PIT) is trending lower in 2023. Table 2 shows that additional revenue assessed is lower in all tax types, except for real estate.

Table 1. Comparative Analysis of Completed Audits

Number of Completed Audits	2021	2022	Percentage Change	2023	Percentage Change
VAT	1,628	1,220	-25.1	1,754	43.8
WHT	230	206	-10.4	204	-1.0
CIT	1,195	980	-18.0	1015	3.6
PIT	17,111	18,582	8.6	16,768	-9.8
Real estate	571	463	-18.9	271	-41.5
Other taxes[3]	7,416	4,907	-33.8	2,513	-48.8

Source: STS data, IMF staff calculations

[1] See TADAT Performance Assessment Report, Moldova, Enriko Aav et al, October 2022.

[2] IMF program conditionalities include two structural benchmarks (SB) related to revenue administration. The first SB is an evaluation of the audit program by January 2025. The second SB requires an action plan to be developed by April 2025 to address the gaps identified in the evaluation. The current mission addressed the first commitment and IMF assistance is available to support implementation of the second SB.

[3] Other taxes include tax on immovable property, transfer duties, stamp duties, payroll, social security contributions, environmental pollution payments, road taxes.

Table 2. Comparative Analysis of Additional Tax Assessed

Additional Taxes (000) lei	2021	2022	Percentage Change	2023	Percentage Change
VAT	110,375	227,958	106.5	186,038	-18.4
WHT	5,459	9,106	66.8	4,868	-46.5
CIT	490,444	219,361	-55.3	205,584	-6.3
PIT	55,523	40,692	-26.7	37,229	-8.5
Real estate	3,050	3,910	28.2	4.231	8.2
Other taxes	57,503	80,117	39.3	59,442	-25.8

Source: STS data, IMF staff calculations

3. **The Large Taxpayer audit results decreased significantly in 2023.** The number of audits completed was down to 273 from 496 in 2022. The additional tax assessed in 2023 was down 67 percent, with the average additional tax per case amounting to 1,689,656 Moldovan lei (MDL) or US $6,189.

4. **The internal dispute resolution process decided in favor of the STS in approximately 75 percent of the cases throughout the 2021-2023 period.** Data on the external dispute resolution process was not available at the time of the mission.

II. Evaluation Methodology

5. **A workshop approach was used to evaluate the STS's audit program against good practice**. The workshop utilized the information from the Virtual Training to Advance Revenue Administration (VITARA) Audit Program[4] module. Meetings with STS officials were held where good practice was presented. A discussion followed on each topic to elaborate on how the STS operates, which led to the identification of gaps in the current approach. Annex 1 outlines current STS practices and identifies the gaps compared to good practice.

A. Key Categories of an Efficient Audit Program

6. **Managing compliance requires a multi-faceted approach on a variety of issues.** Differentiated approaches to match the degree of compliance risk with actions to strengthen or enforce compliance are adopted in many countries worldwide. Audit is an important tool in enforcing compliance. Given that auditors are often the most expensive resources a tax administration has, it is critical that auditors be focused on the highest compliance risks and that they have the skills, tools, and systems to identify and address risks to the tax base.

7. **There are six key categories that tax administrations need to implement to have an efficient and effective audit program.** These categories are summarized in Figure 1 below. Understanding how audit fits in with the overall objective of improving compliance is an important first step. Audit is one tool that tax administrations can use to enforce compliance. Other tools to support voluntary compliance, with less intervention required by the tax administration, are equally important. The focus of this visit is on an evaluation of the existing audit program. Each of the six components of an effective audit program are described below:

- **Legal Framework.** Legal authorities are required to support the audit program. Requirements inlaw are needed to address filing requirements, information gathering, authority to conduct audits,penalties for various types of non-compliance and for dispute resolution processes to allow an independent review of the results of audits.

- **Organization and Governance.** Important concepts related to the role of HQ, segmentation of taxpayers, segregation of duties all have an impact on how the organization is structured and governed.

- **People.** Human resources are an administration's most important asset. Topics included in this category include the level of resources dedicated to the audit program, staff expertise and training to support the desired tax administration outcomes, auditor performance evaluation, timekeeping to

[4] See VITARA Audit Program module at https://www.imf.org/en/Capacity-Development/Training/ICDTC/Search?sortby=Relevancy&sortdir=Descending&keywords=VITARA

allow more in-depth performance measurement, and the role of managers in maximizing employee development and efficiency.

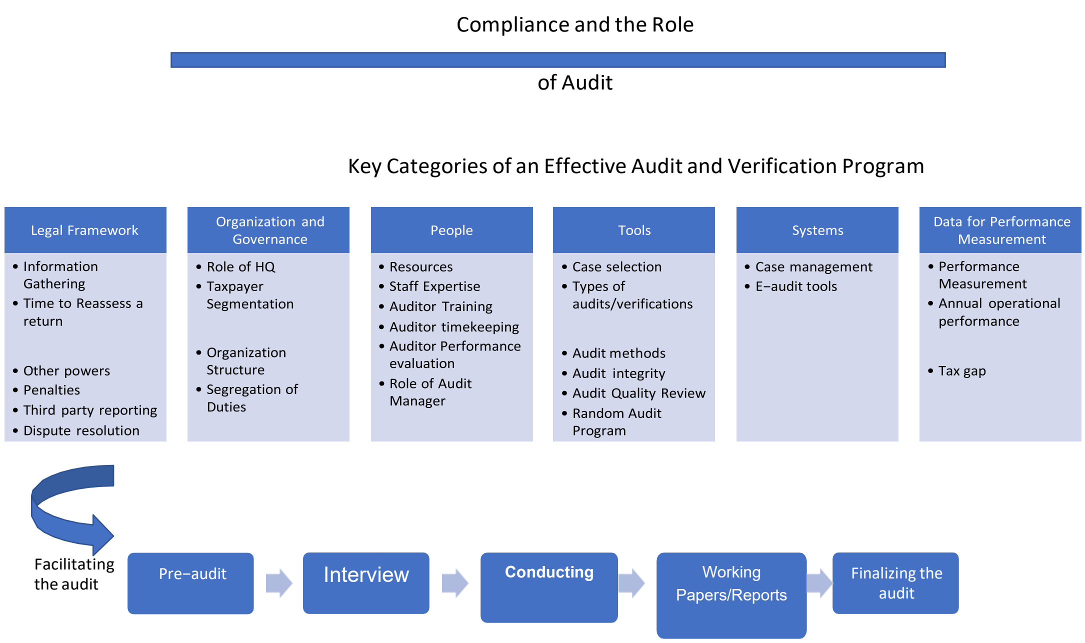
- **Tools.** In order to have an efficient audit program, the selection of the right tools to support auditors is required. How cases are selected is critically important to strengthening tax collection as a result of audits. The administration's choice of the types of audits it conducts, as well as the audit methods used to address non-compliance needs to be reflective of the particular compliance culture in the country. To support the best outcomes for the audit program, audit quality review programs and an emphasis on integrity in conducting the work will help achieve the administration's goals. A random audit program is used by some administrations to establish a baseline level of non-compliance which can be monitored over time to measure improvements in voluntary compliance.

- **Systems.** Automated case management systems help audit program managers track and monitor all ongoing audits, the number of completed audits, and other key data that can be used for performance measurement.

- **Performance Measurement.** Performance can be measured at three levels: strategic, operational, and individual. Ensuring that the administration has a set of Key Performance Indicators (KPIs), based on both qualitative and quantitative measures is important for a comprehensive review of the success of the audit program.

8. **Having these six categories in place will facilitate the audit process.** Each step in the audit process is important to ensure that auditors identify and address all serious non-compliance.

Figure 1. Key Categories of an Effective Audit Program



B. Stakeholder Input

9. The mission met with representatives from external accounting firms. The purpose of the meeting was to obtain feedback from taxpayers' representatives about their experience in dealing with STS auditors. Their input was requested on whether the auditors exercised professional conduct, were knowledgeable, whether taxpayers' comments on the proposed audit adjustments were duly considered, along with any other feedback they wanted to offer.

10. The feedback was largely positive. Participants noted that communication between the auditor and the taxpayer is good, and that transparency has improved over the years. They would appreciate if the STS would publish their main audit findings as a way to improve voluntary compliance. Additional interpretational guidance would also be valuable when new legislation is introduced.

11. Representatives report that adjustments to large taxpayers are minor. Based on their experience, approximately one in three large taxpayer audits results in an additional tax liability. The audit results for the large taxpayer audit program would support that adjustments are minor as noted above in the Introduction. Representatives admit, however, that tax avoidance does exist in Moldova and that many of their clients will be subject to the transfer pricing legislation that came into force in 2024.

12. The mission also met with representatives from US Treasury, Office of Technical Assistance (OTA) and the Swedish Tax Agency. The US OTA is focusing on training related to international tax issues and GAAR. They assisted the STS in setting up their quality review and criminal investigation programs. Modernizing the IT system was the subject of an upcoming scoping mission by US Treasury planned for December 2024. The Swedish Tax Agency has focused on Exchange of Information (EOI) and implementing the Common Reporting Standard and Country by Country Reporting. Other topics relate to leadership training, gender equality, and taxpayer service.

III. Observations from the Evaluation

13. **A number of good practices were identified during the course of the audit evaluation.** The STS takes its role of promoting voluntary compliance very seriously and has implemented many initiatives to ensure taxpayers are aware of their obligations under the law. Other positive aspects include:

- Transparency with publishing information on the website to assist taxpayers to comply.
- Good segregation of duties, some good integrity measures in place, such as asset declarations for STS staff.
- Investing in adopting global efforts to better manage compliance including BEPS, EOI, Automatic Exchange of Information (AEOI)
- Both direct and indirect audit methods are in use.
- The adoption of a compliance program, that begins to introduce elements of a modern CRM approach.
- The audit process contains many key elements of good practice, including an interview and tour of premises, standardized working papers, an audit manual for auditors to rely on.

14. **The remainder of the report will focus on the areas within the audit program that would benefit from strengthening to attain good practice.** Given that audit is only one possible treatment that a tax administration has available to manage compliance, it is important to ensure that risks are prioritized and quantified and to develop a strategy to manage the risk, whether through supporting voluntary compliance and/or enforcement. The right mix of treatments, with the most serious risks being addressed by audit or criminal investigation, will provide the most value to the administration as the treatment is matched to the level of risk, meaning the most cost-effective treatment is used.

A. Compliance and the Role of Audit

15. **Modern tax administrations adopt structured CRM programs, that allow them to target their resources to where the biggest risks lie.**[5] The STS has made substantive progress in terms of crafting a compliance program, which reflects a number of good practices that were raised during previous CD given. Further work is required, though, to broaden the current compliance program to cover more audit activities, with key issues requiring attention being listed in Table 3.

[5] *Revenue Administration: Compliance Risk Management: Overarching Framework to Drive Revenue Performance*, Betts, IMF
Revenue Administration: Compliance Risk Management: Overarching Framework to Drive Revenue Performance

Table 3. Key Shifts Required in Compliance Risk Management in STS

From	To
Focus on voluntary compliance	Balanced focus between voluntary and enforced compliance
Very limited use of punitive measures	Effective use of punitive measures, including penalties, and prosecutions
Labor-intensive in-person advisory visits, even for low-risk taxpayers	One to many treatment options, including: Mass media campaigns, Educational guides that explain common errors, Targeted letters and outbound calls
Long narrative performance reports	Short, structured, visual management information reports
Tracking outputs and activities	Tracking outcomes and the impact of initiatives
Selecting priority areas based on tip-offs from public	Selecting priority areas based on comprehensive analysis of risk
Limited governance of CRM agenda	Structured agenda driven by a CRM Committee
Manual risk scoring	Automated risk management system, with risk rules and risk scoring embedded

16. **Audit activities are not being leveraged as a part of a broader CRM program.** Instead, audit is effectively viewed as a somewhat isolated function outside of the broader risk management program, with only very few audits being driven by the compliance program. Some of the key gaps that minimize the value of audits as a risk management tool are listed in Box 1.

Box 1. Gaps in Leveraging Audit as Part of a Broader CRM Program

- The audit program is not incorporated into the compliance program but is viewed as a separate standalone program.
- STS has not adopted an explicit enforcement strategy.
- Audit projects are not used to improve compliance in specific industries, as part of a broader compliance improvement program.
- Performance indicators focus on tracking outputs and activities, and not outcomes and the impact that audits are having on the way taxpayers behave.
- Only a very small minority of audits are risk-based.
- There is no effective coverage of individual taxpayers.
- Audit findings are not used to influence taxpayer compliance (e.g., publication of common errors guides).

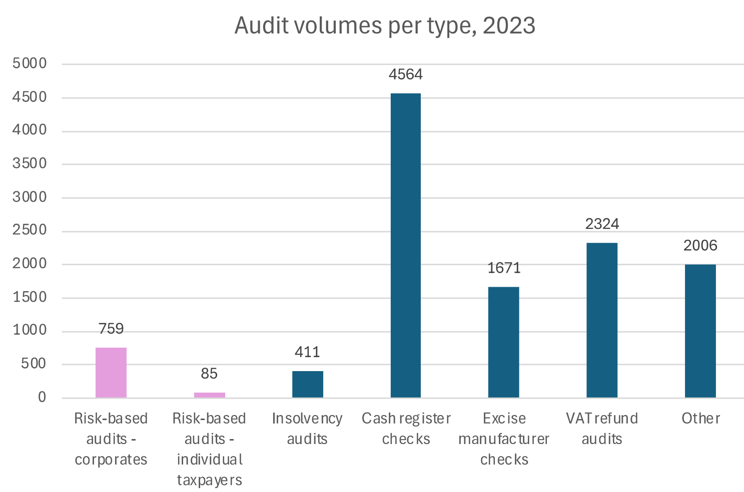
17. **A strong focus on "voluntary compliance" and a weak focus on punitive measures limits the value of audits as a CRM tool.** While voluntary compliance is important, it is only effective if it is used as part of a broader compliance improvement strategy. International experience highlights the importance of a credible threat of non-compliance being detected, combined with a punitive framework that is sufficiently severe that it actually changes taxpayer behaviour. These elements are almost entirely lacking from the STS strategy. Instead, the STS explicitly focuses its efforts on securing "voluntary compliance". Throughout its various strategy and analytical documents, it notes how[6], "*the State Tax Service does not aim to apply sanctions, but to establish a framework of partnership relations, based on*

[6] E.g., the report on the cost benefit of the voluntary compliance approach; the Compliance Program; strategies on agriculture, foreign exchange agents, car wash operators, restaurants; and confirmed in interactions with the STS.

trust and mutual support, which will result in the reduction of a considerable number of violations". For audits to be an effective compliance management tool, there needs to be an explicit enforcement strategy, and an impactful punitive regime.

18. **Only a small percentage of audit activity focuses on risk-based cases.** Instead, the majority of audit cases – some 93 percent - are "unplanned," having their origins in cash register checks (38 percent of audits), the submission of VAT refund requests (19 percent of audit activity), being triggered by insolvencies (3 percent of audits), and other audits. This steady stream of "unplanned" audits means that audit activity is not adequately targeted to where the biggest revenue risks lie. These other audit activities should equally be informed by a risk assessment process, to ensure that they target those taxpayers and issues with disproportionately higher risk, and to free up audit capacity to focus on true risk-based case selection. Figure 2 shows the audit volumes by type of audit.

Figure 2. Audit Volumes per Type of Audit



Source: STS, IMF staff calculation

19. **At the same time, audit activities are influenced by a pervasive perception of high levels of compliance by large taxpayers, and a steadfast focus on undeclared cash wages**. International experience suggests significant potential tax revenues being at risk from not only large and multinational companies and high net worth individuals (HNWI), but also from trusts, non-profit organizations and free trade zones. At the same time, larger taxpayers have more opportunities from a tax planning perspective, in terms of profit shifting, base erosion, transfer pricing, thin capitalization, etc. Tax administrations are also increasingly dealing with the potential evasion and avoidance loopholes created through e.g., crypto and digital asset transfers. Detecting evasion and avoidance in these instances requires different risk rules and more sophisticated audit techniques, and casting the net wider in terms of analysis. These more sophisticated focus areas are not currently being catered for under either the compliance program or the audit program.

20. **Existing punitive measures are unlikely to be effective in terms of either addressing historical behaviour, or in influencing future taxpayer behaviour.** Nominally, penalties amount to relatively insignificant amounts (an average of 119,000 MDL per case, of which 33,000 is discounted for

early payment). Ultimately only some 36 percent of the value of penalties imposed – 35,947,000 MDL - was paid (US $2 million). The punitive framework should be reviewed to identify weaknesses in legislation, or weaknesses in how it is applied, to ensure that penalties are used in a way that they actually influence taxpayer behaviour. See Table 4 for additional details.

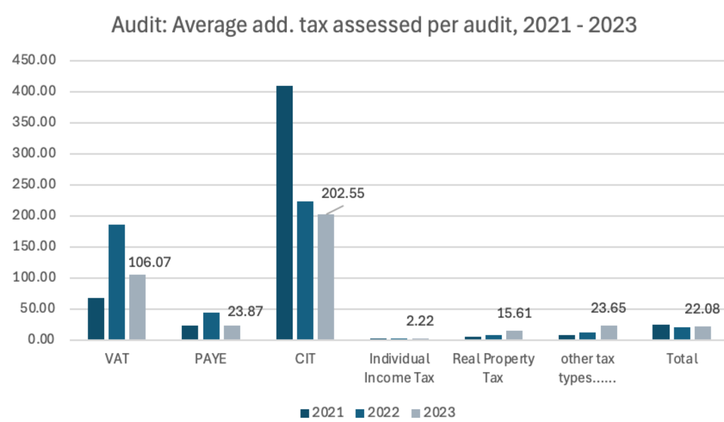
Table 4. Value of Penalties Assessed, Reduced and Paid (MDL)

Tax type	Total	Average per case
Additional tax assessed	272,929,000	335,000
Penalties assessed	97,447,000	119,000
Value of penalties reduced	27,476,000	33,000
Value of penalties paid	35,947,000	44,000

Source: STS, IMF staff calculation

21. With a limited focus on risk-based case selection, a cost-benefit analysis[7] suggests a low return on investment (ROI) from audit activities. Worryingly, there is a decrease in the average additional tax assessed per audit (Figure 3). Data points to audits having resulted in additional tax revenues of 567,000 MDL being assessed – an average of 482 MDL per successful audit (US $26). Only 30 percent of the value of these audit assessments are actually paid (on average, 148 MDL per audit). So, not only are audit results low and decreasing, but assessed amounts are not being paid. A comprehensive ROI analysis should be conducted for each of the different audit types being conducted. Data integrity should also be evaluated, as different amounts were provided to the mission for additional tax assessed. As above, one calculation uses 567,000 MDL, whereas the data provided at the commencement of the mission indicates 497,000 MDL for the amount of tax assessed for 2023.

Figure 3. Average Value of Additional Tax Assessed per Audit, per Tax Type



Source: STS, IMF staff calculation

22. Increasing the ROI requires focusing on higher-risk sectors and taxpayers and reducing the number of low-impact interactions with low-risk taxpayers. Effective risk response options for lower risk taxpayers and issues tend to include 'one-to-many' treatment options, like mass media

[7] See Impactful Compliance Risk Management Practices, April 2024, Ms. Telita Snyckers

campaigns, common errors guides, and targeted letters. Audit activity is then reserved as a more labour-intensive, cost-intensive, and yield-focused response for higher risk taxpayers.

23. The STS should adopt an organization-wide compliance improvement program. An explicit compliance program would include steps on how the STS understands its environment (e.g., through a structured environmental scan process); the process it follows in identifying, analysing and prioritizing risks, to ensure that it focuses on the right issues and the right taxpayers; the variety of treatment options it relies on in responding to risks; and how it monitors and measures the impact of its various activities, and the extent to which it actually influences taxpayer behaviour. A compliance program[8] would also typically include specific details on how the organization is responding to risk, notably in respect of how it intends to change the broader landscape, e.g., by changing procedures to reduce the cost or burden of compliance; how it intends to change the way the broader taxpayer population behaves, e.g., through mass media campaigns, or targeted letters; and how it intends to target specific taxpayers, considering their behaviour and attitude towards their obligations. Importantly, the compliance program needs to drive the majority of audit activities.

24. As part of the development of the compliance program, consideration should be given to evaluating risks identified by the STS and among other countries. Undeclared wages are considered a significant issue, and the STS invests heavily in addressing this risk through audits. A more systemic approach could yield better results, by developing a range of treatments based on the significance of the underpaid taxes and taking a more global approach to managing compliance. Meetings with taxpayer groups and industry associations could be used to promote voluntary compliance. Stronger penalties could be applied for those who refuse to comply. Other common compliance issues include free trade zones, non-profit organizations, and trusts. The STS should consider evaluating the degree of risk for each issue and determine whether a compliance improvement plan should be developed to manage the risks.

Recommendations

- Adopt a comprehensive single STS-wide compliance improvement program by May 2025, to include a greater focus on risk-based audit case selection.
- Analyse how to influence undeclared wages on a systemic, proactive basis rather than using audit as the only tool by October 2025.
- Develop compliance improvement plans for free trade zones, non-profit organizations and trusts by June 2025.

B. Legislative Framework

25. The Tax Code provisions relating to tax administration are inflexible and do not allow the STS the discretionary powers it needs to fully embrace a risk-based approach. International good

[8] See IMF Technical Notes and Manuals, *Compliance Risk Management: Developing Compliance Improvement Plans*, Brondolo, Chooi, Schloss and Siouclis, https://www.imf.org/en/Publications/TNM/Issues/2022/03/18/Compliance-Risk-Management-Developing-Compliance-Improvement-Plans-515263

practice centers on the importance of a tax administration being responsive and having the flexibility to adjust its operational practices based on an iterative risk assessment. Instead, the STS is constrained by a high degree of specificity in primary legislation, which is unusual in international legislative drafting practices.

26. **Sections of the Tax Code dealing with tax administration include operational details that would not normally be included in primary legislation.** Legislation in respect of *tax policy* would typically establish *what* and *how much* is taxed, aims to set the tax structure and achieve economic or social goals. Provisions relating to *tax administration,* by contrast, typically define *how* taxes are collected, enforced, and managed. Good practice dictates that more operational provisions (how to implement the rules and principles, monetary thresholds etc.) should be contained in secondary legislation like regulations, which are easier to amend and adjust as taxpayer behaviors change, as risks evolve, and as risk assessment practices mature. The Moldovan Tax Code conflates the two, limiting flexibility and responsiveness in managing compliance. The Chapter on tax administration, for instance, includes operational details like monetary thresholds, the excise duty rate for specific tariff headings, and details on the types of indirect audit methodologies that can be used.

27. **At the same time, the STS is subject to a range of both generic and fragmented administrative legislative provisions that do not cater to tax-specific realities.** These restrict its ability to implement and follow international practice. Examples of these issues are detailed below.

28. **An ongoing rewrite of the tax code offers an opportunity to better align the legislative provisions dealing with tax administration with international good practice.** Primary legislation should contain the essential legal framework and broad principles, while secondary legislation and operational regulations should cover the technical details, administrative processes, and specific standards necessary for the effective implementation of the law. While the STS does not directly control the legislation, it does and should influence legislative design where existing legislation does not meet good practice and should advocate for change.

Reviewing the Scope of the Application of the Law 131 on State Control

29. **The Law on State Control is unduly limited, restricts effective tax audit practices, and is contrary to good international practice.** The Law provides for a number of good practices (including the need for audits and controls to be risk-based, and the importance of a transparent risk process). However, the law is only partially applicable to the STS, notably in respect of “registration, supervision, and reporting of controls in the State Register (article 1(4)”. The Law includes restrictive administrative requirements that should not be applicable to the STS, and which are not aligned with good practice. These include a requirement to publish an annual audit plan by 31 December of the preceding year, and to publish the names of taxpayers to be audited as part of the planned audit program (along with their respective risk scores).

30. **Publishing details of taxpayers to be audited is unlikely to have a positive impact on taxpayer compliance, and likely infringes on their rights to confidentiality and fairness.** Good international practice may include publishing the details of taxpayers who have been *convicted*, but does not extend to taxpayers who are yet to be audited. It also likely runs counter to the provisions of article

226 of the Tax Code relating to taxpayer confidentiality.[9] At the same time, it allows for non-compliant taxpayers to know as much as 12 months in advance whether they will be audited, allowing them to continue to act with impunity if their names do *not* appear on the annual audit list. Being restricted to auditing cases selected a year in advance furthermore reduces the STS's flexibility to address emerging risks, which is a fundamental good practice principle. The STS could still comply with its obligations (under article 8 of the Law on State Control, and article 216(12) of the Tax Code) of registering its audits with the State Register for Controls, within five working days before the start of an audit.

31. The potential prejudice to taxpayers from this approach cannot be overstated. Taxpayer confidentiality is a fundamental tenet of tax administration. Being selected for audit – even on the basis of a risk-based process – does not prove non-compliance or criminality. Indeed, in the current context, only some 50 percent of these cases yield results, leaving a substantial number of taxpayers whose details were published, but in respect of whom no contraventions were subsequently found. This practice is potentially highly prejudicial to taxpayers, particularly as there is no subsequent follow-up publication for taxpayers in respect of whom no contraventions were found. Publishing a risk score alongside the details of the taxpayer does not serve an additional purpose, and simply opens the STS up to additional challenges in terms of administrative law.

32. The STS could still achieve the same outcomes – and even more transparency – without publishing the details of taxpayers to be audited. The STS noted two key reasons for publishing the details of taxpayers: that it purportedly increased transparency, and that it allowed taxpayers enough time to prepare for an audit. Transparency is important but can readily be achieved in an even more effective manner by publishing details of the STS's CRM approach; details of the key *risks* the STS intends to focus on; common errors and issues detected in particular industries; and the outcomes of its audit program. This approach provides sufficient transparency to give taxpayers a level of comfort that audit activity is targeted to where the biggest risks lie and is not arbitrary or subject to manipulation. The STS could in addition adopt a simple practice of giving taxpayers ample notice before a comprehensive audit takes place, which would achieve the second objective it seeks to achieve with the publication of the annual audit list. The STS should replace publishing the names of taxpayers who will be audited, with details of the STS's annual compliance focus, as well as information on common errors.

Balancing Unplanned and Risk-based Audits

33. The STS conducts a broad range of audits and controls that are not risk-based, but which are ostensibly mandated in terms of legislation. This is typically not a tax policy consideration, but an administrative one, where tax administrations have a discretion to assign resources based on their iterative risk assessments. Historically, only a very small minority of STS audit-related activities are risk-based (with as few as five percent of audits being comprehensive risk-based audits).[10] The number of "unplanned" audits ostensibly mandated by legislation (e.g., in respect of VAT refund applications, tip-offs from members of the public and requests from law enforcement agencies) are fundamentally diluting the

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[9] Art 226 of the Tax Code: Confidentiality 11) Any information received by the State Tax Service is treated as a fiscal secret. The State Tax Service may disclose information in public court proceedings or based on income estimation. The tax audit results can be published only after the expiry of all the appeals.

[10] See e.g. *Further Strengthening the Audit Program and the Audit Case Management System*, Technical Report January 2022, Patrick Faughnan.

STS's ability to respond to higher-risk cases. Alongside this, the STS should review its interpretation of legislation relating to audits of insolvency cases, which are in fact not legislatively mandated. The STS should review the extent to which legislation *actually* mandates the audit of, for example, all VAT refunds, and introduce risk-based audit case selection criteria for VAT refunds.

Penalties

34. **The legislative procedure for determining the value of fines to be imposed is unduly cumbersome, particularly for simple cases.** The current process is highly labor intensive and time consuming and allows for an unnecessary level of discretion. Absolute fines are not prescribed, with the Tax Code instead providing a range with minimum and maximum values for the different contravention types (articles 253 – 263). Examples are referenced in Table 5. Combined with the manual nature of the process, this has the potential to result in inconsistencies in the application of fines. In most tax administrations, the imposition of standard penalties for simple cases tends to be done through an automated system which applies a clear set of rules and – using an algorithm into which the various considerations have been incorporated - automatically assigns a fine.

Table 5. Examples of Fines Prescribed in the Moldova Tax Code

Violation	Fine
Hindering a tax audit	4 000 to 6 000 MDL
Not using the prescribed fiscal cash register	5 000 to 15 000 MDL
Unauthorized transporting passengers	5 000 to 15 000 MDL
Failure to submit information	3 000 to 5 000 MDL
Failure to keep tax records	40 000 to 60 000 MDL
Evasion of the calculation or payment of taxes	80% to 100% of the amount of taxes
Failing to apply excise stamps	25 000 to 35 000 MDL
For banks: Failing to inform the STS that a taxpayer opened a foreign bank account	4 000 to 6 000 MDL

Source: Tax Code, Team summary

35. **For more complex cases where automation of penalties can be challenging, a clear, structured, standardized checklist with graduated penalties should be adopted.** The only substantive guidance in the Tax Code provides that consideration should be given to whether "…there are other important circumstances for the fair resolution of the case…" Good practice includes the adoption of explicit graduated penalty regimes, which typically impose penalties that increase progressively based on the severity of non-compliance, the amount of underreported income, the taxpayer's history of compliance, whether the taxpayer cooperated or was obstructive, how the non-compliance came to light, the taxpayer's intent (negligence, fraud, etc.). These graduated penalty regimes are designed to improve tax compliance by penalizing non-compliance in a way that scales with the severity of the offense while encouraging prompt correction through reduced penalties for cooperative behaviour.[11] A simple – but transparent – framework is often adopted like the example in Table 6. It makes the imposition of penalties easier to administer, and in a more transparent, consistent manner.

[11] See Designing Interest and Tax Penalty Regimes, IMF Tax Law Technical Note 2019.

Table 6. Examples of a Simplified, Graduated Penalty Regime

Behaviour	Standard case percent	If obstructive, or if it is a repeat case percent
Substantial understatement	10	20
Reasonable care not taken	25	50
No reasonable grounds for tax positions taken	50	75
Impermissible avoidance arrangement	75	100
Gross negligence	100	125
Intentional tax evasion	150	200

Other Gaps or Weaknesses in Legislative Framework

36. **The time periods prescribed in legislation for the duration of an audit are excessively limited.** The duration of an on-site tax audit may not exceed two calendar months for corporate taxpayers (article 216), or three months for audits of natural persons (article 226). While there are provisions for marginally extending these periods, they are considerably shorter than those typically allowed in other tax administrations. International experience highlights how audits of large companies in particular require significantly longer periods of time. It is simply not possible to address the kind of complexity seen in large companies and with high wealth individuals, in the time periods prescribed in the Tax Code. The STS requires more flexibility, particularly in respect of auditing more complex situations.

37. **Legislative provisions catering for the provision of advance rulings are diluted through operational practices.** Under article 136 of the Tax Code, taxpayers can apply for advance rulings, but almost never do so. Practically, the STS views itself bound by all documented replies it shares with taxpayers, resulting in the more formal advance rulings process not being used. A structured advance rulings process holds several advantages for the STS, notably that taxpayers are required to provide sufficient background information on which a more informed decision can then be made. The STS should consider abandoning the informal email process and insist taxpayers use the advance ruling procedure. The STS could eliminate the cost associated with requesting an advanced ruling if that is seen as a barrier to participation in the process.

38. **Although taxpayers can voluntarily fix errors on past tax returns, the STS does not have a formal voluntary disclosure regime.** Under article 236 of the Tax Code, taxpayers are not fined if they correct mistakes before an audit takes place. While this may be viewed as a useful tool, it allows the taxpayer to only become serious about correctly reporting their tax obligations once they have been informed that they would be audited in the coming year. The STS would benefit from having a structured, formal voluntary disclosure regime. Voluntary disclosure programs (VDP) are opportunities offered by tax administrations to allow previously non-compliant taxpayers to correct their tax affairs under specified terms. Temporary programs are generally aimed at specific taxpayers (i.e. taxpayers with undeclared offshore assets), for a defined duration in order to deal with a specific issue, while permanent programs are generally designed to give the majority of taxpayers an opportunity to participate at any time, and do not have a specified end-date. Typically, countries do not waive tax as part of their VDP. Waiving tax would represent some form of a tax amnesty. The process also offers an opportunity to gather intelligence to assist the STS in identifying other non-compliant taxpayers, promoters and schemes

designed to shelter offshore holdings. Some of the considerations for a VDP are detailed in an IMF paper.[12] If the STS implements a VDP, the practice of allowing taxpayers to self-correct prior to an audit should be discontinued.

Recommendations

- Replace the practice of publishing details of taxpayers to be audited in the coming year, with transparency about the broader risk management process, by April 2026.
- Process VAT refunds, insolvency cases and cash register checks based purely on an assessment of risk, by December 2026.
- Remove the cumbersome legislative procedure relating to the determination of fines for simple cases, and automate the calculation of fines, by December 2025.
- Study introducing a graduated penalties framework to guide the imposition of fines for more complex cases, by December 2025.
- Advocate for the removal of legislative timelines to complete an audit by December 2025.
- Consider eliminating the email advance ruling process in favor of the process currently legislated, by June 2025.
- Evaluate feasibility of introducing a voluntary disclosure regime, by December 2025.

C. Organization, Governance and Taxpayer Segmentation

Organization

39. Modern administrations organize themselves on a functional basis, often with segmentation for large taxpayers. The common organizational models seen in tax administrations include a tax-type (income tax, VAT) structure, segment-based (large, medium, small taxpayers), and function-based (registration, filing, payment, correct reporting, dispute resolution). The model recommended for most administrations is a hybrid model, using a function-based structure, with segmentation for large taxpayers. The segmentation of large taxpayers is important to recognize that they represent a significant portion of the administration's tax collection, which warrants close monitoring of their compliance. More information on the various models can be found in the VITARA module on Organization Structure.[13]

40. A number of issues affect how the tax administration should be organized. Industry specialization and centers of expertise, where possible, will contribute to efficiency gains as work can be completed more quickly by staff who are knowledgeable about how the industry works and what the common risks are. Taxpayer segmentation and segregation of duties also impact how the administration is structured to achieve its goals.

41. There should be a clear separation between the HQ and territorial operational activities. HQ activities should mainly be focused on setting the strategic direction of the administration, while the

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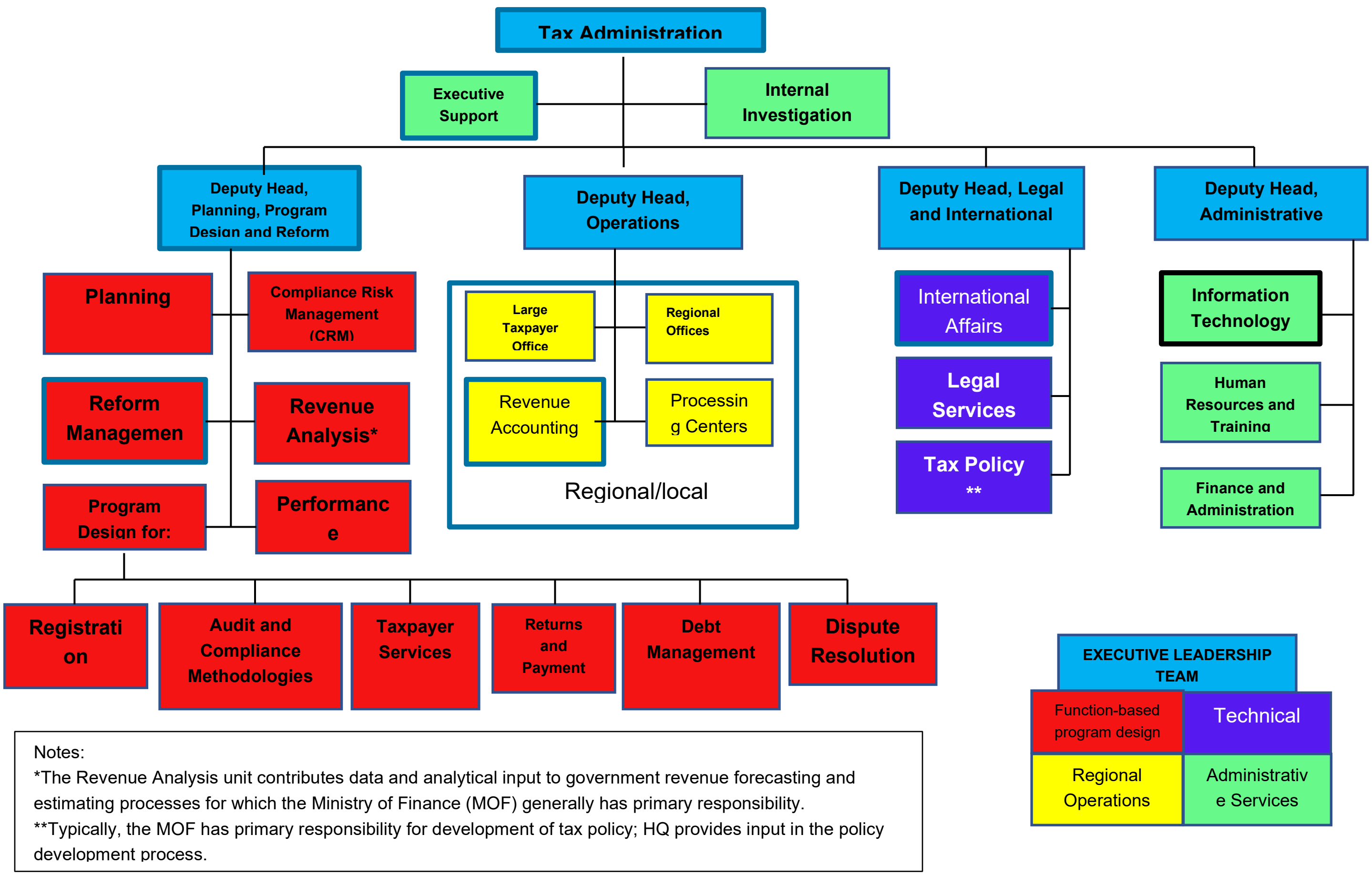
[12] See IMF Technical Notes and Manuals: Voluntary Disclosure Programs — Design, Principles, and Implementation Considerations

[13] See VITARA Reference Guide: Organization, https://www.imf.org/en/Publications/Manuals-Guides/Issues/2024/08/07/VITARA-Reference-Guide-Organization-546316

territories carry out the work. Without this forward planning, the goal of modernizing the tax administration will not be realized. Experience with many other countries has emphasized that asking staff to do both HQ and operational work at the same time results in the HQ functions being de-prioritized as the pressing needs to meet operational expectations prevail. In reality, HQ work is realized either very late or not at all. As shown in Figure 4, the regional operations are denoted by yellow boxes. The remainder of the functions relate to activities conducted by HQ. The structure shown in Figure 4 is the model recommended for most administrations, although adjustments can be made to fit the circumstances of the administration.

Figure 4. Function-Based Organization Structure with Segmentation for Large Taxpayers



Notes:
*The Revenue Analysis unit contributes data and analytical input to government revenue forecasting and estimating processes for which the Ministry of Finance (MOF) generally has primary responsibility.
**Typically, the MOF has primary responsibility for development of tax policy; HQ provides input in the policy development process.

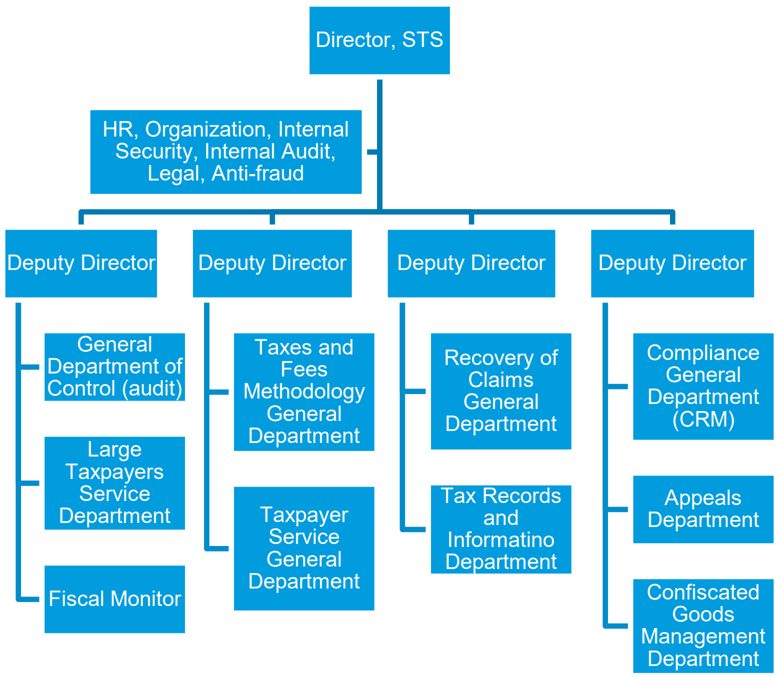
Source: VITARA, Reference Guide, The Audit Program, January 2025,

42. **Importantly, the boxes represent activities that need to be undertaken, but not necessarily every activity would have a separate organizational unit.** Depending on the size of the tax administration, different levels of effort are required to undertake any particular activity. Some boxes may be combined to reflect the tax administration’s resources and capability, but all the activities represented on the organization structure should be conducted.

43. **The STS organization structure is largely function-based.** The organization structure consists of four Deputy Directors reporting to the Director. The administrative and service functions of the STS

each report directly to the Director, as the law limits the number of Deputy Directors. As shown in Figure 5, there is segregation between audit, CRM, and appeals.

Figure 5. STS Organization Structure



44. **The separation of HQ and operations is not evident in the STS.** Having dedicated staff to undertake HQ activities is critical to build the STS of the future. The full range of HQ activities is not present in the STS. A list of the role and functions of HQ is outlined in Annex 2. While the STS does set annual performance expectations for the territories, an overarching strategy is not present for the audit function, which could improve the current silo approach of different audit types. Resource allocations to the territories remain consistent from year to year, regardless of whether risks have shifted. As advised above, a compliance improvement program should be developed that identifies the key compliance risks, considers the methods to be used to promote or enforce compliance, and outlines the objectives to be achieved in the coming three to five years to assist the STS in meeting their overall goals and objectives. The STS should adjust the organization structure to separate the HQ functions from the operational activities.

Managing Large Taxpayers

45. **The centralized focus on large taxpayers through a large taxpayer office (LTO) should be re-established.** The LTO, when established, had oversight of all four compliance obligations with an overall view of the segment's compliance levels. The discontinuance of the initial LTO was due to a series of low-level results emerging from large taxpayer audits and the segment not being viewed as a priority compliance risk area. As a consequence, the large taxpayer compliance functions have now been split into two. The management of filing and payment functions is reporting to the Taxpayer Services Department and the audit function now reports to the Audit General Department (AGD), with two dedicated Large Taxpayer Audit teams.

46. The previous LTO audit approaches used for these sophisticated taxpayers were not focused on known material tax avoidance risk areas. Firstly, good practice for complex large taxpayers requires a consideration of the whole company group of related party transactions, at both a domestic and global level. Secondly, the focus for compliance risks is typically on the major tax planning and tax avoidance techniques used by the large taxpayer especially where loopholes in the law can be exploited. An emphasis on checking and reviewing a large taxpayer's books and records for accuracy will not generally lead to the detection of any substantial non-compliance as these taxpayers have very strong internal controls. Most tax authorities target their risk work and audits on understanding the complex businesses tax planning that is borne from their major abnormal transactions and use of tax avoidance loopholes. In other tax authorities these have normally generated very high audit results although often followed by levels of disputation over law interpretation.

47. Good practice would indicate that the LTO should have responsibility for all functions related to managing compliance of taxpayers within the large taxpayer segment. These would include developing a strategy for the large segment, including a balance of service and enforcement activities based on the degree of risks identified, identifying what data should be collected from large taxpayers, undertaking risk analysis, managing resources dedicated to the large taxpayer segment, reporting on results and assessing the success of the LTO in meeting its objectives.

48. Several areas of potential tax avoidance in Moldova related to complex and large taxpayers were raised in discussions. In general, large taxpayers will try to exploit areas in the tax law where there is some discretion (grey areas) and areas where tax concessions are offered from both a domestic view and where these conditions exist in other tax jurisdictions across borders. Some avoidance areas raised in discussions from a Moldovan perspective included profit shifting across countries by multi-nationals; use of free economy zones to shift profits domestically; IT domestic parks with lower tax rates; and various tax concessions in the law.

49. A number of law reforms have been recently introduced in Moldova to support the STS in challenging complex tax avoidance arrangements. These include: use of the GAAR which considers the commerciality basis used for arrangements. The GAAR is a critical tool to tackle tax avoidance arrangements as it looks through the legal form and considers the substance of the arrangements. This has not been used in Moldova at this time; and new Transfer Pricing law with guidelines soon to be effective to challenge cross border related party profit shifting of products and services.

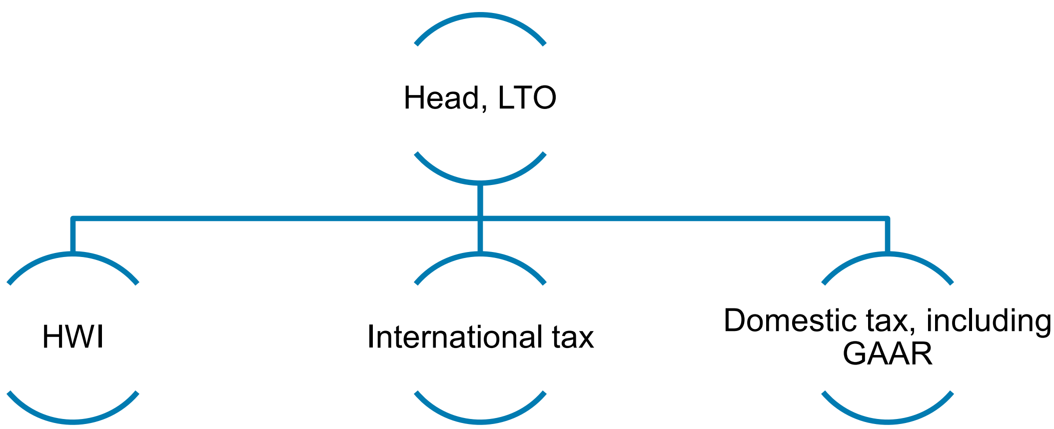
50. The LTO should use the Risk Differentiation Framework (RDF) to rank all of their taxpayer population and ensure the highest risk taxpayers are being audited. The higher and medium risk taxpayers as ranked in the RDF should form the majority of the cases selected for audit. This framework (see Annex 4) would greatly assist the LTO in prioritizing the audits for assignment of the highest risk cases. See Annex 3 for more details on the principles and operations of the RDF. This work will require a small separate unit within the Compliance General Department (CGD) or within the LTO to develop the RDF and its rankings. The different methodologies and considerations required for large taxpayers necessitate specialist compliance risk area support.

51. The introduction of new reforms and focus on avoidance arrangements will necessitate stronger industry analysis of taxpayers' businesses. Many tax authorities prior to commencing audit activity conduct detailed "understanding the business" workshops of their riskiest large taxpayers in order to identify the material tax risks. A workshop is undertaken using a series of disciplined processes designed to achieve the goal of identifying the material tax planning and significant tax avoidance risk areas. The workshop develops the methodology by gathering key sources (e.g., tax information, financial, third parties, industry information and publicly sourced information); and building this into an initial risk profile. The workshop process is further supported by the use of relevant experts (e.g., financial reporting, risk topic experts, previous auditor experiences, and use of industry experts) enriching the quality of the work, the risk profile, and by identifying clear areas of enquiry. This may involve some changes to current work practices for this population of taxpayers.

52. Given the complexities of audit risks, specialization based on compliance issues is warranted. With the introduction of new legislation related to GAAR and transfer pricing, as well as the STS's participation in the Inclusive Framework on BEPS, specialization in these complex workloads is warranted. Currently, a dedicated team each deals with High Wealth Individuals (HWIs), and large taxpayers, although both units are located in the General Audit Department. Training should be delivered on tax avoidance techniques and the development of risk profiles.

53. Once a central organizational focus on the large taxpayer segment through the LTO is implemented, specialization can be achieved. Separate teams specializing in HWIs, international tax, and domestic issues including GAAR can be established as direct reports to the head of the LTO. Figure 6 shows the organization structure that maximizes specialization. Each team would be assigned the number of auditors needed to address the current workloads. The STS can start with existing staff doing this work and allocating them to the LTO. As more is understood about the risks in each of these areas, resources can be shifted or adjusted accordingly.

Figure 6. Possible LTO Structure



54. The mission team considers the re-establishment of the LTO a key priority, however STS management contends that their organization is too small to support an LTO. The mission team considers the "approach" to managing compliance a more critical consideration to support the need for a LTO. For large taxpayers, the main risks arise from their tax planning activities. For small and to a lesser extent, medium taxpayers, the risks often relate to unreported income, which requires a different audit approach to detect the understatement of income. Having all taxpayer segments managed by the same organizational unit may not allow for the specialization needed to address the risks in the large taxpayer segment. Given the small number of resources, the STS is encouraged to dedicate their scarce resources to the area of highest relative risk to the revenue, which experience in other countries suggests is in the large taxpayer segment.

55. While the desired end state from a good practice perspective is to reinstate a LTO, it is recognized that some time may be needed to make the transition. Various options exist that could prove more successful in identifying and addressing material compliance risks within the large segment, while maintaining the organizational structure as it exists today. These options are explored below. The organizational structure would remain the same, with large taxpayer auditors remaining within two dedicated teams, under the leadership of the Audit General Department.

- **Option 1.** A Compliance Improvement Plan (CIP)[14] would be developed for the large taxpayer segment. This would outline the various treatments to be undertaken to address the identified risks. The CIP would be developed through the Compliance Risk area, in consultation with the managers responsible for service and enforcement efforts for large taxpayers. This allows for a risk-based approach to be used, although the provision of service and enforcement activities would be conducted by two separate groups.

- **Option 2.** The leaders of the functional areas (service and enforcement) would report to an oversight committee within the STS that would set priorities for risks to be addressed, make decisions on resource allocation and evaluate results of the various activities related to large taxpayers. Other variations of this model could be developed according to the circumstances of the STS. The IMF could assist the STS in further exploring these options and in providing advice on how to set up these management arrangements.

56. The current definition of the large taxpayer segment should be revisited. Currently there are approximately 500 taxpayers and the criteria to be included in the large taxpayer segment is based mainly on turnover. The large taxpayer segment, as currently defined, represents less than 40 percent of total revenue collection. International practice suggests that the large taxpayer segment should represent between 65 and 80 percent of total revenue collection. While this is not a hard rule, the objective is that a large proportion of revenue collected by the administration should normally be from large taxpayers. The purpose is to have the largest taxpayers, who contribute the most revenue, under the close management of the STS. The current definition also prohibits individuals from being included in the segment. This would have to be changed to implement specialization (for HWI) as recommended in this report.

57. Many countries include key industry sectors in their definition of large business. Some industry sectors are considered high risk due to their complexity. Examples include banking and insurance. Consideration should be given to whether certain industries in Moldova should be included in the definition of large taxpayers. To make this determination, the STS should analyze the major industries in terms of number of taxpayers, turnover, past compliance history of taxpayers in the industry. With this information, a decision should be made on whether the industry represents a significant compliance risk, and if so, include them in the large taxpayer segment.

[14] Compliance Risk Management: Developing Compliance Improvement Plans , IMF 2022, Brondolo et al

Other Taxpayer Segments

58. The STS should consider implementing further segmentation beyond large taxpayers. All taxpayers, other than those in the large taxpayer segment, are currently grouped together. The STS would benefit from considering segments such as medium and small taxpayers to further divide the population into groups with similar characteristics. The STS will be better able to assess compliance risks and develop targeted, effective treatments if additional segments were in place. The approach to managing compliance is vastly different for small taxpayers, where the focus is on unreported income, compared to other segments where the books and records may be free from errors, but tax planning activities pose a serious risk of non-compliance.

Governance

59. The span of control in the audit program is too high. Each Head of Department has between 14 and 16 budgeted direct reports. Given the Heads of Department are first line supervisors, the span of control is quite high. Span of control typically varies based on the complexity of work and auditor experience. In situations where the work is less complex or auditors are more experienced, a higher span of control can be adopted. For complex workloads such as large taxpayers, a span of control of between four and six auditors to one supervisor is preferred. There is no differentiation in the STS on span of control among the various workloads.

Recommendations

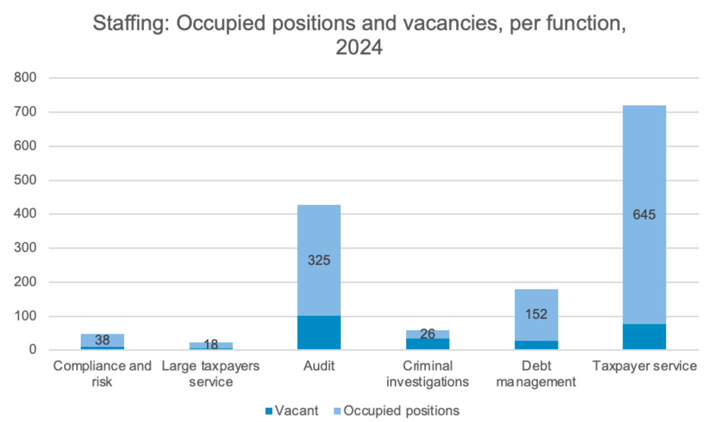
- Adjust the organization structure to separate operational activities from HQ functions, by July 2025.
- The LTO should be reestablished as soon as possible, with an audit focus on significant tax planning. As an interim solution, arrangements should be put in place to manage the compliance of the large taxpayer segment based on its unique risk profile and using a consolidated approach to managing risk within the corporate group.
- A small unit within CGD or within the LTO should be established dedicated to the formation of the RDF and prioritization of the LTO riskiest cases.
- The new LTO auditors should use a workshop approach to deliver a comprehensive risk profile and identification of significant tax avoidance risk areas by June 2025.
- Large taxpayer auditors will require training in tax avoidance techniques and the development of risk profiles. Target completion date is June 2025.
- Re-evaluate the current definition of the large taxpayer segment by March 2026.
- Consider further segmentation beyond large taxpayers by March 2026.
- Consider options to address high spans of control by December 2025.

D. People

60. Modern, effective tax administration is highly reliant on flexible attraction, retention, recognition and remuneration policies. Advanced tax administrations tend to have more flexibility in terms of hiring, remuneration and performance management practices, allowing them to compete for the best talent. While they may be a part of civil service, many countries allow their tax administrations to develop more flexible recruitment and remuneration policies, in order to attract the best talent. This is a crucial requirement, considering the importance of tax revenues in funding government reform goals, and in allowing governments to fulfill their commitments under their social contracts with their citizens.

61. Highly inflexible civil service rules have resulted in severe staffing constraints. Under article 24 of the Tax Code, the structure is approved by the Minister of Finance, and a staff ceiling is approved by government. Staffing constraints have been exacerbated by a government-wide moratorium on new hires, poor remuneration, and high attrition rates that see experienced staff being lost to private practice. Across the STS there are 300 vacancies - 102 of these being in the Audit Department, and a further 9 in the CGD (Figure 7). With 23 percent of approved positions in the Audit Department being vacant, considerable focus is required on developing a recruitment and retention strategy for the STS, that acknowledges the strategic importance of its role, and that will allow it more flexibility than current civil service rules allow.

Figure 7. Occupied Positions and Vacancies in Core CRM-Related Functions



Source: STS, IMF staff calculation

62. The number of budgeted auditors compared to total STS staff is low by international standards. Based on current staff on strength, audit staff represent 325 of the total STS staff of 1,484, or 22 percent. On average, tax administrations worldwide dedicate approximately 30 to 35 percent[15] of their resources to audit. Audit department vacancies total 102 staff and efforts should be taken to fill those positions on a priority basis as significant impacts on cases completed and additional tax assessed will continue to occur until additional staff are hired.

[15] International Survey of Revenue Administration (ISORA) data, 2016-2020.

63. **Administrations can mitigate some of the negative impacts of limited capacity through centralization, specialization and focused prioritization.** A part of the staffing challenges being faced by the STS could be partially minimized by identifying functions or activities that could be centralized (for example, by having specialist teams focusing on VAT refund audits and insolvency audits), allowing specialist teams of auditors to focus their efforts on comprehensive audits.

64. **The civil servant bonus regime is outside the boundaries of good practice.** Employees are paid a bonus monthly of approximately 100 percent of their base salary. This suggests that the base pay is insufficient and that employees likely rely on these monthly bonuses as a part of their base salary. To process these bonuses monthly is inefficient. There is also a concern that the frequency will promote poor employee behavior in order to qualify for the bonus. If employees are measured on the number of audits completed in the month, they will likely close cases even if the audit work is not fully complete. Good practice in performance bonuses dictates that bonuses be paid annually and that clear criteria be established to assess employee performance on a consistent basis. The bonus should be a small percentage of an employee's total remuneration. The STS should evaluate if there are options within their power to address the risks of employees conducting themselves contrary to the values of the STS. Some countries have granted special authorities to tax administrations for higher salary levels, given the specialized expertise needed in a tax administration, which could be an option to consider, in consultation with the MOF and other government departments.

Recommendations

- Develop a plan to recruit audit staff to minimize the current vacancies, by February 2025.
- Evaluate options to address integrity concerns with the current bonus regime, by February 2025.

E. Tools Supporting the Audit Program

Audit Case Selection

65. **The STS compliance program is divided organizationally into two parts.** CGD is responsible for selection of the highest risk audit cases and Audit General Department (AGD) responsible for execution and completion of the selected audits. The CGD, as part of their mandate, select the planned audit cases for the annual audit program (which are published) and also selects additional unplanned cases on a monthly basis as case referrals are received.

66. **CGD selects the highest risk economic operators (businesses) as planned (and published) audit cases by applying a range of agreed risk criteria from their available data sources.** Planned audit cases for Moldovan businesses (economic operators) are selected by the CGD annually and are published in a state register with names and overall risk scores of taxpayers to be audited in the next year. The AGD receives these planned cases and assigns cases accordingly to relevant audit teams with an expectation that risks are to be examined. Unplanned audit cases are added to the annual planned audit list on a monthly basis based on a mix of VAT refund audits, insolvencies, tip-offs, agency referrals and third-party sources. These are reviewed by CGD prior to assignment for audit action.

67. The CGD selects a small number of individual taxpayers for audit action. For individual taxpayers, cases are determined quarterly using available audit methods.[16] In 2023, 42 tax audits were planned for natural persons. It is likely these cases related to many of the higher net wealth individuals or were identified as tax compliance risks from other agencies in the course of their activities. These cases are transferred from the CGD to the AGD for audit examinations to be conducted.

68. There is currently little interaction between the CGD and AGD areas during the selection of audit cases. From a separation of duties and integrity viewpoint, it is a good practice to keep these functions independent, however there are many other considerations when prioritizing the audit work program. In determining the riskiest case pool, both formal and informal ongoing feedback is needed between these key areas to ensure all relevant knowledge is part of the decision making. There are many risks which can be identified using top-down data views (identifying patterns and trends) and are further enhanced using bottom-up perspectives from auditors. A common mechanism used by tax authorities to drive this process is the use of a disciplined cross departmental committee or working group (which may also include the Methodology department) engaging in workshop style discussions to strengthen and enhance both the risk-based case selection process and the approaches used for audits.

69. A cross departmental CGD and AGD working group or committee should be introduced to engage on areas of relevance for both the compliance risk program and audit processes. The types of topics or agenda which may be covered by the working group can include (i) discussions on the types of audit mix and assurance of a balanced audit program; (ii) dialogue (and moderation over) the selection of riskiest compliance areas and casework; (iii) agreement on selected audit cases with clear alignment to priority compliance risk areas - to be conducted as projects; (iv) analysis and decisions on audit feedback themes; and (v) analysis and communicating audit quality review findings.

70. Unplanned work received from the CGD and assigned to the AGD needs a change of practice to achieve a reduction in the number of unplanned audits. Unplanned work is received by the CGD as a mix of referrals / tip offs, VAT refunds, insolvency checks, and other agency requests for reviews. These are many in number creating workflow and prioritization issues when referred to audit. In other tax administrations referrals and tip offs are considered initially as intelligence with additional work undertaken in the risk area to conduct further checks determining whether any more detailed work is necessary. These checks include to (i) understand the relevant risk and its impact identified from the referral, (ii) evaluate the level of credibility of the intelligence received; (iii) consider the referral in the context of the taxpayer’s overall risk rating; and (iv) gain a sense of the audit costs compared to potential results (ROI). Based on these initial checks there may be other approaches which could be used (e.g., use of a questionnaire or a simple partial review) for many of these cases. This change of work practice would be beneficial in managing the levels of unplanned work and referrals.

Types of Audits

71. STS uses several types of planned audits to manage the full range of compliance circumstances faced in Moldova. In terms of the type of audits used in Moldova, see Annex 2 for more details on their various features and characteristics. From the STS reported statistics, planned audits

[16] Available audit methods are outlined In Chapter 11 of the Moldovan tax code.

represent approximately seven percent of total audits undertaken and generate over 90 percent of the audit results. Planned audits are completed by AGD teams and are titled as post-operational audits which include:

- Desk Audits (conducted as in-house reviews involving checking and verifying tax returns and supporting documents).
- Comprehensive Audits (conducted on site examining all taxes and identified risk areas).
- Partial Audits (specific risk only focus and conducted on site e.g., VAT focus only).

72. Planned audits should be conducted as either comprehensive or partial audits depending on the extent of risks identified. All AGD risk-based planned audits are expected to be conducted as comprehensive audits and most are completed using small teams. All risks identified by the CGD are expected to be examined in the comprehensive audit. From discussions it was noted that in conducting the audit there may not be significant risks relevant to all tax types, and in addition many of the risks identified by the CGD may not eventuate, leading to an inefficient use of the auditor's time. As a consequence, some audits may not need multiple auditors engaged as a team. Audits of smaller companies or individuals could be completed by a less intrusive audit approach, e.g., use of partial type audits which are risk based. Dedicating fewer resources to any particular audit would free up resources to conduct other high-risk audits which would positively impact revenue outcomes.

73. The AGD complete a very high volume of unplanned audits with the aim of achieving high levels of rapid, on site, without notice to taxpayers, compliance coverage. In terms of the type of unplanned audits used in Moldova see Annex 2 for more details on their various features and characteristics. The highest volume of these audits are titled as operational controls, and these are conducted by specific AGD teams. These types of controls include:

- Factual controls (checking and verifying facts e.g., checking agricultural production levels).
- Documentary controls (e.g., checking VAT refunds, verifying documents to claims made).
- Thematic audits (scoped or focused on a particular type of compliance subject – e.g., checking VAT refunds).
- Cross checking controls (e.g., matching information from counterparts or all parties to transactions).
- Operative controls (e.g., rapid on the spot checks, cash register checks, business observations, fiscal posts; identification of infringements).

74. The number of mandated, unplanned audits is diluting the STS's ability to respond to higher-risk cases. The STS has a low percentage of its total audit program conducted as risk-based case work as they are required to conduct many audits due to mandated legislative requirements.

75. An increase in the number of risk-based audits is needed to ensure both the riskiest taxpayers and the highest value risks within the cases are included in the planned audit program. The steady stream of "unplanned" audits means that audit activity is not adequately targeted to audits where the biggest revenue risks lie. A shift in the audit mix from less unplanned work to more planned audits should improve the yield from total audits undertaken.

76. The STS should do more project-based audits by linking compliance risk areas identified by the CGD to audits with a common focus. Audit activities do not appear to be adequately leveraged as a part of the broader CRM program. Instead, audit is effectively viewed as an isolated function outside of the broader risk management program with audits completed on a more standalone basis. The AGD should increase its collaboration with CGD to better align and connect its audits with the agreed compliance risk areas conducting these on an audit project basis. Partial audits which already exist in the suite of current audit types could be utilized within this context in a linked and connected audit risk project environment.

77. The STS should continue to review its balance of unplanned and planned work and evaluate the benefits arising from its high volumes of operative control work. In particular, the cost benefit of operative controls relating to cash register cross checks, observational fiscal posts, etc., needs ongoing analysis. Such analysis is necessary to ensure the balance of audit types provide a sound balance and mix of targeted, well-represented coverage of the population, its critical segments, and enables a strong focus of major risk areas. Analysis may lead to streamlining of the audit mix types to achieve an improved level of ROI for case work e.g., more planned risk-based audits and less operative coverage type controls. This should be a regular topic of dialogue for the working group.

78. In evaluating the effectiveness of the range of audit types a cost-benefit type of analysis for each should be compared to its average ROI. As discussed, due to the limited focus on risk-based case selection, a cost-benefit analysis is presently suggestive of a low ROI from audit activities, especially when considering that only approximately 30 percent of audit assessments are paid. A regular review of the audit types suggested would ensure all audit activities continue to be targeted, purposeful, efficient, value-added and beneficial.

Audit Methods

79. The STS uses both direct and indirect audit methods to conduct their audits in accordance with the Moldovan tax code and regulations. Direct audit methods are used when the taxpayer's internal controls are strong, and the books and records can be relied upon. The method involves checking the actual taxpayer's records and calculations and comparing them to the filed tax return for correct reporting purposes. By way of an example, a large taxpayer is likely to be examined using this method to test for compliance. The indirect method is used where internal controls are considered as weak, such as many cash transactions or a business where the owner is involved in all aspects of financial accounting. In Moldova, indirect audits are applied extensively to cash businesses; insolvency type cases, and reviews on wealthy taxpayers (such as HWI). Examples of indirect methods used by auditors were highlighted in the mission discussions e.g., auditors cross checking and matching data sources for increases in a taxpayer's assets and living standards; and testing a common expense item which is critical to the business production and extrapolating to an expected income level, cross checking key benchmarks to sector performances and noting outliers etc.

80. The current audit methods used for complex, sophisticated taxpayers are not adequate. These include large taxpayers with international links and high levels of related party dealings; HWI taxpayers; and other complex tax groups. The risk indicators currently in place do not seem to address these types of risks. Reportedly, the results of large taxpayer audits are low, which could indicate that these tax avoidance risks are not being identified. Good practice is to consider these types of taxpayers as a related party group including their related international entities and parties. The focus for these complex groups will require increased knowledge of their business, its abnormal one-off events; and an increased focus on sophisticated tax planning and tax avoidance rather than matching to records or identification of tax evasion issues. For instance, reviewing the accuracy of records for well governed large businesses would not be expected to result in high levels of errors or non-compliance as they typically have very strong internal controls. In many tax jurisdictions an increased understanding of complex businesses, their tax planning and their use of tax avoidance loopholes has generated high audit results.

81. The AGD should commence a pilot project to better understand their complex, sophisticated large taxpayers and test the risk and audit concepts outlined in this report. As noted in the previous paragraph, a number of concepts and approaches for auditing a large taxpayer need to be experienced and practiced. To ensure the concepts have traction, training of LTO audit staff in these types of risk-based audit techniques should occur, e.g., using case studies and practical interactive workshops.

Audit Quality Reviews

82. The audit quality review (AQR) program, while having a number of good practice elements, would benefit from additional strengthening in certain processes. The mission team was advised that the process uses a range of good practice case criteria to determine quality case standards are met, e.g., technical merit, timeliness, following mandated processes; levels of professionalism; and service. The AQR should continue to be revised for improvements to process regarding:

- Continuing to review the overall criteria used for determining quality assessment of the audit file.
- Formalizing the number and percentage of cases reviewed from the totals completed.
- Better aligning the quality reviews to the timing of audit completion especially where the review leads to a re-audit due to poor quality.
- At the audit program level regularly reviewing the patterns and trends of audit practice and audit decision making emerging across the cases finalized, especially where discretion is exercised e.g., consistency of penalty applications.
- Capturing the audit improvements and increasing the level of communication to auditors especially on findings and necessary changes to audit practice.
- Where possible in cases disputed ensure inclusion of dispute resolution in the audit quality considerations

Recommendations

Audit Case Selection

- Establish a cross departmental compliance and audit working group or committee operating as a regularly meeting working group to consider a range of mutual topics and issues of relevance by April 2025.
- Referrals received from CGD need further additional intelligence type checks prior to transferring as unplanned casework to AGD to ensure there is risk by April 2025.

Types of Audits

- Enable planned audits to be conducted as either partial or comprehensive audits depending on the level and breadth of risks identified and resources required for audit by April 2025.
- Increase the number of risk-based planned audits by December 2025.
- Increase the use of project-based audits related to compliance risk areas identified by April 2025.
- Introduce the use of audit projects by piloting the approach on a commonly agreed risk area and link the partial audit type product for all cases connected to the nominated risk project by April 2025.
- Continue to review the overall audit program mix of planned audits, unplanned audits and control work types for the best mix and prioritization to achieve the requirements of the risk-based audit program by February 2025.
- Regularly analyze the effectiveness of all audit types using ROI approaches to discern ongoing value-added.

Audit Methods

- For complex sophisticated taxpayers (e.g., large multi-nationals; large taxpayers; HNWI), modify the focus of the audit methodology to an increased understanding of their global businesses with an increased focus on the taxpayer's material tax planning methods and tax avoidance techniques by June 2025.
- Conduct a pilot of complex sophisticated large taxpayers which should be undertaken with auditors trained in identifying tax avoidance and tax evasion arrangements by June 2025.

Audit Quality Reviews

- Evaluate the AQR program with a focus on improvements related to timeliness of the reviews, the breadth of quality criteria used; agreed formalizing of the number of cases reviewed; and distribution of findings to auditors by April 2025.

F. Systems and Data

83. Modern tax administrations rely heavily on the efficiency gains that can be achieved through systems that support effective, automated data-centric management. As tax administrations move away from manual legacy systems, they are increasingly investing in automated systems that allow them to reduce the number of time-consuming manual processes, which invariably come with their own quality and integrity issues. Investing in automation allows for a tax administration to better focus its scarce resources on more value-adding activities. See Box 2 for further details.

Box 2. Examples of Systems Needed for Efficient and Effective Tax Administration

- Business intelligence software and modelling tools.
- Automated management information system which allows for both regular management reports, and ad hoc customizable management reports.
- Electronic case management system, with automated escalation and reporting functions.
- Electronic document management system, for secure and systematic storage and retrieval and that ensures institutional knowledge management.
- Customer relationship management system that provides for a single view of all interactions with taxpayers.
- Automated risk rules system, with flexibility to adjust rules and thresholds.
- A data warehouse in which large volumes of data can more easily be manipulated and analyzed.

84. The STS estimates that auditors only spend some 50 percent of their time on actual audit activities, which would be exacerbated by the lack of automated systems. The remainder of their time is, to a large degree, spent on manual report writing and other administrative tasks. Investing in IT systems and automation of key business processes – like risk assessments and management information reporting – would free up crucial audit resources.

85. Impactful audit requires effective risk-based case selection, which is hampered by the lack of an automated risk management system in the STS. Risk analysis and the application of risk rules is conducted manually, but efforts are underway to secure a software solution with donor assistance. This is a critical development after the initiative had stalled for a number of years. Introducing a more sophisticated, automated risk analysis system is a key success factor from an audit perspective, as it would allow the STS to be far more effective in assessing where the biggest risks and revenue leakages lie.

86. The STS audit case management system lacks the required functionality and flexibility. An electronic case management system is a critical part of the audit management process. Typically, it would include the functionalities detailed in Box 3. The STS system, by contrast, does not allow for tracking of time spent on individual audits; it does not automatically flag when allowed time periods have been exceeded; it does not provide a view of the different stages that audits are in; it does not allow for the capturing the results of audits; it isn't possible to see the workload and progress made by individual auditors; and it does not have any reporting functionality. As a result, some managers develop and maintain their own manual spreadsheets, but this is discretionary and not a standardized practice across offices. The STS should secure and implement an electronic case management system.

Box 3. Minimum Functionalities Required of a Case Management System

- Electronically assign cases by a supervisor to case officer.
- Maintain an inventory of cases by team and division.
- Record case details at the time of case selection.
- Record reassessment details and update taxpayer account.
- Display other cases involving the same taxpayer.
- Record actions taken and date of actions.
- Record the elapsed time from commencement to completion of the audit and maintain status of case.
- Generate standard letters and notices.
- Provide access to technical notes and manuals for auditors.
- Generate management information for cases created, cases closed, cases outstanding, elapsed time, results of audits, success rate.

87. **The manual system used to record the results of audits needs to be structured to allow for more quantitative analysis.** This feedback loop is an extremely important part of a risk management process. This manual process is done through the completion of a separate Word document per audit, which is collated by the Compliance Department. This poses a threefold challenge: the manual form completion takes up valuable auditor time; there are likely to be the kind of quality issues that are inherent to any manually completed document; and collating large numbers of Word documents does not allow for easy quantitative analysis. The feedback process on the outcome of audits should be automated and electronic. In the interim, the STS could consider developing a version of this feedback form in Excel, which would allow for easier collation and more quantitative analysis of the outcome of audits than is possible when using Word documents.

88. **The STS does not make use of computer-assisted audit techniques or tools**. Over time, this area may need to be bolstered, particularly in respect of audits of large companies.

89. **Modern tax administrations are increasingly relying on business intelligence tools to improve their operational efficiencies**. These are almost entirely lacking in the STS, with a marked impact on how resources are deployed, and on operational effectiveness. Examples of some of the tools that would contribute significantly to increasing efficiencies at the STS are included in Box 4. By implementing these tools, the STS could more readily transform raw data into actionable intelligence, optimizing compliance efforts. At the same time, by reducing the administrative burdens on staff, they are

able to instead focus their efforts on where they are likely to have the biggest impact, by focusing on the biggest revenue risks. The STS should obtain data analytics and data visualization tools to assist in risk identification.

Box 4. Examples of Business Intelligence Tools Required to Enhance Operational Efficiencies

- Data warehousing and data integration tools to consolidate large volumes of data from multiple sources (e.g., taxpayer records, third-party financial institutions, customs data) into a single, accessible data base (e.g., Extract, Transform, Load Tools to clean and prepare data, and a data warehouse to store structured data for easy access).
- Data analytics and visualization tools, to analyze taxpayer behavior, identify trends, spot anomalies, and visualize complex data.
- Predictive analytics and machine learning tools, to forecast taxpayer behavior, estimate revenue, and detect potential fraud or evasion.
- Data mining tools, to extract useful patterns, relationships, and insights from large datasets.
- Automated reporting and dashboard tools, to create automated, real-time reports and dashboards for quick insights into revenue collection, compliance status, and audit outcomes.
- Risk assessment and fraud detection tools, to identify taxpayers who pose a high risk of non-compliance or fraud.
- Text analytics and natural language processing tools, to analyze unstructured data, such as social media posts, online reviews, or public records, for insights into taxpayer sentiment and activity.
- Robotic process automation tools, to automate repetitive administrative tasks, such as data entry, filing, and processing forms.
- Case management and workflow automation tools, to manage audit cases, track taxpayer communications, and streamline workflow for tax compliance and enforcement activities.
- Collaboration and knowledge management tools, to facilitate knowledge sharing, documentation, and cross-departmental collaboration.

90. The STS's reliance on the Centre for Information Technologies in Finance needs to be carefully managed. The Centre is responsible for all IT development for the STS, which needs to compete for prioritization against other government departments. The Centre also holds all bulk data and conducts data extraction at the request of the STS. While there are likely economies of scale for government in housing IT services in an organization like the CITF, the fundamental importance of the STS in generating revenues cannot be overstated. Every effort is required to ensure that strategic investments in the STS' aging, fragmented systems are prioritized, including the acquisition and implementation of risk management software, a case management system, business intelligence tools, a data warehouse in which data can be stored locally for data matching and mining, and computer-assisted audit tools.

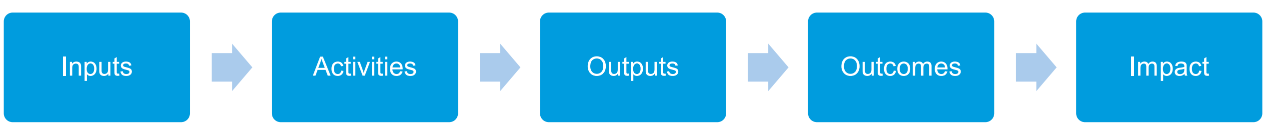
Recommendations

- Secure and implement an automated risk management system by June 2027.
- Secure and implement an automated case management system by December 2026.
- Secure data analytics and data visualization tools by December 2026.
- Secure a data warehouse where the STS can readily match, mine and analyse larger volumes of data by December 2026.

G. Performance Measurement

91. **The purpose of performance measurement is to assess whether the administration is achieving its strategic goals and operating in an efficient and effective manner.** In defining efficiency, it can be described as 'doing things right' while effectiveness is a measure of whether the administration has 'done the right things.' To achieve strategic goals, there must be a careful consideration of what activities to carry out to achieve the strategic goals. If the incorrect activities are selected, the administration may be efficient, but it will not be effective. The selected activities then generate outputs. Measuring the outputs compared to the inputs will give a measure of efficiency. The continuum of performance measurement is shown in Figure 8. Inputs are what resources are available to the administration, including staff, and equipment. Outcomes are the objectives the administration sets out to achieve.[17]

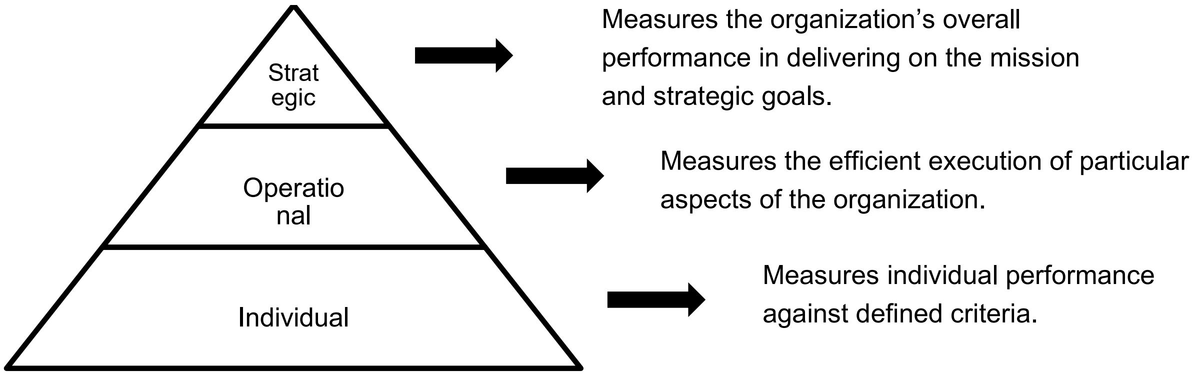
Figure 8. Continuum of Performance Measurement



92. **Performance measures should be available at the strategic, operational, and individual levels.** There should be a clear line of sight between the three levels of performance indicators. In *setting* KPIs, a top-down approach should be used, starting with the strategic objectives of the administration, which leads to the selection of activities to be undertaken at the operational level, and finally, individual performance expectations should be set to achieve the operational objectives. In *measuring* the KPIs, a bottom-up approach is used by measuring the cumulative individual performance that contributes to the achievement of operational goals, which leads to the achievement of administration-wide objectives. This hierarchy of performance measurement is shown in Figure 9.

[17] For more see VITARA - Performance Management

Figure 9. Levels of Performance Measurement



93. **Indicators can be qualitative or quantitative.** Examples of quantitative indicators are numerous, and could include additional revenue collection, amount of debt collected in the year, number of audits completed, percentage of returns filed on time. Qualitative indicators are more subjective but can be equally useful in providing a more balanced picture of performance than using quantitative measures alone. Examples include results of taxpayer surveys, an evaluation of quality assurance results of work done by staff, a supervisor's assessment of staff performance. Other considerations to keep in mind when setting KPIs are noted in Box 5.

Box 5. Considerations in Developing KPIs

Performance Indicators should be developed very carefully to ensure that they drive the intended behavior. Consider the following when selecting KPIs.

What Gets Measured, Gets Done. Staff may meet the expectation, but their methods may not be in line with the values of the organization. For example, if an auditor is measured on the value of additional tax assessments generated by their completed audits, the auditor is likely to assess even very small amounts that are not material, and they may not consider the justification from the taxpayer why the tax treatment they reported is correct. This also could create negative downstream impacts on the dispute resolution process, which will result in additional costs to the administration. Carefully consider what behavior the KPI may promote in staff.

KPIs should be S.M.A.R.T.

- **Specific.** Anyone reading the KPI should be able to understand what is expected.
- **Measurable.** Objective includes how the action will be measured. If data does not exist to populate the KPI, it should not be used.
- **Achievable.** The objective is realistic.
- **Relevant.** The KPI is consistent with the nature of the activity being measured.
- **Time-bound.** The timeline for completion is clear.

Choose a balance of qualitative and quantitative indicators where possible. Quantitative measures are easy to identify, but do not always provide a complete picture of the outcomes achieved. Qualitative measures are helpful to incorporate a less tangible, but equally important, dimension of the work being evaluated.

94. There is no good practice standard to indicate how many indicators there should be at each of the three levels. A balanced (qualitative and quantitative) set of indicators that together provide a picture of the health of the administration is recommended.

95. The STS has identified performance indicators at the tax administration level in their STS strategy. The identified strategic goals include streamlining tax administration, increasing taxpayer satisfaction, combatting tax evasion and reducing the tax gap and development of the information system. The strategy outlines 30 performance indicators associated with their objectives. Some of the indicators lack specifics and would be difficult to measure. A list of the indicators is shown in Annex 5. Indicators that relate directly to the audit program are highlighted in blue and indicators pertaining to the broader goal of improving compliance are highlighted in orange. It is unclear whether these are monitored and if so, how frequently. There should be a standard format and monitoring quarterly of progress toward meeting STS' operational objectives. Monitoring at the strategic level is a longer-term process with monitoring annually toward meeting the strategic goals over a three-to-five-year period.

96. In the context of the audit program, KPIs are primarily set at the operational level. These operational indicators include additional tax assessed, tax paid, number of audits completed. These numerical indicators should be supplemented with other KPIs that provide a more comprehensive view of the success of the STS in achieving its audit program goals. Accumulating the results of all audit types and taxpayer segments into one figure does not provide valuable information regarding the relative contribution of each type of audit type or taxpayer segment. At the level of each taxpayer segment and each audit type, a ROI calculation should form part of the performance measurement framework. This will allow the various audit types to be compared with other types on a relative basis. Without this information, it is impossible for management to determine if the right amount of resources has been dedicated to each risk treatment.

97. There are no existing strategic indicators that measure the overall success of the audit program. In addition to indicators related to number of cases completed, additional tax assessed, other measures should be considered, including the material change rate, a KPI on quality of audit, the percentage of files that are upheld through the dispute resolution process, and a ROI calculation, among other possible indicators.

98. Individual performance assessments are conducted twice per year, but there is a level of subjectivity to the process that does not meet international good practice. Beyond the twice-yearly performance review, bonuses are calculated and paid monthly based on an assessment of staff by their Head of Department. This issue of bonuses is discussed in Subsection E of Section III of this report. Standard criteria should be used to evaluate the performance of every employee. There should be a balance of qualitative and quantitative KPIs, including the result of quality reviews, the employee's contribution to bettering the audit program and the development of more junior staff, in addition to the traditional statistics such as cases completed, and additional tax assessed. Annex 6 provides examples of possible KPIs for evaluating the audit program at all three levels. The STS should review and strengthen their performance measurement framework for the audit program.

99. A dashboard could be developed to enable senior management to monitor progress on the KPIs. Because the performance measurement framework is intended to be a management tool to track progress in achieving goals, a summary of the KPIs in a dashboard format may be a useful way of expressing the information. Management could see at a glance where performance is on track or where further analysis needs to be conducted to determine why performance levels are not as expected. Typically, the KPIs would be populated quarterly where possible. The strategic indicators would be reviewed annually as these are longer-term measures.

100. Awareness of the strategic goals of the STS and how each employee's job contributes to achieving that goal should be strengthened. The awareness of the existence of a strategic plan appears to be low. Employees should be aware of how their job fits into the strategy. This will generate stronger ownership and commitment in being part of a team striving to help the STS succeed.

Recommendations

- Review STS KPIs to confirm if they are measurable, by February 2025. If not, the KPI should be replaced.

- Strengthen audit program KPIs to include both qualitative and quantitative indicators by February 2025.

- Develop a management dashboard to allow senior management to monitor progress toward the audit program's goal on a regular basis. The dashboard should be automated and be implemented by November 2025.

- Strengthen employee awareness through communication efforts to communicate the STS's goals and to help employees see how they fit into achieving the administration's goals. Begin awareness sessions by February 2025.

H. Audit Process

101. The STS audit process contains many key elements of good practice. The process seems well developed with the main steps for auditors to follow clearly prescribed in the tax law, regulations, orders and audit manual. See the process map at Annex 7. The audit process consists of the following key stages:

- Pre-audit work and case assignment.

- Case plan and notifying the taxpayer; (with most audits conducted on site).

- Performing the audit (including conducting taxpayer interviews and examination of records).

- Writing case reports on actions taken and case findings.

- Approval of case findings.

- Managing working papers.

- Finalizing the case (including completion of a feedback form to inform on the success of risks identified initially by CGD).

102. The pre-audit planning stage of the audit process could be further developed to consistently achieve a higher level of good practice in preparing for an audit. Processes for conducting the pre-work stage are contained in STS regulations, orders, and in the audit manual. CGD provides the audit team with a detailed spreadsheet of relevant STS data, third-party information, with additional notes on the risks identified. Auditors do additional checks such as source reviews, extra checks and analysis to ensure they have captured the full extent of the taxpayer's business activities and compared to its tax performance. In the mission discussion it was noted that more experienced officers tend to undertake considerably more checks and analysis at this stage placing them in a stronger position when the audit begins. This level or standard of work should become the expectation and be clearly outlined in the audit manual for all auditors to follow. Ideally all pre-audit work would be completed to an agreed certain standard.

103. Materiality levels used in audits for testing or verifying risk areas in a case need to be agreed as part of the case planning to ensure the audit is both well targeted and conducted efficiently. Processes for case plans are contained in STS regulations, orders, and audit manual. Cases are assigned by the head of audit with the plan of tasks, risks, team members needed, expertise, expected days, and extent of testing. It is expected all risks identified are tested regardless of materiality. There are currently no agreed internal administrative guidelines on the level of materiality checks for a planned audit. At this time planned audits must consider all risks identified and check regardless of size and auditor knowledge that the risk is not evident. For case plans to achieve an efficient and effective audit the extent of testing and materiality must match the degree of risk.

104. STS should consolidate its audit case files, key case documents, and important working papers into one digital application or platform with suitable security arrangements. For working paper purposes, the Case Management System (CMS) holds a range of important audit related documents and papers on critical decision points in the case. However not all information is stored in the CMS. Some official working papers are kept in a physical file (similar to a permanent taxpayer record or file) and the mission was informed that whilst the case is in progress some papers and notes are also held on an auditor's personal computer.

105. STS should keep more precise, accurate records of hours worked on each audit case to improve both case plan time estimates and management of case level performance. Ideally audit cases should be planned in a manner that all tasks and risks are taken into account using sound past case level time keeping data offering more accuracy in projecting expected hours per case. More accurate time keeping of hours per case would provide a much stronger baseline for future case work and would ensure estimates of case time are more realistic.

106. Penalty application in audits is decided at several levels within the AGD with discretion to decision makers depending on circumstances. The penalty rules have many layers and points for decision depending on behaviors. The decision level for the case can include the level of the Deputy Director or the head of the audit team depending on the type of case. Generally, penalty application is automatic if the legislation is clear and in place for penalties such as for late filing or payment for example. For gross negligence penalties which can be applied to a taxpayer who has significantly underreported their income, good practice would promote delegation of this responsibility to a higher-level manager, along with detailed procedures and guidance for auditors to follow to decide whether a penalty is justified. Clarity of penalty approval decision levels and clear guidance in areas of discretion are needed.

Recommendations

- Within the audit process, further develop the pre-audit work stage to ensure a common higher standard of risk profiling and relevant analysis is conducted in all cases by June 2025.

- Develop an agreed audit administrative guideline to provide support to auditors in determining suitable materiality levels when testing issues and transactions in the planning and performance phases of the audit process by September 2025.

- Consolidate the working papers and file for the audit into one digital application with suitable security arrangements by September 2025.

- Use a more accurate case level timekeeping system of hours per case for auditors. This would allow management to review how long different types of audits are taking to complete and be a stronger basis for future work estimation time as well as managing case performance by December 2025.

- Implement increased clarity and guidance with clear delegation levels for decision makers in determining the various types of penalties and concession decisions resulting from audits. This can also regularly be reviewed for consistency of approach and moderated within the Audit quality review processes by September 2025.

IV. Next Steps

107. The IMF program conditionalities require an action plan to be developed by April 2025. IMF assistance is available to develop the action plan in conjunction with officials, as well as prioritizing and sequencing the various activities. The action plan should contain the steps to be taken for each action, as well as a timeline for completion and the person responsible for completing the action. Where there are interdependencies with other action items, these should be identified, and the timeline adjusted to account for the interdependencies.

108. Additional requests for CD support can be discussed with the revenue administration program manager. The STS may wish to request support in strengthening their processes around CRM and risk-based audit. The pilot project suggested could form the basis for advancing this administrative strengthening.

109. The STS may wish to prioritize certain recommendations even before the action plan is developed. The mission team would recommend that the risk-based approach for CRM and audit be an early priority, as well as an analysis of the audit outcomes by audit type and taxpayer segment, with a view to redistributing resources to focus more on high-risk workloads. Concerted efforts to fill the audit department vacancies should also be a priority. Annex 8 outlines a summary of recommendations and classifies them between actions that can be taken forward in the short term and that are within the control of the STS to implement, and those actions that are longer term or require discussions external to the STS.

Annex I. Evaluation of Moldova's Audit Program According to the Six Key Categories of an Effective Audit Program

Category: Legal Framework		
Element	**Description of STS Situation**	**Gap in Good Practice**
Structure of Legislation	The Tax Code contains both substantive tax provisions and tax administration provisions, both at an in-principle level, and at a detailed operational level. Tax regulations contain a consolidated and comprehensive overview of relevant legislative provisions, including reiterating principles contained in the primary Tax Code, alongside detailed, step-by-step operational guidelines.	Primary legislation like the Tax Code should contain only high level more immutable principles. Details on how the principles are applied in practice should be contained in subsidiary legislation like regulations.
Legislative requirements relating to audit planning	Under the Law of State Controls the STS publishes an annual audit plan by 31 December of the preceding year. The plan includes details of the taxpayers to be audited, and their risk scores.	Legislative requirements for an annual audit plan to be developed in advance are unduly restrictive and hamper the effectiveness of audit and risk management activities.
Legislative requirements relating to audit planning	Under the Law of State Controls the STS publishes details of the taxpayers to be audited, and their risk scores. The STS does not subsequently also publish an update to indicate where no negative findings were made against audited taxpayers. Taxpayers have been known to challenge the calculation and veracity of their risk scores in subsequent litigation.	The process potentially prejudices taxpayers, and breaches their right to confidentiality.
Information Gathering	STS has a broad range of authorities around the requirement to file, to maintain books and records, the right to inspect and to prescribe the information required to be filed.	
Information sharing with other tax administrations	The STS has 4 years to audit a taxpayer, which can be extended to 6 years if a taxpayer failed to make the necessary disclosures.	Additional time periods where there are indications of fraud or criminality.
Time to Reassess a return	The STS has 4 years to audit a taxpayer, which can be extended to 6 years if a taxpayer failed to make the necessary disclosures.	A peer review of the STS exchange of information practices highlighted gaps in terms of beneficial ownership, particularly in respect of trusts and foreign-owned companies.
Time to Audit	Scheduled audits must be completed within the following number of business days: 30 for large, 10 for small and 20 for other files. Unscheduled audits must be completed within 15 days for large, 5 for small, 3 for individuals and natural persons and 10 days for others.	These time limits are not considered good practice. Typically, the audit must be completed within the statute- barred date timeline which is generally three to seven years. In practice, administrations aim to complete audits as quickly as possible, but

	Extensions are available in some cases for up to another 30 business days.	the statute-barred timeframe allows some flexibility when needed.
Penalties	The imposition of punitive measures is guided by a comprehensive but generic Moldovan Contravention code. It contains general provisions relating to aggravating and extenuating circumstances, but due to the broad and generic nature, and the vast number of considerations listed, penalties for tax-related offences may not be imposed fairly or clearly. Penalties imposed amount to low values, and only a relatively small percentage of penalties are paid.	A simple graduated penalty framework should be adopted, which considers the nature of the contravention, the compliance history of the taxpayer, the manner in which the contravention was detected, and the nature of the taxpayer's activities. The penalty regime should be reviewed to assess the extent to which it actually serves an effective punitive and deterrent function.
Third party reporting	The STS generally has broad information gathering powers, and is able to obtain access to information from financial service and other agencies, as part of the audit process. Banks proactively share information with the STS above certain monetary thresholds.	Additional powers to secure the proactive, bulk transfer of information from third party data sources like financial institutions – outside of specific audits, and beyond the current monetary thresholds.
Dispute resolution	The STS has an internal dispute resolution process, as well as a court process to resolve objections to the amounts assessed. The vast majority of disputes (˜75%) are decided in favor of the STS.	Additional analysis to understand and respond to the root causes of disputes.
Voluntary Disclosure	The STS does not have a formal voluntary disclosure program at the present time, although taxpayers can self-correct their return prior to the commencement of an audit.	Introduce a formal voluntary disclosure program.
Category: Organization and Governance		
Role of Headquarters	The STS undertakes few activities that a HQ would normally perform and there are no dedicated staff performing the HQ functions. There is an annual operational plan regarding performance targets for the territories, but expectations are limited to revenue collection. Monitoring of results is also restricted to additional assessments, collected amounts, and the list of taxpayers to be audited. Reforms are managed at a central level	The full range of HQ activities should be undertaken by a dedicated team.
Taxpayer Segmentation	The STS has a large taxpayer segment, and all other taxpayers are grouped together. High Wealth Individuals remain a compliance focus, although the auditors assigned to this work are physically located in the General Audit Department.	Further segmentation would be beneficial to promote a more tailored approach to managing compliance in each segment.
Organization Structure	There is no LTO to centrally manage the compliance obligations of this important taxpayer segment. The organization structure is mainly function-based but would benefit from further consolidation and restructuring. Given the highly complex issues related to GAAR and transfer pricing, specialized units to address these issues would be beneficial.	An LTO should be implemented.

Segregation of Duties	There is segregation of duties between CRM, audit, quality assurance, and appeals as each function is conducted by a different unit. Completed audits are reviewed by the supervisor (Head of Department). Where there are concerns about the outcome of the audit, the head of department reviews the results with the audit team. If not resolved, a Working Group meeting is held with senior management to determine if further audit work is required.	
Category: People		
Resources	The STS battles with a high vacancy level and a government moratorium on new recruitment.	Centralization, standardization and automation is required to compensate for limited staffing. The STS needs need more flexible practices for recruitment, retention and remuneration.
Staff Expertise	To be appointed, auditors need a minimum of a bachelors degree in finance, economics or accounting. High attrition rate. No industry specialization and topic specialization e.g. transfer pricing.	Specialist skills required and the strategic nature of tax revenue collections require recruitment and remuneration practices that can secure the necessary expertise.
Auditor Training	Training needs are identified bottom-up and a training program developed that includes internal and external. The STS requires a minimum of 40 hours training per year.	Specialized audit training is required for more sophisticated audits of complex taxpayers.
Auditor timekeeping	The case management system does not allow for tracking the time spent on audits, although some managers do keep some manual records. Reconstructed ROI calc estimates time spent globally.	It is critical to track time spent on audits, in order to do a ROI calculation.
Auditor Performance evaluation	Monthly performance assessment – discretionary bonus that is not about performance management but about compensating for low salaries. Some discretion in calculation of bonus – can be more than 100% of monthly salary. Data not tracked by HR. Weak on outcomes KPIs Impact and outcomes and change in taxpayer behaviors not tracked.	Bonus payments should not be used to compensate for poor base remuneration. Paying monthly bonuses can drive the wrong behaviors. Performance evaluations should also track outcome and impact measures.
Role of Audit Manager	Very broad span of control, with multiple auditors reporting directly to an audit manager. The structure does not cater for team leader positions, but does informally use mentors. Large administrative burden, particularly in respect of reporting and monthly performance reviews for bonus payments.	For teams handling more complex audits, the span of control should be reduced. Automation of management reporting functions would free up capacity.

Category: Tools		
Case Selection	The STS compliance program is organizationally arranged with CGD responsible for selection of the highest risk cases for audit and requires the AGD to execute and complete the selected audits. CGD select planned audit cases (both businesses and individuals) by applying a range of agreed risk criteria from their extensive data sources CGD also refer unplanned work from referrals to AGD taxpayers for audit action.	There is little interaction between the CGD and AGD in selection of cases and in various other matters of mutual interest which needs addressing. A change of practice is needed to better manage and prioritize the unplanned work received as tip offs and referrals.
Types of audits	The STS use many types of audits and control approaches to manage the various compliance situations they face. STS use both planned and unplanned audits and rapid controls to achieve an adequate mix of taxpayer coverage and a risk-based audit approach for its identified riskiest taxpayers. Planned audits which are published must be completed as comprehensive audits. The volume of rapid unplanned audits is very high. The percentage of risk based audits where most of the audit results occur is low.	The STS have a low percentage of its total audit program case work risk based. The STS could increase the use of project-based work within the audit program STS need to review the value and benefits of their audit range using ROI approaches to ascertain effectiveness. In particular unplanned operative control work with very high volumes e.g., cash register cross checks, fiscal posts etc., STS need to regularly review the balance of audit types in progress to provide a sound balance and mix for the audit program.
Audit Methods	STS use both Direct and Audit methods based on the Moldovan Tax Code and Regulations. The audit manual is very comprehensive and acts at a practical level of detail based on the Tax Law and Regulations for audits. It is developed by the STS Methodological Department using a working group including auditors. It is regularly updated and published Including additional assistance such as sector guides; checklists, steps, forms to use; specifics on tax types for audits; and frequently asked questions.	The existing indirect audit methods used in Moldova have not been tested through the court system to ensure the applied audit methods are validated. The current audit methods used for complex, sophisticated taxpayers (e.g., Large taxpayers with international links and lots of related parties) and for HNWI taxpayers are not adequate.
Audit integrity	STS have a number of integrity procedures in place for their audit program which are considered good practice. e.g. segregation of duties and critical functions – execution and approval responsibilities; self-declaration conflicts linked to performance standards, potential follow ups by internal audit; form for completion on personal asset holdings; no negotiation in audit (like case settlement); training every six months on integrity expectations with examples.	

Audit Quality Review	There are two main levels of audit review. (1) The Head of the Audit team is actively involved in the case and reviews and approves key decisions – providing initial oversight. (2) STS have an AQR program completed by the Compliance General Department (CGD)where all audits are reviewed quarterly and some are re-reviewed thoroughly and can lead to re-audits; using criteria standards.	The AQR process should continue to be revised for improvements in process, e.g., Timeliness of reviews.
Audit Manual	STS have a well maintained and detailed audit manual which provides support and guidance for auditors on a range of situations they are likely to face in the audit field. The manual is developed by the STS Methodological Department using a working group of auditors as support. The manual is regularly updated, published, and communicated. It includes additional assistance such as sector guides; checklists, steps, forms to use; specifics on tax types for audits; and frequently asked questions	
Random Audit Program	STS do not undertake random audits. Although random audits are considered good practice in many countries to provide increased statistical certainty of compliance coverage the range of audits completed and across a high population seem reasonable in the Moldovan context. While the use of random audits may be beneficial in the future, priority actions related to modernizing the tax administration, including implementing a risk-based approach throughout the organization and automating current processes should be completed prior to considering the benefits of a random audit program.	
Category: Systems and data management		
Case management system	No reporting function. No auto escalation function. No time keeping function. Audit outcomes are reported on manually in Word.	An automated case management and tracking system – with reporting functions – is required.
Risk management and risk rules system	The risk management system is not automated, but is largely conducted manually in Excel which impacts on risk-based case selection for audit.	An automated risk assessment and risk scoring system is required, to ensure effective audit case selection.
e-audit Tools	Not used.	Consideration for the future.
Category: Performance Measurement		
Performance Measurement	Current KPIs are operational in nature and track number of audits, reassessed amounts, paid amounts. Auditor performance is assessed twice per year and focus on cases completed, additional assessments, quality, although there is subjectivity in arriving at the final bonus.	Strategic KPIs should be developed to measure progress to meeting STS' strategic goals. Operational and individual KPIs should be strengthened to comprise a balanced set of indicators.

Annual Operational Performance	Territories are provided a targeted number of audits to complete on an annual basis. Regular monitoring occurs.	
Tax gap	A tax gap calculation for VAT has been completed, but is now out of date.	
Category: Audit Process		
Pre-audit planning	Detailed processes for pre-audit planning are contained in the STS regulations, orders, and audit manual. For the pre-audit stage CGD provide a detailed STS data spreadsheet, 3rd party information and additional notes with the risks outlined. Auditors conduct additional reviews of sources, conduct further analysis and checks to capture the extent of the taxpayer's business and its tax performance.	More standardization of best practice in preparing for the audit is required e.g., risk profiles completed to an agreed 'experienced officer level" standard.
Case Plans	Detailed processes for planning are contained in STS regulations, orders, and audit manual. Cases are assigned by the Head of audit where tasks, risks, team members needed, expertise, expected days, extent of testing. It is expected all risks identified are tested regardless of materiality. Planned days for cases are based on estimates of time taken to complete tasks.	Materiality levels for testing issues needs clarity to ensure only the riskiest cases and the most important issues are in the audit focus. Cases are expected to be completed by law within 20-30 days which is very short for complex cases – however the case can be paused while information is being sought.
Interview	Interview processes are contained in the STS regulations, orders, and audit manual. Interviews are part of the Audit process and are well documented. Most audits are completed on site with a tour of premises and meetings with relevant stakeholders.	
Conducting	Processes for performing the audit are contained in detailed STS regulations, orders, and audit manual. Cases – depending on scope and focus – are mostly conducted on site, check accounting policies for tax compliance; examine and test records, identified violations are reviewed by the audit manager as found; risks are reviewed and checked on an audit table. Two additional processes include: • Cases found with criminal or serious behaviors are immediately referred to the Anti- Fraud Department; • Where law gaps are found the situation is discussed and escalated further with the support of the Head of Audit Team.	
Working Papers/Reports	Processes for reports are contained in STS regulations, orders, and audit manual. Case reports are completed on standard forms with space for the case circumstances. There are extensive processes for case approval and enable the taxpayer to provide additional documentation and views prior to finalization which is good practice.	Some discretion is available for decision makers in determining the various types of penalties to be applied in audits which need further decision making guidance. The STS Cases Management System holds a range of important audit documents and decision points. Official working papers are kept in a physical file with some papers and notes also held on

	The range and rate of penalties that can be applied in an audit are many – considering both the variety of penalty levels and concessions available.	an auditor's computer.
Audit to the Risk		
Audits as part of a broader compliance program	While the STS has adopted a compliance program, audit activity is seen as a separate activity.	Audit activity should be conducted as one of the risk response options under an STS-wide compliance program.
Risk-based audits	Only around 6 percent of audits are risk based, and less than 1 percent of audits focus on individual taxpayers. VAT refunds can be released without an audit, but then the refunds still need to be audited within 18 months. A misconception about legislative requirements leads to all insolvency cases being audited.	The majority of audits should be based on risk-based case selection. VAT refund applications and insolvency cases should be screened and selected for audit based on risk.
Environmental scanning and risk appetite	A significant amount of resources are spent on fiscal cash register checks, and undeclared wages paid in cash. A pervasive perception holds that large taxpayers in Moldova as largely compliant and do not pose significant risks. Key risk areas like free trade zones, IT parks, high wealth individuals, trusts and non-profit organizations are not covered in compliance improvement plans	Tax gap and compliance gap assessments are required to quantify revenue losses from more sophisticated tax avoidance and evasion. Adopt compliance improvement plans for key risk areas with more sophisticated forms of avoidance and evasion.

Annex II. Role and Functions of Headquarters

A well-performing HQ:

Plans—sets the tax administration's medium-term strategic direction and corporate priorities, and prepares national work plans and allocates resources in line with the organization's goals.

Manages compliance and other risks—identifies and assesses risks to revenue (compliance risks) and risks to tax administration operations (institutional risks) and develops strategies to mitigate them.

Manages performance—routinely measures and evaluates the organization's performance to ascertain the extent to which its goals and objectives are achieved.

Develops programs, policies and procedures—designs taxpayer service and enforcement programs and core business processes, and prepares administrative policies and procedures for national application.

Ensures transparency, integrity, and accountability—establishes and maintains the organization's governance framework of transparency and accountability in administration.

Manages reform—develops and manages the organization's reform agenda.

Maintains central control over field operations—directs, advises, and monitors field offices to ensure national operational plans and performance standards are met and the organization's programs and policies are delivered in a uniform way.

Provides support services—including a range of administrative services (e.g., IT, Human Resources (HR) and finance) and specialist tax technical services (mostly legal) to the entire organization.

Analyzes tax revenues—provides input to government tax revenue estimating and forecasting processes and supports tax administration planning and CRM.

Manages relationships with stakeholders—maintains effective working relationships with stakeholders who can affect or be affected by the tax administration's actions, processes, and policies.

Source: VITARA, Reference Guide, The Audit Program

Annex III. Types of Audits

Type of audit	Nature of Audit	Desk v. field	Documentary v. Observation	Scope
Article 217 of Moldovan Tax Code. Factual control	Identifying situations that are not reflected in documents e.g. surprise checks	Field	Factual observation	Limited issue
Article 218. Documentary control	Verifying, and validating tax reports, bookkeeping documents and other information	Field Desk	Documentary	Limited issue
Article 219. Complete control	Compliance with all tax obligations	Field	Documentary Factual	Comprehensive
Article 220. Partial control	Compliance with certain types of tax obligations e.g., VAT	Field Desk	Documentary	Limited issue
Article 221. Thematic control	Compliance with certain types of tax obligations e.g. VAT refunds	Field Desk	Documentary	Limited
Article 222. Operative control	Observing economic and financial processes and operations, to identify infringements of the tax legislation. Completed rapidly and without prior notice.	Field	Factual observation	Limited and comprehensive
Article 223. Cross-checking	The simultaneous control of both the taxpayer and the persons with whom they have or had economic, financial or other kind of relations	Field Desk	Documentary	Limited and Comprehensive
Article 216. On-site tax audit	Check tax legislation compliance by the taxpayer or by another person subject to control carried out at taxpayer’s premises	Field	Observaion and Documentary	Limited to Comprehensive

Annex IV. Risk Differentiation Framework for Large Taxpayers

The Risk Differentiation Framework (RDF) model is a process used to assess taxpayer risk for a given population and determine the intensity of a tax authority's response to risk in a coherent, consistent and considered way. Use of RDF assumes that the tax administrations can choose from a number of response options. It is especially useful for lower volume population categories / segments / sectors such as large business taxpayer groups, High Wealth Individual groups; tax agents etc.

The RDF is based on the premise that the risk management approach to tax compliance should take account of the administration's perception of both the:

- Estimated likelihood that the taxpayer has a tax position the tax administration disagrees with, or has misreported (by error or omission) tax obligations (evidenced by behavior, approach to business activities, governance, and compliance with tax laws); and
- Consequences of that potential non-compliance (revenue, relative influence, impact on community confidence).

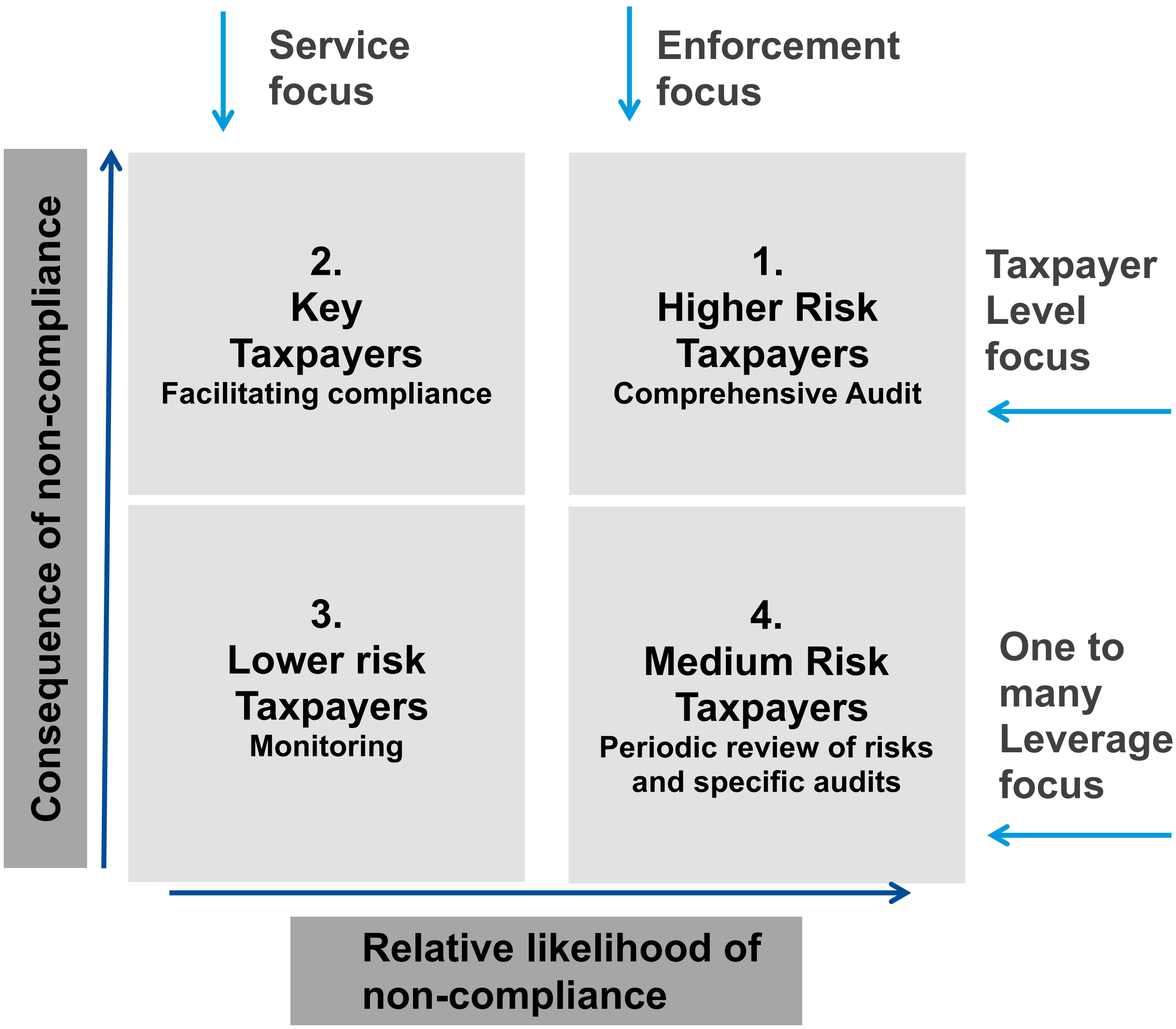
The RDF allocates taxpayers into one of four broad risk categories as an initial risk rating – Higher; Key; Medium and Lower. The tax authority's compliance focus for each category is:

- Higher risk taxpayers - assign appropriate resources to allow for continuous review, which would include comprehensive audit.
- Key taxpayers - assign the necessary resources to ensure a good working relationship and understanding of the taxpayer's business, including risk management governance frameworks.
- Medium risk taxpayers - undertake targeted activities to deal with tax compliance issues, with more use of specific issue audits, either single taxpayer or project-based.
- Lower risk taxpayers - monitor intelligence to confirm the categorization -. This can involve activities such as requesting targeted information about specific issues identified in the market, visiting you for information about business operations, and our normal internal review processes.

A taxpayer's categorization is based on an informed judgment, at a point in time, of the risk and the relationship the tax administration has with the taxpayer – relative to the taxpayer's segment. The model then indicates the tax authority's appropriate engagement and risk treatment approach, based on the quadrant it has been placed in.

The initial risk rating filters are often few in number – consequence maybe taxpayer revenue; likelihood the effective tax rate and previous audit results.

RDF as a diagram: Large taxpayer example



Annex V. Performance Indicators at STS Level

- Legal framework harmonized with EU directives and connected to international best practices (BEPS, transfer pricing, general anti-evasion rule).
- Degree of achievement of the income plan – 100 percent.
- Taxpayer register updated and fully functional.
- Cost of tax administration decreasing.
- Qualifier “compliant” obtained as a result of the evaluation of the implementation of the standard of AEOI.
- Number of outbound information requests on the rise.
- Tax fraud and evasion systematically and rigorously identified, investigated and prosecuted.
- Number of website hits on the rise.
- System of fiscal risks developed.
- Share of electronic declarations in total submitted declarations is increasing.
- Share of electronic services in total services provided in constant growth.
- Number of addresses of taxpayers in reduction.
- Administrative fiscal burden for the business environment reduced.
- Reduced taxpayer compliance costs.
- Taxpayer satisfaction on the rise.
- System of risks of fiscal non-compliance is the basis developed MEV data.
- Simplified tax administration rules and procedures.
- Modernized information systems, which provide the necessary functionality for modern tax administration.
- Prepared and implemented pre-filled tax returns for several types of taxes and duties.
- Digitized issued certificates/forms.
- Number of issued certificates gradually decreasing.
- Simplified VAT and excise duty refund procedures developed and implemented.
- Taxpayers access to tax information, including through the mobile application ensured.
- Streamlined control activities.
- The weight of the amounts calculated as a result of carrying out increasing controls.
- Developed and implemented large taxpayer compliance strategy.
- Non-compliance risk criteria constantly reviewed and updated, based on the continuously developing analytical system.
- System of indicators for evaluating the efficiency and effectiveness of tax controls implemented and functional.
- Degree of voluntary compliance of taxpayers increased.
- Declining fiscal (compliance) gap.

Annex VI. Possible Performance Indicators for Audit Program

Possible Program-Level KPIs

Indicator	Target	Actual
Audit recoveries	$	$
Percentage of audits with material change	%	%
Number of audits completed	%	%
Strike rate	%	%
Percentage of files that are upheld through dispute resolution process	%	%
ROI (additional tax assessed/collected divided by cost of auditor salaries)	X:1	Y:1
Quality of audit – percentage of files reviewed by Quality Assurance that meet standards	%	%

Possible Segment Level KPIs (Example Large Taxpayers)

Indicator	Target	Actual
Audit recoveries	$	$
Percentage audits with material change	90%	%
Percentage on-time filing	%	%
Percentage on-time payment	%	%
Number of audits completed		
ROI (Total Reassessments / salary cost of audits) (can be done for each type of audit intervention or type of audit)	X:1	Y:1

Possible Individual Auditor KPIs

Indicator	Target	Actual
Number of comprehensive audits completed		
Percentage of completed cases with material change	%	%
For files reviewed by AQR, percentage that had deficiencies	%	%
Supervisor qualitative assessment of auditor performance	Meets, Does not Meet, Exceeds expectations	
Contribution to audit program continuous improvement	Mentor 1 new auditor Present technical case to colleagues	
Total Value of Reassessments during the year	No target	$

Annex VII. Summary of Moldova's Audit Process

Assign → Preparation → Execution → Completion

Case Selection and Assignment	Pre-Audit Work	Plan the case and Notify the taxpayer	Perform the audit Gathering information (evidence) and Analyzing	Audit Report Determine the tax position	Closure and Finalization of the Audit
Case Selection - Planned Audits (CGD) CGD selects cases for audit on the basis of identified risks for Moldovan businesses, companies and key individuals Risk processes and risk criteria are applied to available information from internal and external sources. The process determines the annual list of riskiest cases (and published) requiring comprehensive audits. A list of taxpayers to be annually audited is sent to AGD. **Tax Audit Assignment Audit General Department (AGD)** Cases from the case selection process for audit are sent and executed by the AGD. **Case Assignment** Cases are assigned to the various audit teams for action and the Head of Department allocates auditors as required depending on need. .	**Pre-Audit Preparations** CGD provides pre-audit analysis which is shared with auditors. This includes a detailed spread sheet including 3rd party data, taxpayer details; risks identified; and; the audit method to be used. The audit team follow up on this information pack and do additional checks of sources e.g. social media, related parties and entities; further analysis, and various ratios prior to finalizing their focus for the comprehensive audit. Consideration of other unannounced types of audits; operative controls; and inspections are factored into the planned case and require Head of Department approval. E.g., factual control checks, on-site visits for observations. Grounds for the case are known based on the pre-work and approved by the Head of the Department for the audit to commence (for planned cases a form DIC is required to be completed and noted on the Register of State Controls system	**Prepare Case Audit Plan** Auditor prepares an audit plan which is contained in the CMS to which the Head of Department approves (for planned, VAT refund cases & single issue audits). The case plan covers risks to be reviewed, other operative controls required; years to be examined, hours needed to perform tasks, tax types to be covered, audit team, records required; location, consideration of taxpayer rights; and ensuring the necessary resources are available. The audit plan is regularly reviewed and updated during the audit and keeps the taxpayer informed of progress. **Notification of the audit to the taxpayer** The taxpayer Is notified of the intention to audit, with key documents and information requested. This occurs at least 5 days prior to commencement. **Audit interview is held with the taxpayer** Audit requirements and expectations are discussed with the taxpayer. This would include a tour of premises and seeing how the business works. **Case Management** The auditor documents the case plan in the CSM and includes all meetings, discussions with relevant records.	**Gather case information** • The performance stage generally commences with a discussion on the taxpayers accounting policies and software used. • A range of planned checks are conducted on-site. • Identified tax risks are examined and evidence is gathered by a mix of interview, and examination of documents • The auditor analyses all of the relevant information and makes initial determinations on discrepancies (if any). These are discussed during the audit and built into a table. • Where any criminality or fraud is identified in the audit the team is required to Inform the Anti-Fraud directorate **Case Management** The auditor documents in the case management system all meetings, key documents and tables any violations found.	**Draft Report: Audit Act** • A draft audit report is completed with the issues, reasons, findings and calculations. The taxpayer has 15 days to disagree with the findings after which the act will be finally approved. • It is a technical report with the known facts and analysis provided. • The Audit findings reported are internally agreed and shared with the taxpayer. • Opportunity is provided to the taxpayer to respond to the findings (within 15 days). **Finalize Report: Audit Acts** • Where the taxpayer responses consideration is given to the taxpayer's additional views with documents and a final decision is reached. • After this process decisions on level of penalty occurs. • An RC form (used as the final report Audit Act) is completed – outlining the final issues, reasons, calculations and result. • After 15 days the re- assessment position is posted on to the taxpayer's account. **Case Management** The auditor documents in the case management system all meetings, discussions and relevant records and the final report. When case is nearing finalization all working papers, documents and files are included in the CMS.	**Finalizing the Audit** • All STS Tax audit regulatory requirements and documents are completed in the case management system. • The Head of Department reviews working papers, the files, and approves the case. **Complete Audit Feedback form to CGD** An audit feedback report is completed in all cases and compares the initial risks identified from CGD to the audit findings. **Audit Quality Assurance Review** The audit case may be subject to an additional review by CGD (which occurs on a smaller number of cases post audit) to evaluate the quality of case work.

Annex VIII. Summary of Recommendations

This annex was developed to gather all the recommendations together to allow the STS to better manage the reform workload. The chart also distinguishes between items that the STS could implement on their own, and those that require discussions at a higher government level. The format and content can be updated to suit the STS's needs and preferences. As part of the development of the Action Plan, a prioritization of recommendations will be developed and actions identified for each recommendation. The IMF can assist in the development of the Action Plan as noted in Section V. Next Steps.

	Category	Date	Who	STS	MOF	Other
Legislation						
Replace the practice of publishing details of taxpayers to be audited in the coming year, with transparency about the broader risk management process.	Legislation	April 30, 2026	MOF		X	
Remove the cumbersome legislative procedure relating to the determination of fines for simple cases and automate the calculation of fines.	Legislation	December 31, 2025	MOF		X	
Study international practices, with a view to introducing a graduated penalties framework to guide the imposition of fines for more complex cases.	Legislation	December, 31 2025	MOF		X	
Examine the feasibility of introducing a voluntary disclosure regime.	Legislation	December, 31 2025	MOF		X	
Process VAT refunds based purely on an assessment of risk.	Legislation	December 31, 2026	MOF		X	
Reestablish the LTO. Alternatively, develop a CIP for large taxpayers, or introduce a working group to evaluate and manage the risks in the large taxpayer segment.	Legislation	September 30, 2025	MOF/STS	X	X	
Audit as a compliance risk management tool						
Establish cross-departmental risk and audit working group	Organization	March 31, 2025	Director; Working Group: DG Control, DG, Conformation, DG IT, Department of Networks, DGEJ	X		

	Category	Date	Who	STS	MOF	Other
Adopt a comprehensive compliance program to include a greater focus on risk-based audit case selection.	Process	May 31, 2025	Working Group	X		
Introduce risk-based case selection to insolvency audits and operational checks				X		
Develop compliance improvement plans for free trade zones and non-profit organizations.	Process	April 30, 2025 for free trade zones and June 30, 2025 for non-profit organizations	Working Group	X		
Develop audit programs that focus on more sophisticated tax avoidance schemes leveraging GAAR, using project-based audits on tax avoidance.	Process	November 30, 2025	Working Group	X		
Introduce ROI calculations per audit types into management information reports by 30 April 2025.	Process	April 30, 2025	CGD	X		
Systematize a broader range of risk response options for undeclared wages	Process	October 31, 2025	CGD	X		
Adopt a clear differentiation between HQ activities, and operational activities	Organization	July 31, 2025	Director	X		
Use the RDF to prioritize the riskiest large taxpayer audit cases.	Process	December 31, 2025	DG Conformation, DDCM	X		
Develop a comprehensive risk profile and identification of significant tax avoidance risk areas by large taxpayers. Requires training.	Process	June 30, 2025	Working Group	X		
Re-evaluate the current definition of the large taxpayer segment to cover a larger share of STS revenues – adopt a segmentation strategy.	Policy	March 31, 2026	Director, DGEJ, DDCM, DGMIT	X		
Develop clear levels of delegation for decision-makers in determining different types of sanctions.	Process	December 31, 2025	Director, DG Control, DGMIT			
Audit processes and tools						
Introduce limited scope audits (i.e. not comprehensive) for lower risk taxpayers	Process	April 30, 2025	Working Group	X		
Evaluate the audit quality review system with a focus on improvements related to timeliness of the reviews, the breadth of quality criteria used	Process	September 30, 2025	Working Group	X		
Ensure a common standard of risk profiling and analysis is	Process	June 30, 2025.	AGD, DGMIT	X		

	Category	Date	Who	STS	MOF	Other
conducted in all cases.						
Introduce a materiality policy for testing in audits.	Policy	September 30, 2025.	DGMIT, DGCF, DGEJ, DG Conformation	X		
Introduce a timekeeping system of hours per case.	Performance measures	June 30, 2026	DDI, DGCF, DGMIT	X		
Organizational and staffing issues						
Adjust the organization structure to separate operational activities from HQ functions.		July 31, 2025	DMOCI, DMRU	X		
Consider options to address high spans of control.		December 31, 2025	Working Group	X		
Evaluate options to address integrity concerns with current bonus regime.		March 31, 2025	DRMU, DEF	X		
Strengthen the audit program KPIs to include both qualitative and quantitative indicators.	Staffing	July 31, 2025	HR, DG Control DMRU DMOCI	X		
Develop a plan to recruit audit staff to minimize the current vacancies.	Staffing	April 30, 2025	DMRU			
Systems						
Secure and implement an automated risk management system.	System	June 31, 2027	Director, IT, DG Conformation, DG Control			X
Secure and implement an automated case management system.	System	December 31, 2026	Director, IT, DG Conformation, DG Control			X
Identify data analytics and data visualization tools needed.	System	December 31, 2026	Director, IT, DG Conformation, DG Control			X
Secure a data warehouse where the STS can readily match, mine and analyse larger volumes of data.	System	December 31, 2025	Director, IT			X
Consolidate the working papers and file for the audit into one digital application with suitable security arrangements.	System	December 31, 2026	Director, IT, DG Conformation, DG Control			X
Develop a management dashboard to allow senior management to	System	November 30,	Director, IT, DG			X

	Category	Date	Who	STS	MOF	Other
monitor progress toward the audit program's goal on a regular basis.		2025	Conformation, DG Control			