

# *Investing Guide Moldova 2016*



Moldova



Moldova Investment and Export  
Promotion Organisation



# Public Official Letter



Dear reader,

Currently, the Government of the Republic of Moldova has put quite a specific task - to ensure the sustainable development of the country.

To accomplish this assignment is impossible without the modernization and development of the national economy, without using the best world experience and modern achievements. We understand, in turn, that the attraction in the country of significant investments, innovative ideas and new technologies is largely impossible without creating an attractive business climate and investment protection. In this regard, our legislation is being rapidly harmonized with the laws of European countries, as conditions for opening and running a business must be to achieve the world's best performance.

Moldova is a country that is developing rapidly and is actively integrating into the world economy. At the same time, preserving the traditional sectors of the economy and seeks foreign private investment in innovative production, because this means technology, know-how and higher turnover. As a result, we are witnessing the development of new industrial sectors in Moldova such as ICT, automotive, energy and renewables, manufacturing, BPO etc. A strong point I should mention is that Moldova is among the world leaders for speed, penetration and availability of the Internet.

New impetus for the development was the signed Association agreement with the European Union. This means adopting the *acquis communautaire* in most areas, adopting and implementing international standards, and infrastructure rehabilitation, all of which is already resulting in attractive investment and business

opportunities for local and international business.

For additional protection of foreign investments Moldova has signed comprehensive double taxation agreements with 50 countries, as well as 39 bilateral treaties for the mutual protection of investments.

The Ministry of Economy's priorities are the removal of barriers to business activity, reduction of investment risks and unjustified costs of the entrepreneurs, the fight against corruption and the shadow economy, as well as a better use of the potential of our country and its benefits, which will lead to increase economic competitiveness in light of the implementation of Deep and Comprehensive Free Trade Agreement with the EU, implement infrastructure improvements, promote energy efficiency etc.

Moldova offers favorable tax and currency regime, relatively competitive workforce combined with a unique opportunity to access western and eastern markets in a free trade regime.

For industrial producers, Moldova also offers specific locations in Free Economic Zones and Industrial Parks with fiscal and administrative incentives, support from the state and free trade regimes with a market which exceed 800 million consumers in EU and CIS.

If you are interested in Republic of Moldova as a place for your investments, this investment guide provides a fair image of Moldova. I hope it will answer most of your questions about my country and help you to take an investment decision.

And especially I would like to express my gratitude to PriceWaterhouseCoopers for taking the lead and preparing this Investment Guide to Moldova!

Octavian CALMIC,  
Deputy Prime Minister,  
Minister of Economy



It is with great pleasure that PwC participates in the publication of the “Investing Guide Moldova 2016”, in cooperation with the Ministry of Economy and MIEPO.

Like many countries in the region and around the globe today, Moldova continues to face exceptional economic challenges. Nevertheless, the Moldovan Government is committed to taking the necessary steps to encourage investment and ease the burden of doing business in Moldova.

This guide aims to provide a comprehensive overview of the business environment as well as some of the administrative practicalities of investing and conducting business in Moldova. We trust you will find the information useful as you pursue opportunities in this emerging market.

PwC has been advising companies and individuals on how to do business Moldova since 1996. Our significant experience in the local market, as well as the strength of our regional and global network, bring you the right mix of local and international expertise to help you improve the performance of your business in Moldova.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ionuț Simion'.

Ionuț Simion  
Country Managing Partner  
PwC Romania and Republic of Moldova

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# Why invest in Moldova?

*PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC member firms provided services to 418 of the Fortune Global 500 companies and 443 companies in the FT Global 500. Total revenues in Fiscal Year 2014 totalled US\$ 35,4 billion.*

- Favourable geographical position at the crossroads of commercial routes
- Proximity to large world markets (European Union and Commonwealth of Independent States)
- Platform for manufacturing and exporting both to the CIS and to the EU
- Competitive general corporate income tax rate in the region – 12%
- Tax and customs framework similar to that of the EU
- Considerable network of operational Double Tax Treaties and Investment Protection Agreements
- Market access through three Free Trade Agreements including:
  - WTO members (worldwide)
  - Deep and Comprehensive Free Trade Area (DCFTA)
  - CEFTA members (most Balkan countries)
  - CIS members (with certain exceptions)
- Entrepreneurial activities under preferential terms and conditions developed in free economic zones
- Well-skilled multilingual workforce
- Relatively low employment costs
- Favourable visa regime
- Improved legal framework regulating entrepreneurial activity
- Starting a business – fast and easy to handle
- Investment opportunities through privatisation of public property and public-private partnership



# Moldovan business environment

Municipalities	Autonomus regions
Chişinău	Gagauzia
Bălţi	Transnistria
Bender	

## **Central and territorial organisation**

*The Republic of Moldova is a small, densely populated country, which gained its independence and became a sovereign state on 27 August 1991.*

It is situated in South Eastern Europe, north of the Balkan Peninsula. The total area is 33,843 square km. The distance between the North and the South extremities is 350 km, and from East to West is 150 km. Moldova shares borders with Romania and Ukraine.

Under the Constitution adopted in July 1994, Moldova is a democratic republic based on the rule of law. The Constitution separates the state powers into three branches – the legislative, the executive and the judicial branches.

The legislative power belongs to the Parliament of the Republic of Moldova, elected for four-year terms. The Parliament is unicameral. It consists of 101 deputies – representatives of parties and electoral blocks, as well as independent candidates.

The executive power is exercised by the Government. Its role is to carry out the domestic and foreign policy of the state, as well as to control the activity of public administration. The Government consists of a Prime Minister, deputy prime ministers, ministers and other members. The President of the Republic of Moldova designates a candidate for Prime Minister through consultation with parliamentary factions.

The President of the Republic of Moldova is legally distanced from all branches of power. Nevertheless he / she is mostly allied to the executive branch. The People elect the President by direct, secret and freely expressed vote, for a four-year term.

The judicial branch encompasses the Supreme Court of Justice, Courts of Appeal and ordinary courts. The Supreme Court of Justice is the highest court and has the power to review decisions made by lower courts.

The Constitutional Court of Moldova is the sole authority of constitutional jurisdiction in the Republic of Moldova. The six justices are appointed for six-year terms. The Parliament, the Government and the Superior Counsel of Magistracy appoint two justices each.

The Constitution recognises the principle of local autonomy and states that all local issues be resolved and managed by local authorities, which operate independently pursuant to law. Each level of public administration has its own and delegated functions. The basic functions of local government include the organisation of social services, welfare services for the elderly, housing and utilities, water supply and sewerage, the provision of public services, physical planning, public transport, and the maintenance of local roads and streets.

Moldova is currently divided into 37 first-tier units, including 32 districts (in Romanian - “raioane”), three municipalities (Chişinău, Bălţi, Bender), one autonomous territorial unit (Gagauzia) and one territorial unit (Transnistria). The capital and largest city is Chisinau.

Moldova has 66 cities (towns) and 917 communes. Some other 699 villages are too small to have separate administration, so are administratively part of either cities (40 of them) or communes (659). This makes for a total of 1,681 localities in Moldova.



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# *International Agreements and Organisations*

## *Republic of Moldova is a member of the following key organisations:*

- United Nations (UN)
- Council of Europe
- World Trade Organisation (WTO)
- Commonwealth of Independent States (CIS)
- The International Bank for Reconstruction and Development (IBRD)
- The European Bank for Reconstruction and Development (EBRD)

## *The Association Agreement with the European Union*

European Integration is a fundamental priority of Republic of Moldova domestic and foreign policies. On 27 June 2014, Moldova signed an Association Agreement with the European Union which includes a gradual implementation of a Deep and Comprehensive Free Trade Area (DCFTA). It entered provisionally into force as of 1 September 2014.

The Association Agreement contains binding regulatory provisions and broader cooperation arrangements in all sectors of interest (e.g. corporate law, labour force, consumer protection, competition, tax, customs duties, public procurement etc.). Special attention is given to the effective implementation and enforcement of the Association Agreement, including by stipulating deadlines of up to 10 years.

## *Deep and Comprehensive Free Trade Area (DCFTA)*

The DCFTA agreement assumes gradual abolition of duties and quotas in mutual trade in goods and services, as well as the elimination of non-tariff barriers (by the adoption of EU rules on health and safety standards, and intellectual property rights, among other means).

This will allow the integration of Moldova with the EU internal market.

## *National trade policies*

The trade policies promoted by the Republic of Moldova are mostly geared towards attracting investments in the national economy which are capable of innovation, transfer of know-how and competitive goods for domestic and foreign markets, high added value and creating efficient technical and economic infrastructures in order to maximise the existing economic potential.

Due to its favourable geographical position, Moldova is an attractive location for international organisations and transnational corporations, and becoming increasingly important as a place to conduct business between western and eastern markets.



## ***CIS (Commonwealth of Independent States)***

Moldova is part of the CIS Free Trade Area (FTA). The respective FTA Agreement entered into force in 2012 and repealed the previous bilateral free trade agreements within the CIS. The CIS FTA is currently applicable for six CIS countries.

The aim of this Agreement is to establish conditions for a free transfer of goods and services, to provide mutual trade balance, to stabilise domestic economic conditions and to promote growth of the economic potential of the member states on the basis of mutual cooperation.

Although the FTA provides for a free tax trade regime, there are still certain exceptions, usually asymmetric in nature.

In 2002, Georgia, Ukraine, Azerbaijan and Moldova signed the GUAM agreement regarding the creation of a free trade zone. Its scope is to eliminate customs fees and other taxes with equivalent effect and quantitative limitations on trade, as well as to eliminate the barriers for free movement of goods and services.

## ***Central European Free Trade Agreement (CEFTA)***

In 2006 Moldova signed the Central European Free Trade Agreement (CEFTA 2006), which came into force for our country in 2007. CEFTA allows duty free access to the market of countries from the South-Eastern part of Europe. The CEFTA agreement has radically evolved since Romania and Bulgaria left and joined the EU. At this stage, the present signing parties are Moldova, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo.

CEFTA contains extensive provisions on services trading, government procurement, customs administration and preferential rules of origin, the procedure and conditions

for the application of safeguarding measures and instruments for trade protection. It aims to eliminate barriers and distortions of trade and facilitate the movement of goods in transit and cross-border movement of goods and services between the members.

Although the exports from Moldova to CEFTA countries are fairly low, they have an important role in supporting Moldova's efforts to be included in the Western Balkans perspective of joining the EU, thus reinforcing the relevance of the CEFTA agreement in achieving the objective of Moldova's accession to the EU.

The commercial relations of Moldova with CEFTA countries are governed by the preferential trade arrangements provided by CEFTA, which require almost total liberalisation of imports of industrial and agricultural products from CEFTA countries.

## ***Double Tax Treaties and Mutual Protection of Investments Treaties***

- Moldova has signed comprehensive double taxation agreements with 50 countries, of which 48 are in force.
- The Double Tax Treaties may provide for more favourable tax regimes than those provided by the local legislation. As guidance on the interpretation of Double Tax Treaties and, correspondingly, for tax administration purposes, the Commentaries to the OECD Model Tax Convention on Income and on Capital are used by the tax authorities and taxpayers.
- Additional guarantees and support to investors are offered by 39 bilateral treaties signed between Moldova and various countries for the mutual protection of investments.

***The Republic of Moldova has been a full member of the Energy Community Treaty since 2010.***

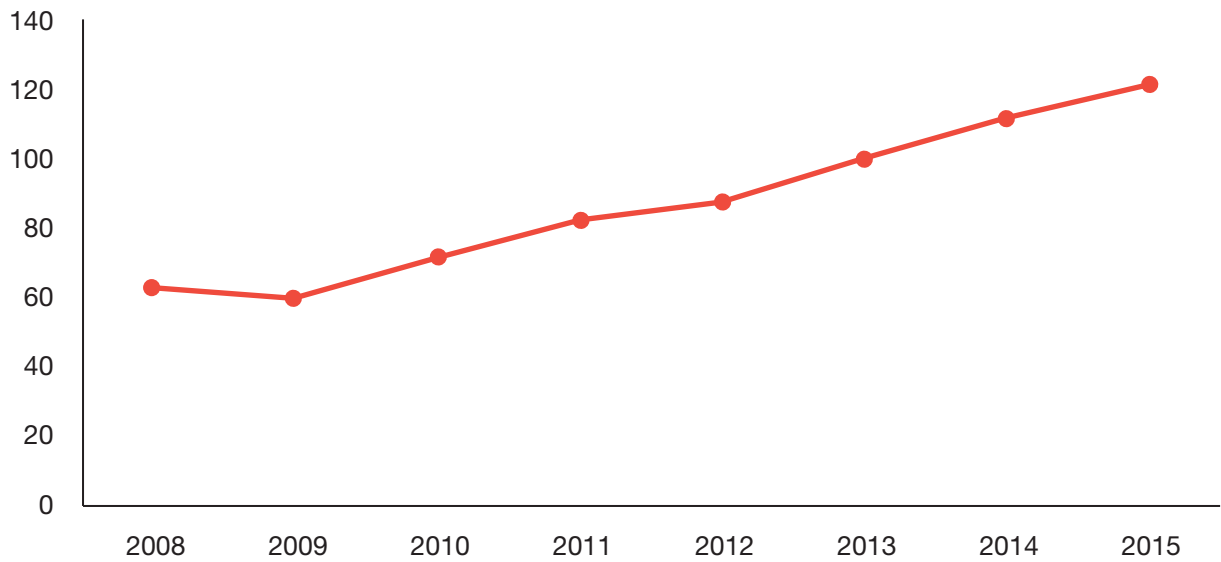
# *Economic overview*



In 2015, Gross Domestic Product (GDP) totalled MDL 122,169 million (EUR 5,846 million)\*, with a decrease of 0.5% (in compared prices) from the level in 2014.

\* preliminary data

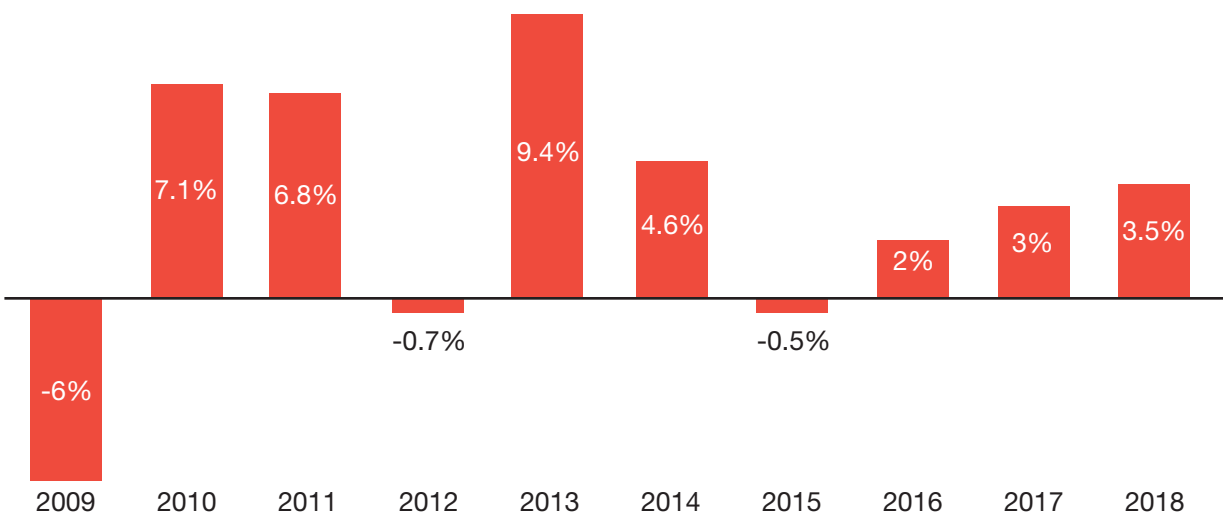
**GDP current prices (bilions MDL)**



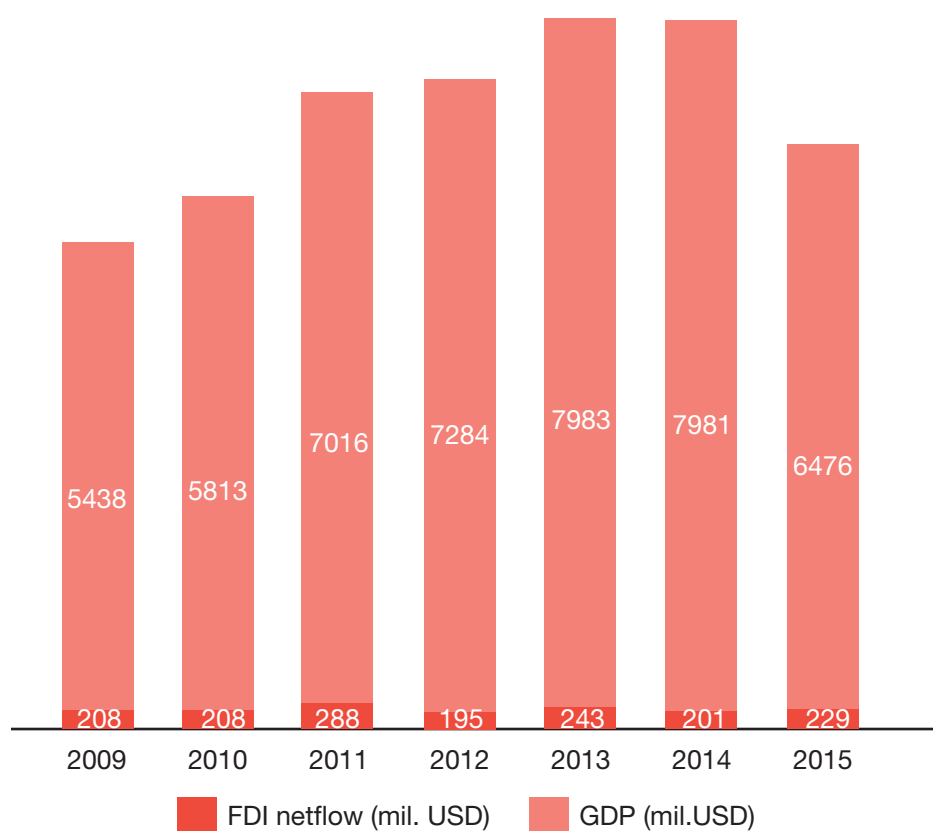
Source: National Bureau of Statistics

—●— GDP current prices (bilions MDL)

**GDP compared prices**



## FDI netflow



Evolution of foreign trade in 2015 was influenced by the external factors such as trade restrictions imposed by the Russian Federation and the recession in Moldova, the crisis in Ukraine, the problems in the banking sector and the summer drought etc.

Therefore, the export volume for 2015 amounted to USD 1,967 million, with a decrease of 15.9% from the 2014 level. At the same time, imports in 2015 equalled USD 3,987 million, with a decrease of 25% from the 2014 level.

In 2015, exports of goods to EU countries totalled USD 1,218 million (i.e. 2.2% less than in 2014) in current prices, accounting for 61.9% of total exports (compared to 53.3% in 2014). Export of domestic goods constituted USD 1,304 million (66.3% of total exports), registering a decrease of 14.8% compared to 2014. Exports of goods to CIS countries totalled USD 492.3 million, accounting for 25% of total exports, with a decrease of 33.1% compared with 2014, in current prices.

Moldova had a negative trade balance in 2015 amounting to USD 2020 million (lower than in 2014 with 957.5 USD million or -32.2%).

The annual inflation rate in Moldova was 13.6% for 2015.

The unemployment rate was 4.9% in 2015. The total amount of unemployed people includes:

63.4% men and 36.6% women;

61.7% urban population and 38.3% rural population.

In 2015, the average official exchange rate of Moldovan Leu (MDL) against EUR was 20.90 MDL and against USD was 18.82 MDL.



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# ***Legal Framework***

## **General provisions**

### ***Legal system***

The Republic of Moldova is a civil law country. Its legal framework is based mainly on statutory law. The leading legal acts are the Constitution, organic and ordinary laws approved by the Parliament, as well as other normative acts issued by the Government and other public authorities.

Under the Constitution, the Republic of Moldova undertakes to respect the treaties and conventions to which it is a party. In the event of any discrepancies between the national and international legislation applicable for the Republic of Moldova, the latter prevails.

### ***Investment climate***

*Foreign and domestic investors are treated equally under the Moldovan legislation and the legal framework is the same for foreign investments.*

One of the primary tasks of the Government is to attract investments and create a favourable business climate for all investors, both foreign and local. Moldovan law generally allows investments in any field of entrepreneurial activity on the entire territory of the Republic of Moldova, provided that national security interests, anti-trust legislation, norms of environmental protection, people's health and public order are respected.

Free economic zones, whose residents are provided with a range of tax and customs incentives and state guarantees, are attractive for industry investment projects.

### ***Foreign investors' guarantees and rights***

According to the Moldovan Constitution, the state must ensure the inviolability of foreign investments. The Government is keen to establish coordinated policies and well-balanced legislation in order to stimulate both domestic and foreign investments.

The legal framework for the protection of foreign investments consists of the Law on investments in entrepreneurial activity and international bilateral treaties for the facilitation and mutual protection of investments.

The law prohibits discrimination against investments based on citizenship, domicile, residence, place of registration, place of activity, state of origin or any other grounds. The law provides for equitable and level-field conditions for all investors. It rules out discriminatory measures hindering the management, operation, maintenance, utilisation, acquisition, extension or disposal of investments. At the same time, certain restrictions are provided for residents of zones that do not implement the international standards of transparency (e.g. prohibition to hold shares in banks, insurance companies) and for the acquisition of agricultural and forested land.

Public authorities intending to develop a new investment policy are required to organise public consultations before implementing such policies.

Investments cannot be subject to expropriation or to any other similar measures which can directly or indirectly deprive investors of their property right or the right to control

investments, unless the following conditions are met:

The measure is undertaken for the general public good;

The measure is not discriminatory;

Preliminary and equivalent compensation of damages is given.

Investors have the right to sue public authorities for damages caused due to illegal actions and decisions. Compensation is paid in the currency of the investment.

### ***ICSID Convention***

By ratifying the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) in 2011, Moldova undertook to recognise any decision (award) issued by ICSID as being mandatory and committed to ensuring the enforcement of the pecuniary sanctions imposed by the award on its territory.

### ***Privatisation***

The privatisation process began in 1991 with mass privatisation of residential housing, most small-scale traders and over half of small-scale enterprises. After 1996 privatisation moved to cash privatisation with the goal of selling most of the remaining state assets, in particular large-scale enterprises in the energy and telecommunication sector. Several larger Moldovan firms have been sold for cash and debt assumption to strategic investors. The sale of a cement mill to a leading producer, leather processing firm, several textile producers, several wineries and a hotel in the capital topped the list of transactions.

New provisions concerning privatisation were approved in 2007 by the Law on public property management and its privatisation. Under the law, the Agency for Public Property is the authority which carries out the state policy in the field of management and

privatisation of public property, post-privatisation activity and exercises the functions of the owner of state property.

The implementation of this law has marked the beginning of a new stage in the privatisation process, characterised by widening the types of enterprises subject to privatisation, also including those in infrastructure; diversification of the privatisation methods, as well as shifting the privatisation deals to the capital market and restructuring privatised enterprises.

### ***Public-private partnership***

One of the growing-interest programmes lead by the Government is the Public-Private Partnership (PPP), regulated by the Law on public-private partnerships and the Law on concessions.

Since the adoption of the necessary framework, the Government has turned to the private sector and promoted the PPP concept to provide a wide range of public services previously delivered solely by the public sector. Public services and infrastructure in the Republic of Moldova are underdeveloped, while public financial resources for their rehabilitation and modernisation are insufficient. Thus, the Government is eager to join forces with the ideas, projects and resources of the private sector to increase the quality and efficiency of public services.

## ***Establishing a business***

### ***Forms of business entities***

The following forms of business legal entities (for-profit) may currently be incorporated in Moldova:

Limited liability company (SRL / LLC);

Joint-stock company (SA / JSC);

General partnership;

Limited partnership;

Co-operatives.

In general, the form of business organisation does not influence the type of activity to be carried out by a legal entity. On the other hand, certain types of activity expressly provided by the law may be carried out only based on a license, issued by the public authorities.

In some cases, the specific form of business organisation is regarded as a special requirement for obtaining a licence (e.g. only JSC may obtain licences for banking, insurance activities, etc.).

The most widespread forms are limited liability companies and joint stock companies. From a foreign investor's perspective, the choice usually tends to be either an LLC or a JSC. In specific circumstances for non-commercial activities a representative office may be considered.

Foreign legal entities and individuals may incorporate companies in Moldova (both LLC and JSC), either as sole shareholders owning 100% of the statutory capital or in partnership with a local company or individual.

Both LLC and JSC are legal entities liable for their obligations with all the assets they own. The shareholders are not liable for the company's obligations. Accordingly, the company is not liable for the obligations of its shareholders. The JSC shares are regarded as securities and may be traded on regulated capital markets.

The minimum capital requirement for a JSC cannot be less than MDL 20,000 (approximately EUR 950). The share capital of a limited liability company is established by its shareholders in its articles of association and may be deposited within a period of six months.

Under Moldovan legislation, there is no concept of a registered commercial branch of a foreign entity. A representative office established in the Republic of Moldova by a non-resident company is not a legal entity and may not carry out entrepreneurial activity.

### ***Registration procedure***

Establishing a business entity in Moldova involves registration with the State Register of Legal Entities held by the State Registration Chamber of the Ministry of Justice.

The State Registration Chamber registers LLC / JSC within five business days (general term) or four hours – one day (speed-up procedure) of submitting all the required documents.

The fees to be paid to the State Registration Chamber for the incorporation of a legal entity vary between approximately EUR 90 and EUR 350, depending on the procedure applied (general or speed-up).

The JSC shares need to be subsequently registered with the National Commission for Financial Market (NCFM). It takes five business days from the required documents being submitted. The fee for the registration of JSC shares is 0.4% of the amount of stock issue.

The "one-stop-shop" principle was introduced in 2010, under which the State Registration Chamber transfers the information on newly-incorporated entities to statistical and tax authorities, as well as to social and medical insurance authorities.

As of 2016, state registration of a company shall be performed by the State Registration Chamber within 24 hours.



## ***Authorisations and permits***

Certain types of activity may be carried out only based on a licence, issued by the public authorities. The list of activities subject to licensing is expressly provided by the Law on regulation by licensing of entrepreneurial activity. A licence may be obtained through an online platform recently launched by the Moldovan Licensing Chamber ([www.servicii.gov.md](http://www.servicii.gov.md)).

The Nomenclature of permission documents has been approved. It is now forbidden to issue or to request any form of permission not included in the Nomenclature. The legal framework regarding the set-up and implementation of the one-stop-shop for entrepreneurs has also been approved. The purpose of setting up the one-stop-shop is to allow parties involved in entrepreneurial activity to receive standardised information and permission through a single point of reception.

**Legislation allows incorporation of a wide range of business entities, including wholly foreign-owned companies**

The most widespread forms are Limited Liability Companies (LLC) followed by Joint Stock Companies (JSC)

For a 100% investment, using an LLC tends to be more convenient. It is easier to establish and operate an LLC than a JSC

## ***Regulations for business***

### ***Competition policy***

The competition legal framework is formed by the newly-adopted Law on competition and the Law on state aid which are based on EU directives.

The Law on competition provides the legal framework for the protection of competition. It particularly covers the allowance and / or control of mergers, abuse of dominant position, unfair competition, as well as being aimed at preventing and countering anti-competitive practices. The secondary

legislation supporting the implementation of the law was approved throughout 2013-2015.

The Law on state aid entered into force in 2013. It provides for the legal framework for the methods of authorising, monitoring and reporting state aid granted to individuals and legal entities in all areas of the national economy, except agriculture, in order to maintain a normal competitive environment. Any state aid is offered subject to preliminary approval of the Competition Council.

The Competition Council is entitled to supervise compliance with competition and state-aid provisions, initiate the examination of any alleged breaches of competition legislation, by its own motion or at the request of any individual or enterprise affected by the alleged infringement. Upon the violation of the Law, the Competition Council is entitled to request termination of the infringement to prescribe behavioural or structural remedies and / or apply fine.

## ***Investors protection***

The practice of recent years has shown that implementing economic projects in Moldova with a long payback period is extremely difficult.

The situation can be explained by a range of problems investors face at the stage of business launching. Mainly, they relate to obtaining of permits, various information, and methodological support from public authorities with regard to entrepreneurship. Moreover, there are cases of conflict between state structures and investors, including the interpretation of legislation. Consequently, these aspects lead to delays in implementing the investment project, therefore, its imminent financial losses and increasing investment risks. This adversely affects both the country's investment climate and Moldova's image on the international arena.

Considering the above, it was proposed to create the Council for promoting investment projects of national importance.

The Council members are chairpersons of main state institutions responsible for the regulation and conducting investment activity. This will allow solving problems encountered by investors, having a unique position concerning the interpretation of normative acts, monitoring the compliance with legislation, eliminating business barriers.

At the same time, the Council will provide linkage between public and private sectors, protect interests of investors (their rights) and will solve specific problems regarding not only investors, but also other entrepreneurs.

### ***Consumer protection***

Consumer legislation contains provisions on the safety of consumers, liability of producers and sellers for breaches of the law and their contractual obligations, procedure for concluding contracts, establishing the shelf-life of food and non-food products, replacement of products or reimbursement of their cost, etc.

The Agency for Consumers Protection is the competent authority in this field. The recent amendments to the Moldovan competition legislation transposed certain provisions of the EU legislation, e.g. concerning unfair business-to-customer commercial practices, unfair terms in consumer contracts.

### ***Price controls***

There are certain areas in which the Government establishes a limit on the prices for products and services, such as for

state-owned land and mineral resources, transport and post services, medicines, natural gas, heating and electrical energy, etc. The state usually intervenes in the formation of prices by limiting the trade mark-up.

### ***Patents, trademarks and copyrights***

The laws regulating intellectual property in Moldova mainly cover patents on inventions, copyright and other related rights, industrial design protection, trademarks and appellations of the origin of goods, plant variety protection and the protection of integrated circuit topographies.

The state regulatory body in charge of the legal protection of trademarks, patents and copyrights on the territory of the Republic of Moldova is the State Agency for the Intellectual Property (AGEPI).

The national legal framework in this area has been amended in order to achieve harmonisation with the provisions of European legislation. Moldova is a signatory to the International Convention Establishing the World Intellectual Property Organisation.

### ***Real estate***

The ownership title and other real rights over immovable assets (e.g. servitude, usufruct, mortgage, etc.) are subject to registration in the Real Estate Register, held by the Cadastral Office. Information from the Real Estate Register is public and registrations performed in the Register are presumed to be authentic and complete, until the contrary is proved.

The ownership title over immovable assets is transferred from the seller to the buyer as of the registration of the transfer in the Real Estate Register.

Agricultural and forested lands can be bought only by the state, Moldovan citizens and Moldovan companies without any foreign investments in their statutory capital.



***Moldovan legislation is under continuous modification with the aim of harmonisation with EU regulations***

# Tax framework

From the tax perspective, there are 48 operational Tax Treaties for Avoidance of Double Taxation concluded by Moldova with other jurisdictions.

Although not a member of the Organisation for Economic co-operation and Development (OECD), Moldova applies commentaries on the Articles of the OECD Model Tax Convention in interpreting Double Tax Treaties.

## Corporate Income Tax

Moldova has a competitive general corporate income tax (CIT) rate in the region – 12%. The following rates are also applicable:

Taxpayer	CIT Rate
Individual entrepreneurs	7% and 18%
Farming enterprises	7%
Legal entities	12%
Legal entities (small & medium businesses enterprises)	3% **

\* For legal entities whose income is estimated through indirect methods, the 15% CIT rate is applied to the value of income in excess of the amount of gross income recorded in accounting.

\*\* The tax rate applies to income which arises from the operational activity, if conditions for applying this special regime are met (e.g. for small and medium enterprises which fulfil certain conditions).

## Deductible expenses

As a general rule, expenses incurred by a company are deductible for CIT purposes, providing these expenses:

- are deemed as ordinary and necessary;
- are aimed at deriving taxable income;
- are justified with adequate supporting documentation.

Annual compliance to be considered

Full CIT deductibility of R&D costs

CIT depreciation based on diminishing balance method (5% to 30%)

Five-year fiscal losses carry forward, in equal instalments

Expenses incurred and determined by employers for employee transportation, meals and professional studies are deductible under specific conditions

Amount paid by taxpayers in the form of union dues and fees are deductible, being capped at 0.15% of the labour remuneration fund

Among others, the following expenses are generally CIT deductible:

- Depreciation of fixed assets calculated using the diminishing balance method;
- Amortisation of intangible assets calculated using the straight-line method;
- Research and development expenses incurred during the fiscal year as current expenses, (certain conditions should be met);
- Business trip expenses, representation expenses and expenses on insurance of business entities, within the limits established by the Government;

- Waste, spoilage and expiration expenses, within the annual limitation established by the company's manager;
- Bad debts, under certain conditions;
- Charity and sponsorship expenses borne for the benefit of specific beneficiaries, up to 2% of taxable income;
- Interest payable, in specific conditions;
- Fiscal losses are carried forward in equal instalments for the following five years under specific conditions;
- Expenses incurred by employers related to employee optional contributions of health insurance – 50% of the amount of compulsory health insurance contribution calculated as fixed amount and approved annually;
- Financial institutions can deduct the discounts for losses of assets and other conditional commitments according to the provisions of the International reporting financial standards (IFRS), etc.

## **Capital gains**

Taxable gains are generally calculated as 50% of the difference between the sale price and the fiscal value of the capital assets (i.e. all costs related to the acquisition of capital assets). This taxable portion of the capital gain is then taxed at the normal tax rates.

This capital gain should be included in the total gross amount of income for the year in which the assets were sold (alienated). Capital gains may be decreased by capital losses registered in the current or previous year. Some examples of capital assets include: shares, plots of land, options to purchase or sell capital assets, etc.

***50% of the difference between the sale price and the fiscal value is considered taxable***

## Withholding (WHT) taxes

### Residents

Dividends received by Moldovan legal entities from foreign legal entities have to be included in the tax return and taxed accordingly at the applicable general 12% CIT rate. The beneficiary of such dividends is entitled to credit the tax paid in the foreign country, within certain limits.

Resident legal entities making payments to individuals (other than salary payments) and companies should withhold and pay WHT at the following rates:

7%	preliminary WHT of payments made for the benefit of resident individuals, unless such payments are tax exempt or represent employment income, interest or income subject to final WHT. The beneficiary deducts (i.e. recovers) the 7% WHT from the annual income tax due.
10%	final WHT of an individual's income derived from leasing, rent and usufruct of movable and immovable property, and advertising campaigns.
6%	final WHT for dividend payouts, except for dividends for the profits received in 2008 – 2011, for which the withholding rate is 15%
15%	preliminary WHT from interest paid to individuals. The beneficiary deducts (i.e. recovers) the 15% WHT from annual income tax due.
12%	final WHT from royalties paid to individuals.

## Deductible expenses

### Non-residents

The following WHT rates apply upon payments to non-residents:

6%	for dividend payouts, except for dividends for the profits received in 2008 – 2011, for which the withholding rate is 15%
15%	from the amount withdrawn from the share capital related to the increase arisen from the distribution of net profit and/or other sources identified as equity among shareholders (associates) throughout the 2010 to 2011 fiscal period, in accordance with the share capital venture quota.
7% and 18%	for employment related income
12%	for other income

## Value-added tax (VAT)

6%	for dividend payouts, except for dividends for the profits received in 2008 – 2011, for which the withholding rate is 15%
15%	from the amount withdrawn from the share capital related to the increase arisen from the distribution of net profit and/or other sources identified as equity among shareholders (associates) throughout the 2010 to 2011 fiscal period, in accordance with the share capital venture quota.
7% and 18%	for employment related income
12%	for other income

\* With the right to exercise the input VAT deduction

The standard VAT rate is generally applied to local supplies of goods and services as well as to goods subject to import and services subject to the reverse charge mechanism. The reverse charge refers to services rendered by a non-resident supplier to a Moldovan company, with place of supply deemed to be in Moldova (e.g. consulting services, supply of information, supply of staff, etc.) and which do not fall under any specific VAT exemption. Such reverse charge VAT is due by Moldovan company and payable to the Moldovan budget at the date of external payment.

The VAT exemption for long-term assets intended to be included in the statutory (social) capital is available, provided certain conditions are met.

Input VAT incurred on acquisitions of goods and / or services may be deducted, provided it is incurred by a VAT registered payer to perform VAT-able supplies within its business activity.

A company is required to register for VAT purposes if the total turnover within the last 12 consecutive months reached the threshold of MDL 600,000 (approximately EUR 28,700). Companies can follow voluntary registration for VAT purposes if they only intend to perform taxable supplies.

Should the company register a deductible input VAT exceeding its output VAT, this balance could be partially refunded, only if the company carries out a specific range of business activities (e.g. export supplies, international transportation services, production of bakery and dairy products, leasing activity, etc.). Otherwise, this VAT amount may be carried forward to the following months and offset against the Company's future output VAT liabilities.

In addition, VAT payers performing capital investments in Moldova may refund the recoverable VAT related to this kind of capital investment. Note that specific conditions should be met and there are a few exceptions to this rule (e.g. certain transport items). Legal entities not registered as VAT payers and performing capital investments (expenses) related to vehicles for transportation, are entitled to benefit from a refund of VAT under certain conditions.

The legislation provides an annual fixed social security contribution for other categories of taxpayers of MDL 7,032 (approximately EUR 330) and for an annual fixed amount of

medical insurance contribution paid by other categories of taxpayers, which constitutes MDL 4,056 (approximately EUR 200).

### **Taxation of resident individuals**

7%*	annual income up to MDL 29,640 (approximately EUR 1,400)
18%	annual income exceeding MDL 29,640 (approximately EUR 1,400)
6%	dividend income (15% for the period 2008-2011; non-taxable prior to 1 January 2008)
6%**	social security contribution at the level of employee
23%	social security contribution at the level of employer
4.5%	health insurance contributions at the level of both employee and employer
exempt	interest incomes from deposits placed in Moldova

\* In the Republic of Moldova, there are two progressive Personal income tax ("PIT") rates 7% and 18%.

\*\* The 6% employee social security contribution rate is applied to a base capped at five times the national average salary for the year, i.e. MDL 25,250 (approximately EUR 1,200) multiplied by 12.

## **Taxation of foreign individuals**

According to Moldovan tax law, foreign citizens (individuals) become Moldovan tax residents if they stay for at least 183 days during the fiscal year (which corresponds to the calendar year).

The income derived by foreign individuals falls under the same PIT rates as for resident individuals.

Based on Moldovan tax law, the object of taxation for:

- foreign citizens being Moldovan residents is the gross income, derived from (i) any source within Moldova and from (ii) abroad related to the work performed in Moldova;
- foreign citizens being non-residents of Moldova is the gross income, derived from any source within Moldova.

Employee gross remuneration income (both resident and non-resident) includes basic pay, overtime pay, supplementary pay, awards and bonuses, compensation from unused holiday or vacation time, as well as benefits in kind (e.g. housing allowances, compensation for school fees, food, personal expenses etc.).

Income obtained by individuals is taxed on a cash basis.

No Moldovan social security contributions are due for foreigners seconded to Moldova and working with no local labour agreements in Moldova. Additionally, for foreign citizens and stateless people employed under labour agreements in Moldova, social security contributions are calculated in a similar way as for Moldovan citizens (i.e. 6% at the employee level and 23% at the employer level) with specific exceptions.

No health insurance contributions are required for foreign citizens seconded to Moldova (i.e. no local labour agreement). The respective foreigners may benefit from private optional health insurance.

Foreign individuals with local labour agreements have to pay health insurance contributions as Moldovan citizens (4.5% for each payer category – employers and employees).

## **Other tax issues**

### **Rulings**

Even though the law does not provide for the possibility of obtaining binding rulings, comfort letters can be obtained. Taxpayers that inadequately calculated tax liabilities due to incorrect written explanations issued by the Moldovan Tax Authorities are not subject to sanctions (i.e. fines and late-payment penalties).

### **Tax inspections**

Under the general tax rule, the Moldovan Tax Authorities can assess tax liabilities no later than four years after the last date established for the submission of the relevant tax report or for the settlement of that tax liability (when the submission of the tax report is not required). This limitation term does not apply in cases of tax evasion-related crimes. According to the tax law, taxpayers that erroneously calculated taxes and / or duties, and this fact has not been identified during a previous tax inspection, are exempted, under a repeated tax inspection, from fines and penalties for identified tax violations related to the periods under the repeated tax inspection.



## *Transfer Pricing (TP)*

TP regulations are currently at the initial stage of development, as the applicable law does not list any specific TP methods. According to the tax law in force, transactions carried out between related parties should observe the arm's length principle. Those that do not follow this rule are disregarded for tax purposes.

The following expenses with related parties are treated as non-deductible:

unjustified expenses (at arm's length value) related to compensations, remunerations, interests, payments for rental of property and other expenses;

losses related to property sale or exchange, work performed and services provided.

In accordance with the Moldovan tax law, a company is considered a taxpayer's related party if it controls the taxpayer, is controlled by the taxpayer, or both the company and the taxpayer are under the common control of a third party.

From a tax perspective, control is the ownership (either directly or through one or more related parties) of 50% or more in value of the capital or voting power of one of the companies. In this case, an individual is treated as owning all equity interest owned directly or indirectly by members of one's family. Two individuals are related parties if they are spouses or relatives up to the fourth degree.

Losses incurred in dealings between related parties carried out directly or through intermediaries are treated as non-deductible for CIT purposes.

According to current Moldovan tax law, there are no formal TP documentation requirements. It is expected, however, that such requirements may be introduced in the following years.

## *Permanent establishments (Pes)*

Under the applicable legislation, a PE is not considered as a form of legal organisation. A PE represents a purely tax concept, being registered with the Tax Authorities.

A PE may be deemed to exist if a non-resident entity carries out, wholly or partly, entrepreneurial activity on the territory of Moldova either:

directly through a fixed place of business; or indirectly through a dependent agent.

Under Moldovan tax law, PEs are treated as local legal entities. In general, a PE would be subject to the same tax liabilities / reporting requirements as those applicable to Moldovan companies.

Profits attributable to PEs are taxed with 12% CIT in Moldova. Some specific CIT deductibility rules are applicable for PEs in Moldova (e.g. limited deduction for management and general administrative expenses, non-deduction of royalty and interest-related expenses etc.).

Based on the recent amendments to the VAT legislation, PEs have to follow the same VAT procedure as applicable for registered legal entities.

## *Customs Framework*

Moldova has been a WTO member since 2001. In general, any kind of goods and means of transport may enter and leave the territory of Moldova without any restrictions (certain limitations specifically provided by the legislation are in force, however, which cover goods and means of transport crossing the border by breaching state security, public order, environment, etc.).

Both definitive and suspensive customs regimes are provided under Moldovan law. Definitive customs regimes refer to import and export, while suspensive customs regimes comprise: transit, bonded warehouse, inward processing relief (with suspension), processing under customs control, temporary admission, and outward processing relief.

The suspensive customs regimes allow for suspension of import duties payment, usually for a specific (limited) period and provided that certain conditions are fulfilled.

There are also some environmental pollution taxes related to specific packaging and goods that importers should pay.

The Law on Customs Tariff establishes standard customs duty rates applicable upon import of goods into Moldova, depending on their specific customs tariff classification code. As of 1 January 2015, the Moldovan Customs Tariff is based on the Combined Nomenclature, in compliance with the implementation plan of the EU for establishment of a Deep and Comprehensive Free Trade Zone between the European Union and Moldova.

## ***Easiness of doing business***

*As per the WB report Ease of Doing Business, in 2016 Republic of Moldova was ranked 52 out of 189.*

The customs valuation is generally performed in accordance with the customs valuation principles in the General Agreement on Tariffs and Trade (GATT).

A preferential tariff treatment is granted for specific categories of goods depending on their origin and in accordance with the free trade arrangements (FTAs) to which Moldova is a party. Moldova has concluded FTAs to date with most of the Commonwealth of Independent States (CIS) countries and is also a Central European Free Trade Agreement (CEFTA) contracting state. The Association Agreement with the European Union, which includes a Deep and Comprehensive Free Trade Agreement (DCFTA), provides for preferential tariff rate quotas on certain goods.

A favourable tariff treatment presumes a reduction or an exemption from customs duty upon import of specific goods into Moldova, depending on their type or final destination, according to domestic customs law or international agreements to which Moldova is a party.

employment salaries earned from such companies – standard taxation being limited to certain monthly amounts (i.e. two national average forecasted salaries). PIT incentives are applicable only for salary income. Other types of income that do not refer to salary remuneration (e.g. material aids) are taxed at the standard rates.

Monthly social security contributions at the level of IT companies are also limited to the income capped at two national average forecasted salaries.

The current incentives are valid through 31.12.2016. However, prolongation of their application is discussed within the draft tax policy for 2017.

Starting with 01.01.2017 a new Law on IT parks shall enter into force, containing important tax incentives and business oriented regulations aimed at IT industry growing, attracting foreign investments in IT sector, training and development of specialists, needed to produce services and products competitive for domestic and global markets.

## ***Incentives for investors***

### ***Information technology (IT) industry***

During 2012 – 2016 Moldovan companies, whose main activity is software development (IT companies) and their employees may benefit from a range of tax incentives (subject to specific conditions being met).

Employees of IT companies may benefit from personal income tax (PIT) incentives for

### ***Tax incentives***

VAT and customs exemptions for long term assets included in share capital, if specific conditions are fulfilled;

CIT incentive for production companies that increase the number of employees;

Companies not registered as VAT taxpayers fulfilling certain conditions could choose between the general CIT regime (12 % of taxable income) and the simplified one (3% of gross operational income);

Deferment of import VAT liabilities up to 180 days on materials used for manufacture of goods oriented to export, if certain requirements are met;

Tax incentives (e.g. diminished social security contributions, reduced VAT rate) for agricultural industry;

Personal income tax and social security insurance incentives for IT industry;

VAT nil rate for light industry companies providing services based on agreements on inward customs processing;

Reduced CIT rate and VAT incentives for the residents of Free Economic Zones; CIT exemption and nil VAT rate for some supplies in the Giurgiulesti International Free Port; nil VAT rate for some supplies in the Marculesti International Free Airport.

### *State Aid*

Grants for agricultural sector in an amount established in the state budget.

### *Pre-accession EU Funds*

Grants for SME (e.g. co-financing the acquisition of consulting services, improving the competitiveness, ensuring the relationship between science and business);

Grants related to energy efficiency (e.g. increasing energy efficiency, energy efficiency projects in residential sector);

Grants for restructuring of wine sector;

Grants for motivating the implication of youth in business activity.



## **Human capital**

### *Employment income*

Employee gross income includes:

- basic pay;
- overtime pay;
- supplementary pay;
- awards and bonuses;
- compensation from unused holiday or vacation time; and
- benefits in kind (e.g. housing allowances, compensation for school fees, food and personal travel expenses).

Moldovan tax law provides for special rules (i.e. tax exemption) regarding income obtained by members of diplomatic missions, and other missions accredited as such, and their personnel.

The annual personal allowance provided for Moldovan residents is MDL 10,128 (approximately EUR 500). Individuals can also benefit from a spouse's exemption of the same amount, provided the spouse does not use it in the respective year.

In addition, individuals benefit from an annual allowance of MDL 2,256 (approximately EUR 100) for every dependant (except for those disabled since childhood, who are entitled to MDL 10,128 (approximately EUR 500) exemption per year).

### *Social security contributions*

Contributions to the Social Fund are mandatory for Moldovan citizens, but unlike taxes they have an exact destination and are available for refund to the taxpayer in the form of pensions, allowances, etc.

For more details on social security contributions, please refer to the "Taxation of individuals" section above.

### *Health insurance contributions*

The mandatory health insurance contribution, calculated as a percentage of wages and other forms of payment and remuneration.

For more details on health insurance contribution please refer to the "Taxation of individuals" section above.

### *Temporary work incapacity-related costs*

Allowances for temporary work incapacity due to common illnesses or accidents unrelated to work (with some exceptions) are paid as follows:

the first five calendar days, but no more than 15 cumulative days during a calendar year – paid by the employer;

starting with the sixth calendar day and, in the event of several periods of temporary work incapacity, from the first day after 15 cumulative days have been paid for from employer funds – paid by the social security state budget.



### Salary inflation history and forecasts

Since 2007, PwC Moldova has performed an annual Salary and Benefits Survey – PayWell Moldova. The participants in the PayWell Moldova Survey are companies from different industries (i.e. IT, Telecom, FMCG &

Industries, Oil & Gas, Pharma and Banking), including the leaders on the Moldovan market.

The table below describes the average monthly salary in the Republic of Moldova for the period 2011 – 2015 from National Bureau of Statistics data in comparison with the PayWell Moldova Salary and Benefits Survey.

	2011	2012	2013	2014	2015
The National Bureau of Statistics	MDL 3,193 (EUR 174)	MDL 3,478 (EUR 190)	MDL 3,765 (EUR 205)	MDL 4,172 (EUR 224)	MDL 4,611 (EUR 221)
PayWell Moldova	MDL 5,578 (EUR 304) (75% higher)	MDL 5,560 (EUR 303) (66% higher)	MDL 6,714 (EUR 366)	MDL 6,305 (EUR 338)	MDL 8,092 (EUR 388)

### ***Labour regulation***

Labour relations in Moldova are regulated by the Labour Code (effective as of 1 October 2003), Collective Labour Conventions (at national, territorial, branch and company level) and other special laws (e.g. Law on wages). Labour legislation provides employees with minimum guarantees which cannot be worsened or limited by an employment contract. Certain aspects of employer – employee relations are governed by internal regulations adopted at the company level by the employer (e.g. staff handbook).

### ***Trade unions***

Traditionally, trade unions were very tough in labour relations negotiations. They are currently effective in obtaining minimum wage legislation, as well as other basic rights for employees. They also conclude annual collective labour agreements at different branch and company levels.

Union membership for employees is not compulsory, but unions still have a high level of influence in large and state-owned enterprises. In small private companies they tend to be less active.

Employers should ensure the necessary conditions for the activity of unions. Unions have no right to participate in the management of a company and its commercial activity. Nevertheless, sometimes the employer should take the opinion of the trade union into account when adopting internal regulations (i.e. internal policies) or dismissing trade union members.

### ***Salaries and wages***

An employer may not negotiate and establish a basic salary lower than the national minimum gross salary. This is currently MDL 2,100 (approximately EUR 100) per month for privately-owned companies.

The regulated national average monthly salary is MDL 5050 (approximately EUR 240) in 2016, having increased by 10.89% from the previous year. Currency regulations demand that salary payments be made in local currency (MDL), including those to foreign staff.

## *Employment contracts*

The conclusion of written individual employment contracts with all employees is compulsory. The contract should contain provisions concerning the employee position, salary level, working conditions and other mandatory issues.

As a general rule, employment contracts are concluded for an indefinite period. Fixed-term employment contracts may be concluded only in specific situations provided for by the Labour Code. Employment contracts may provide for a trial period of employment up to six months.

## *Working Hours*

The standard working week stated in the Labour Code is 40 hours, over five or six working days a week, but generally from Monday to Friday.

The law defines limits and rates for overtime, holiday / weekend and night work. Working hours on weekends or holidays can be either compensated with free time or paid. Overtime is generally paid as 150% of the hourly rate for up to a specified number of hours and 200% beyond that.

## *Paid Holidays*

Annual paid vacations are established at a minimum of 28 calendar days a year. Additional paid leave can be given to employees for special occasions such as a marriage, birth of a child, death of relatives, study, etc.

## *Termination of Employment*

An individual employment contract may be terminated at the initiative of the employers on the specific grounds stipulated by the Labour

Code (e.g. failure of trial period, staff redundancy, systematic non-compliance with regulations / requirements or absence of the employee from the working place, theft, etc.).

The Labour Code gives additional protection to specific categories of employees, including minors, female employees, employees with children, union members and various other categories. There are specific situations in which employment cannot be terminated by the employer (e.g. during sick leave or maternity leave).

Severance payments may appear in specific situations such as termination of the contract due to liquidation of the employer, staff redundancy or when the employee's health situation restricts his performance in the position held, or the employee is insufficiently qualified based on a decision of the attestation commission.

## *Foreign workers*

Foreign citizens who work in Moldova based on a local labour contract or those seconded to Moldova have to obtain a work permit. Specific incentives in obtaining the work permits are provided for the management of large companies with foreign investments..



# Key locations for investments

*Moldova has designated areas where domestic and foreign investors can carry out entrepreneurial activities under preferential terms and conditions (i.e. favourable tax, customs and other regimes).*

## *Free Economic Zones*

FEZ are parts of the Moldovan customs territory, separate from the economic perspective, in which local and foreign investors may carry out entrepreneurial activities under a preferential regime, i.e. benefiting from special guarantees and facilities (tax, customs, regulatory, immigration, etc.).

FEZ are created for a period of at least 20 years. Moldova currently has seven FEZ, established between 1996 and 2011, located all over the country's regions. There is also an international free port (South) and airport (North-East), with status similar to FEZ.

FEZ "Expo-Business-Chisinau"

FEZ "Balti"

FEZ "Ungheni-Business"

FEZ "Otaci-Business"

FEZ "Taraclia"

FEZ "Valkanes"

FEZ "Tvardita"

Marculesti International Free Airport

Giurgiulesti International Free Port (GIFP)

FEZ residents should be registered in Moldova

(legal entities with local, mixed or foreign capital) and are selected by FEZ Administration, based on the investment amount and type, infrastructure available / to be created, type of activities to be carried out, etc.

The following types of activities may be carried out in FEZ:

Industrial production of goods (apart from ethylic alcohol and alcohol products);

Sorting, packing, labelling and other similar operations for goods which transit through Moldovan customs territory;

Other auxiliary activities necessary for the basic activities above (e.g. utility services, warehousing, construction, catering etc.);

External commercial activity (i.e. wholesale of goods imported into FEZ outside Moldova and offered for export).

Each type of activity within FEZ is subject to a separate time-limited authorisation issued by FEZ Administration.

Investments within Free Economic Zones in Moldova now total up to USD 230.2 million, with USD 18.2 million being invested in 2015 (an increase of 8.6% from 2014). As of 1 January 2016, 156 residents were registered in the seven Free Economic Zones. The number of employees working in the FEZ as at the end of 2015 amounted to 6,500 people.



## Industrial parks

An industrial park may be created for 30 years either on the territory of state or private enterprises, through green field investments or by means of public private partnerships. In practice, an industrial park is created by means of obtaining the title of industrial park by an enterprise on the basis of Government decision. This enterprise becomes the administrator of the industrial park, i.e. it can also act as the resident of the industrial park.

Any legal entity registered in Moldova (legal entities with local, mixed or foreign capital) can become an industrial park resident on the basis of a contract concluded with the administrator-enterprise, aiming to carry out such activities as industrial production, service provision, implementation of the scientific researches and / or technological development within the industrial park.

Several enterprises obtained the title of industrial park on the basis of Government decisions since 2010.

There are 10 industrial parks which are located all over the country such as IP “Bioenergagro” (Drochia), IP “Tracom” (Chisinau), IP “Cimislia” (Cimislia), IP “CAAN” (Straseni), IP “Raut” (Balti), IP “Edinet” (Edinet), IP “Triveneta Cavi Development” (Straseni), IP “Comrat” (Comrat), IP “FAIP” (Durlesti) and IP “Cahul” (Cahul).

As of 30.06.2016, there are 57 companies registered as residents of industrial parks. According to the investment projects the residents act in the field of information and communication technologies, electronic equipment, machinery building, furniture, industrial goods (parts, accessories), production from metal, garments, foods, wines etc.

During the last 5 years of the industrial parks activity:

- the volume of investments amounted to 52.5 million USD
- the volume of production – 116.8 million USD;
- the total sum of the paid taxes – 21.1 million USD;
- the number of created jobs – 2,155.

## IT parks

The ICT sector is continuously growing in the Republic of Moldova. Recently, the Moldovan Parliament approved a law on IT industry parks, which aims at creating the necessary conditions for stimulating the development of IT industry, including import/ export transactions. There are specific conditions regulating the process of IT industry parks creation and their operation established by the legislation.

The new law provides a feasible solution in order to simplify the administrative procedures involved and the existing system of taxation for companies in IT industry. Consequently, the tax burden is reduced and the expected outcome will be focused on developing and strengthening the industry correlation with economic and social development of the country.

An IT industry park might be created at the request of companies and individuals both registered in Moldova as a subject of entrepreneurial activity. To become a resident of an IT industry park, companies and individuals have to comply with the requirements established by the law and conclude an adherence agreement with the park Administration.

## ***FEZ and IP incentives overview***

*With the aim of attracting investment, Moldova offers incentives for the residents of FEZ and Industrial parks.*

### ***FEZ incentives***

#### ***Protection of FEZ residents against legal acts worsening the applicable regimes***

Should newly-adopted laws (“New Law”) worsen the conditions of FEZ residents’ activity in respect of customs, tax and other regimes provided for by the previous laws concerning FEZ (“Old Law”), FEZ residents may benefit from the regimes provided by the Old Law for:

10 years as of entry into force of the New Law, but not more than the period of FEZ operation (general rule);

The whole period of operation within FEZ, but not more than 20 years of entry into force of the New Law (special rule applicable to residents whose investments in the fixed assets of FEZ-company or in the development of FEZ infrastructure exceed USD 200 million).

The Old Law will be applicable for the mentioned period to FEZ residents’ activity within the investment projects registered before the entry into force of the New Law.

#### ***Special tax and customs regimes***

For 2016, the following CIT incentives for FEZ investors are applicable:

Entities established in the FEZ and which export goods and services from FEZ to outside the customs territory of the Republic of Moldova or deliver the produced goods to other FEZ residents for goods to be exported are entitled to apply 50% of the applicable CIT rate on such income. For other cases, the CIT rate is 75% of the established one;

The income obtained from exports of goods (services) originating from the FEZ to outside the customs territory of the Republic of Moldova or from supply of the produced goods to other FEZ residents for goods to be exported is CIT exempted for a period of three years, provided the FEZ residents invested a capital equivalent of at least USD 1 million in the fixed assets of their enterprises and / or in the development of the infrastructure of the FEZ, and is CIT exempted for a period of five years, where the invested capital is of at least USD 5 million.

From a VAT perspective, goods and services supplied in the FEZ from abroad, from FEZ outside the customs territory of the Republic of Moldova, in the FEZ from other areas of Moldova and those supplied to residents of other FEZ are subject to 0% VAT, except transportation services supplied into FEZ from the rest of the customs territory of Moldova as well as between FEZ’s.

According to the customs provisions, goods are introduced into the FEZ with no import VAT or customs duty and are not subject to economic policy measures, according to specific criteria. Certain taxes in specific situations might be incurred by residents of the FEZ, however. Investors in the FEZ are guaranteed and protected from changes in legislation for a general period of up to ten years, while under certain conditions this period may be extended to 20 years.

#### ***Transfer of profits, currency repatriation rules***

Monetary means obtained by foreign investors as profits (dividends) or from the sale of their shareholding in companies - FEZ residents, or resulting from reorganisation / winding up of companies - FEZ residents may be freely transferred outside of the Moldovan territory, after fulfilling tax liabilities.

The provisions on foreign currency repatriation are applicable to the export-import transactions between FEZ residents and foreign entities. These rules do not apply to transactions between FEZ residents and other Moldovan legal entities operating outside FEZ, however.

Special visa and work permits regime for foreign workers of FEZ residents

A simplified procedure of work permits issuance is provided for the foreign workers of FEZ residents. No consular fee is required for the issuance of business visas for foreign workers of FEZ residents.

### *Industrial Parks incentives*

IP Residents and IP Administration may benefit from the following real estate facilities and Government support:

Free of charge change of the category of land with agricultural destination;

Entitlement to privatise public property land associated with constructions, at the price land established by law;

Free of charge transfer of public property assets with the purpose of industrial parks establishment upon owner's decision;

Application, by the administrating enterprise, of the reduction coefficient down to 0.3 of the tariff set for the annual lease payment for the public property land;

Optimisation of state inspections.

### *IT Parks incentives*

Incentives for IT industry parks include:

1. Single tax that consists of the following taxes and contributions:
  - Corporate income tax;
  - Salary income tax;
  - Social security contributions due by employers and employees;
  - Health insurance contributions due by employers and employees;
  - Local taxes;
  - Tax on immovable property;
  - Road tax applied to vehicles registered in Moldova.

2. Other tax and customs exemptions established by the law.

The single tax will be calculated and paid monthly as the maximum amount between:

- 7% from the sales income obtained; and
- minimum amount of single tax calculated, based on the number of employees, as 30% from the national average forecasted salary.

Through the single tax, the mandatory social securities and health insurance contributions for residents' employees will be covered. In this regard, each employee will be granted with all types of social insurance benefits established by the law, during the period of employment in the park. Insured monthly income of these employees will be 60% of the average monthly salary on economy forecasted for every year.



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# *How can we help?*

## The Ministry of Economy

The Ministry of Economy is the Government's central public administration body. The basic functions and objectives of the Ministry of Economy are to direct and promote state economic policies, to ensure economic reform implementation and to raise the population's living standards.

The Ministry's mission is to ensure national economic growth by optimising the regulation framework for entrepreneurial activity, creating prerequisites for business environment development, developing technologies, ensuring competitiveness, creating an attractive investment environment, contributing to de-monopolisation of the domestic market and removing anti-competitive practices, and promoting international economic cooperation.

The Ministry has the following responsibilities with regard to investment and export promotion policies:

participate in the development and promotion of state investment policies (including attraction of direct foreign investment), free economic zones, industrial parks and export promotion of domestic production;

improve legal framework in order to stimulate investment activity;

ensure the harmonisation of national legislation with EU rules on investment;

help the creation of a favourable investment climate for foreign and local investors, and improve tools for attracting domestic and foreign investment and export promotion;

monitor and analyse the process of free economic zones and industrial parks establishment and development, implementation of strategic investment projects and projects beneficial to the national economy;

analyse processes and factors influencing investment activity, the increase of national economic competitiveness and export promotion, and determine state policy priorities in the area.

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# *How can we help?*

## Moldovan Investment and Export Promotion Organisation (MIEPO) – Your Reliable Partner

The Moldovan Investment and Export Promotion Organisation (MIEPO) is a public non-profit institution coordinated by the Ministry of Economy of the Republic of Moldova. MIEPO can be considered as a reliable partner for all potential investors and importers of Moldovan products.

MIEPO was created under Government Decision no. 105 on 2 February 1999 and its services are provided free of charge. Its main objectives are:

Export Promotion;

Foreign Direct Investment Attraction.

In order to realise these objectives, MIEPO collaborates with local and foreign public and private institutions, associations, international organisations, etc. MIEPO is a member of the World Association of Investment Promotion Agencies (WAIPA).

MIEPO uses the following tools to implement Government investment attraction and export promotion policy:

Support in identification of partners and investment site locations in Moldova.

Organisation of local and foreign Business Missions, Forums, B2B Meetings, Matchmaking, Training for local businesses, participation of local companies at international trade fairs.

Moldovan investment climate promotion.

Development of promotional materials.

Identification of constraints faced by investors / exporters in setting up their business in Moldova, by means of questioning companies, with further development and submission of relevant proposals to the Government in order to overcome the problems.

Coordinates feasibility studies for investment projects to be implemented in the Republic of Moldova, marketing analysis at the national level.

Development of proposals for national programmes, strategies, etc. according to its competencies.

Etc.

MIEPO can be considered a “One-Stop-Shop” information point for investors to provide them with a broad spectrum of information at all stages of the investment process: pre-investment (including the organisation of study visits for potential investors), investment and post-investment. MIEPO also identifies partners at the request of local companies seeking to promote their products on foreign markets and at the request of foreign companies that intend to buy Moldovan products.

MIEPO is always available to assist potential investors and foreign importers of Moldovan products examine, establish and develop business opportunities in the Republic of Moldova by use of modern tools of foreign investment attraction and export promotion.

conclude an adherence agreement with the park Administration.

MIEPO, is the prime source of information and assistance for potential investors.

They provide tailored services for potential investors throughout the investment decision process. MIEPO also support existing investors in extending their operations.

MIEPO team consists of permanent investment attraction staff, sectorial consultants, as well as regional officers. Combining their experience, they are

able to provide you with information relevant for your decision making, as well as links to businesses and government.

# How can we help?

## PwC

PwC has been serving its clients in Moldova for more than 17 years. We take great pride in our capability to think global and act local for your long-term success. This is achieved through a combination of domestic expertise based on in-depth knowledge of the local business environment and international PwC network experience, which ensures that neither our resources nor our expertise are limited by national boundaries.

PwC Moldova provides a full range of Tax and Legal, Advisory and Assurance Services.

Our team comprises the largest tax, legal and advisory practice in Moldova, and is well suited to solving the complex issues you may face. Our areas of specialisations are as follows:

### *Tax Services*

Corporate Taxation - being highly qualified in all aspects of inward investments and structuring investments in terms of corporate income tax, WHT and local tax regulations.

Indirect Taxation - with extensive experience in solving complex issues related to indirect taxes, customs procedures and foreign trade.

HR Services - covering individual and corporate advice, ranging from assistance with obtaining work and residence permits, advising and assisting with all matters

regarding income taxation legislation, salary surveys, outplacement and human resources audit.

Tax compliance, accounting and payroll assistance - maintaining accounting records, preparing and submitting financial statements based on NAS / tax returns, as well as ensuring the payroll process.

### *Legal Services*

The Legal team of PwC Moldova is a member of an international network of PwC Legal firms which includes more than 2,000 business lawyers in over 75 countries. PwC Legal in Moldova has been included in the top positions in the rankings of Legal500 and IFLR1000.

PwC Moldova provides a full range of legal services, including:

Regulatory compliance;

Investments;

Corporate and commercial;

Mergers and acquisitions;

Competition;

Employment and immigration;

Banking and financing;

Litigation (commercial, tax and administrative), etc.

## *Advisory Services*

The Moldovan Advisory practice, in cooperation with Romanian Advisory team, provides a full range of consulting and deals services, including in such areas as Strategy, Finance & Accounting, Operations, People and Change, Technology, Governance, Risk and Compliance, Dispute Analysis and Investigations (Forensic), Business Recovery Services, Corporate Finance, Transaction Services, Valuation and Strategy.

## *Assurance services*

Audits in accordance with the International Standards on Auditing (ISA) or with other audit standards recognised and generally accepted.

Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) or with other recognised accounting standards (US or UK GAAP).

IFRS induction, operational audit, internal audits, business planning, analysis of security systems, market penetration, investigations and accounting expertise.

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